

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING - FY 06-07 BUDGET REQUEST

Schedule 6											
Change Request for FY 06-07											
Department:	Health Care Policy and Financing				Dept. Approval by:	John Bartholomew		Date:	November 15, 2005		
Priority Number:	DI - 4				OSPB Approval:			Date:			
Program:	Information Technology Contract Monitoring				Statutory Citation:	24-4-403.7 (3) (b), C.R.S. (2005) and 24-75-102, C.R.S. (2005)					
Request Title:	Medicaid Management Information System Federally Mandated Reprocurement										
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		Supplemental	Total	Base	Decision/			Total	Change
		Actual	Appropriation	Request	Request	Request	Base	November 15	Budget	Revised	from Base
	Fund	FY 04-05	FY 05-06	FY 05-06	FY 05-06	FY 06-07	Reduction	Request	Amendment	Request	in Out Year
							FY 06-07	FY 06-07	FY 06-07	FY 06-07	FY 07-08
Total of All Line Items	Total	9,450	579,600	0	579,600	327,600	412,500	740,100	0	740,100	55,200
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	2,363	132,120	0	132,120	74,677	81,106	155,783	0	155,783	5,898
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	6,086	0	6,086	3,440	4,331	7,771	0	7,771	579
	FF	7,087	441,394	0	441,394	249,483	327,063	576,546	0	576,546	48,723
(1) Executive Director's Office, Medicaid Management Information System Reprocurement							See also "(M)" Headnote				
	Total	9,450	579,600	0	579,600	327,600	412,500	740,100	0	740,100	55,200
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	2,363	132,120	0	132,120	74,677	81,106	155,783	0	155,783	5,898
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	6,086	0	6,086	3,440	4,331	7,771	0	7,771	579
	FF	7,087	441,394	0	441,394	249,483	327,063	576,546	0	576,546	48,723
Letter Notation:	\$90,000 shall be transferred to the Governor's Office of Innovation and Technology and shall be comprised of \$18,942 General Fund, \$945 Children's Basic Health Plan Cash Funds Exempt, and \$70,113 federal funds from the line item Medicaid Management Information System Reprocurement. The Department also requests an "(M)" Headnote exception in the FY 06-07 Long Bill.										
Cash Fund name/number, Federal Fund Grant name:	FF: Title XIX, Title XXI; CFE: Children's Basic Health Plan Trust Fund										
IT Request:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	(If yes and request includes more than 500 programming hours, attach IT Project Plan)								
Request Affects Other Departments:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	Governor's Office of Innovation and Technology								

**CHANGE REQUEST for FY 06-07
EFFICIENCY AND EFFECTIVENESS ANALYSIS**

SELECT ONE (click on box):

- Decision Item
- Base Reduction Item
- Supplemental Request Criterion:
- Budget Request Amendment Criterion:

Priority Number:	DI - 4
Change Request Title:	Medicaid Management Information System Federally-Mandated Reprocurement
Long Bill Line Item(s)	(1) Executive Director’s Office, Medicaid Management Information System Reprocurement
State and Federal Statutory Authority:	26-4-403.7 (3) (b), C.R.S. (2005); 24-75-102, C.R.S. (2005); State of Colorado Fiscal Rules, Rule 7.3 (2005); 42 C.F.R. §433.119 (c); 42 C.F.R.§443.120 (a) and (b)

Summary of Request (Alternative A): This request is for additional funding for FY 06-07 for the consultant’s contract related to the reprocurement processes of the Medicaid Management Information System. This is a follow up to the emergency supplemental request that was submitted on June 7, 2004, Decision Item #9 submitted November 1, 2004, and Supplemental Item #5 and Budget Amendment #2 submitted January 3, 2005. This request is for \$90,000 to be transferred to the Governor’s Office of Innovation and Technology for independent verification and validation assistance, plus \$322,500 in additional funds for enhancement work activities at 90% federal funds participation, and regular reprocurement activities at 75% federal funds participation for Medicaid, and 65% federal funds participation for the Children’s Basic Health Plan. An “(M)” Headnote exception is also requested.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: The Medicaid Management Information System is a complex system for processing claims, paying capitations, and conducting prior authorization reviews for certain medical

services and pharmacy prescriptions. The fiscal agent for the Medicaid Management Information System is a private contractor that administers the system. The Department's fiscal agent has been ACS (Affiliated Computer Services, or Affiliated Computer Services State Healthcare, LLC., dba Consultec, LLC) since December 1, 1998. The last year of the current contract ends November 30, 2006. The Department had worked with the federal Centers for Medicare and Medicaid Services since the summer of 2001 to secure an extension of the renewal date to December 2008. Verbal approval had been given by the Centers for Medicare and Medicaid Services. The extension was requested because of competing priorities of Colorado Benefits Management System and the Health Insurance Portability and Accountability Act of 1996 (HIPAA). On March 29, 2004, the Centers for Medicare and Medicaid Services officially denied Colorado's request for an extension. The Centers for Medicare and Medicaid Services is requiring the Medicaid Management Information System fiscal agent contract to be reprocured and operational by December 1, 2006. On October 11, 2005, the Department requested a reconsideration of its request for an extension to complete reprocurement or to defer penalties. The Department can not be certain when a response to reconsideration may be received from the Centers for Medicare and Medicaid Services, or if it will be favorable.

Due to pressing needs of the Colorado Benefits Management System, only a limited amount of progress had been possible on the Medicaid Management Information System reprocurement during the spring and summer of 2005. The Department acknowledges that the federal December 1, 2006 deadline for reprocurement will be missed. The limited progress caused \$633,150 of FY 04-05 funding to revert. Since no contract was in place for the consultant, it was not possible to request a roll forward as would have been allowed by the State of Colorado Fiscal Rules, Rule 7-3 if a consultant's contract had been already in place.

Successfully continuing the reprocurement process is vital to the Department of Health Care Policy and Financing because the Department does rely on the selected fiscal agent to operate the Medicaid Management Information System over the three to eight years that the new contract with the fiscal agent will be in effect. Important functions to be overseen by the fiscal agent include the following:

- Processing fee-for-service claims
- Processing encounter claims
- Processing capitations
- Checking eligibility before adjudication of claims
- Conducting prior authorization reviews for specific health care services
- Supporting a Decision Support Subsystem
- Enabling provider enrollment
- Verifying provider credentialing
- Giving provider customer service, including training
- Ensuring compliance with HIPAA regulations
- Publishing provider notifications and manuals
- Maintaining operability of the Medicaid Management System according to Health Care Policy and Financing requirements

In prior requests over the past two years for the reprocurement process, the Department planned to hire a consultant to prepare the Request for Proposal for a new fiscal agent in accordance with the regulations of the federal Centers for Medicare and Medicaid Services. The Department would encourage potential fiscal agent bidders to increase competition. The Department has planned a bidders' conference to answer questions about the scope of work and to clarify fiscal agent requirements expected of potential bidders. The consultant will assist with the evaluation of bids. After the fiscal agent is selected from the bids, the consultant will develop a contract monitoring and performance plan to track development and scheduled progress. Although the consultant was not in place in FY 04-05, the consultant did start in FY 05-06.

General Description of Alternative:

This Alternative requests funding to continue the contracted consultant beyond the already funded time ending in December 2006 to the close of FY 06-07 ending in June 2007. In addition, this request would increase the consultant costs in FY 06-07 from what was requested on January 3, 2005. Lastly, this request asks for temporary "(M)" Headnote flexibility in case of loss of federal financial participation for the consultant due

to not having a “certified” system by the time that the federal Centers for Medicare and Medicaid Services requested.

Since there was a need to concentrate on the Colorado Benefits Management System, little progress was achieved on reprocurement for the Medicaid Management Information System during FY 04-05. Consequently, much of the work needed to be accomplished in FY 04-05 has been shifted to FY 05-06, and work scheduled for FY 05-06 has slipped to FY 06-07. However, the Department expects the consultant to work in an expeditious manner, so that some “catching up” can be accomplished, if possible. Furthermore, the process was expected to be completed by December 2006, but now will continue through at least June 2007 and possibly longer. If a different fiscal agent is selected during reprocurement, enhancement work may even continue into FY 07-08. The consultant will need to continue working until the new fiscal agent is operating the Medicaid Management Information System and until the different fiscal agent, if so selected, can complete necessary enhancements for the Medicaid Management Information System to function efficiently.

More funding is needed so that the consultant can continue the agreed functions beyond December 1, 2006, the date that was originally expected to be the completion date of the consultant’s contract and the completion of the reprocurement processes. The consultant would be spending more hours of work during FY 06-07, and hours of work might still be occurring in FY 07-08.

The Governor’s Office of Innovation and Technology would assist reprocurement by managing the independent verification and validation, by using the Program Management Office services, by submitting monthly status reports to the Information Management Committee, and by managing the risk associated with completing the Health Insurance Portability and Accountability Act of 1996 (HIPAA) National Provider Identifier rule implementation (see DI #7) at the same time as reprocurement continues.

The Department did receive November 2, 2004 approval from the Centers for Medicare and Medicaid Services for 90% federal funds participation for enhancement only

activities during reprourement, and 65% and 75% federal funds participation for regular reprourement activities for the Children's Basic Health Plan and Medicaid, respectively. On September 12, 2005 the Department received another updated letter from the federal Centers for Medicare and Medicaid Services that reconfirms availability of 90% federal funds participation for as much as 22% of the funded activities to be enhancements. Therefore, the Department has allocated the funding request accordingly.

The Department realizes that the delay in reprourement is likely to result in decreased federal funds participation, so the Department may need additional General Fund in order to support the consultant's continued work. During FY 06-07, the Medicaid portion of the funding may receive reduced federal financial participation if the federal Centers for Medicare and Medicaid Services decide to decertify Colorado's Medicaid Management Information System due to unfinished reprourement by November 30, 2006. When a Medicaid Management Information System misses its deadline for reprourement, the Centers for Medicare and Medicaid Services may reduce the federal funds participation rate for both the current operating system and for lagging reprourement. 42 Code of Federal Regulations, §433.120(a) states that after "the system no longer meets the conditions of reapproval in §433.119, [the Centers for Medicare and Medicaid Services] will reduce [federal financial participation] for system operations for at least four quarters." §433.120(b) further states that "[the Centers for Medicare and Medicaid Services] will not reduce [federal financial participation] by more than 10 percentage points in any four quarter period." The reduction begins during the next calendar quarter after decertification. It is likely that decertification will be determined in December 2006 after the reprourement due date is missed on December 1, 2006. The Centers for Medicare and Medicaid Services use certain criteria to determine the percentage reduction, but the Department can not be certain what the particular reduction will be. The reduction could be the maximum allowable of 10 percentage points.

If decertification and reduction in federal funds participation occurs, the Department would need an exception to the "(M)" Headnote to temporarily allow for more General Fund to offset the decrease in federal funds participation because the Department still would need the full amount of the requested funding in order to complete the

reprocurement within the time frame. Any further delays due to inadequate funding would risk additional loss of federal funds participation. If decreased federal funding is received, the Department will submit a Supplemental Request for General Fund to address the reduced federal match. Until the Supplemental Request is approved, the Department would need to continue to work, and would temporarily utilize the granted “(M)” Headnote flexibility. The following paragraph quotes, in part, the “(M)” Headnote in the FY 05-06 Long Bill, SB 05-209, with wording added for the exception that the Department would request in **boldface type**:

In the event that the federal funds earned or received are less than the amount shown in the “federal funds” column, the combined general fund or general fund exempt amount noted as “(M)” shall be reduced proportionally, except for the Department of Health Care Policy and Financing’s Medicaid Management Information System Contract line item and Medicaid Management Information System Reprocurement line item for the purpose of compliance with federally required reprocurement of the Medicaid Management Information System.

The Department assumes that reprocurement processes will go forward according to the revised schedule. However, if unforeseen circumstances cause a delay resulting in not totally using the full appropriation for any fiscal year, the Department would plan to use the roll forward process permitted in the State of Colorado Fiscal Rules, Rule 7-3 because there is a contract in place for the consultant. Therefore, a large reversion of funds, as occurred at the end of FY 04-05, is not likely to recur.

The Department can not be certain who will be selected as the ongoing fiscal agent, so the Implementation Schedule reflects that uncertainty.

Implementation Schedule:

Task	Month/Year
If incumbent fiscal agent is selected again	
Executed contract with fiscal agent	July 1, 2006
System transition begins (with enhancements automatically included)	August 1, 2006
Transition complete	June 30, 2007
If reprourement results in a different fiscal agent	
Executed contract and System transition begins immediately	July 1, 2006
Parallel processing/acceptance testing of transition	May 1, 2007 to June 30, 2007
Transition complete, start of MMIS operations by new fiscal agent	July 1, 2007
Enhancements that new fiscal agent may need to make	February 1, 2008
For either incumbent or different fiscal agent	
Independent Verification and Validation Assistance by the Governor's Office of Innovation and Technology	During FY 06-07

Calculations for Alternative's Funding:

Summary of Request FY 06-07 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Cash Funds Exempt	Federal Funds
Total Request [Items below total to this]	\$740,100	\$155,783	\$7,771	\$576,546
Base Funding for Medicaid Management Information System Federally-Mandated Reprourement [matches column 5 on Schedule 6]	\$327,600	\$74,677	\$3,440	\$249,483
Incremental Funding for Medicaid Management Information System Federally Mandated Reprourement [column 6 on Schedule 6]	\$412,500	\$81,106	\$4,331	\$327,063

Note: The \$90,000 to transfer to the Governor's Office of Innovation and Technology is also included in the \$740,100 total funding for the Medicaid Management Information System Reprourement line item in this request.

Summary of Request FY 07-08 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Cash Funds Exempt	Federal Funds
Total Request [Items below total to this]	\$55,200	\$5,898	\$579	\$48,723
Incremental Funding for Medicaid Management Information System Federally Mandated Reprocurement [column 10 on Schedule 6]	\$55,200	\$5,898	\$579	\$48,723

Table A: Calculations for Consultants for Past Years and Future Years						
Fiscal Year	Number of Months Consultant Needed	Type of Consultant	Number of Consultants	Hours Needed	Hourly Rate	Totals
FY 04-05 Appropriated*	9	Senior Consultant	1	1,512	\$175	\$264,600
	9	Consultant	2	1,512	\$125	\$378,000
					Grand Total	\$642,600
FY 05-06 Appropriated	4	Senior Consultant	0.5	672	\$175	\$58,800
	8	Senior Consultant	1	1,344	\$175	\$232,200
	4	Consultant	1	672	\$125	\$84,000
	8	Junior Consultant	2	1,344	\$75	\$201,600
					Grand Total	\$579,600
FY 06-07 Requested	12	Senior Consultant	1.0	1,980	\$175	\$346,500
	12	Junior Consultant	2.0	2,024	\$75	\$303,600
					Grand Total	\$650,100
FY 07-08 Requested	7	Senior Consultant	1.0	1,176	\$175	\$205,800
	7	Junior Consultant	2.0	1,180	\$75	\$177,000
					Grand Total	\$382,800

* Of the FY 04-05 appropriation totaling \$642,600, only \$9,450 was actually spent due to delays in starting the reprocurement project.

Table B: Independent Verification and Validation Costs

Fiscal Year	Work Activities	Costs
FY 06-07	Independent Verification and Validation Assistance by the Governor's Office of Innovation and Technology	\$90,000
FY 07-08	No Independent Verification and Validation Assistance Requested at This Time	\$0

Table C1: Funding Splits Between Medicaid and Children's Basic Health Plan for FY 06-07

FY 06-07			Total Costs	General Fund	Cash Funds Exempt	Federal Funds
	Total Need		\$740,100	\$155,783	\$7,771	\$576,546
	Base Request		\$327,600	\$74,677	\$3,440	\$249,483
	Additional Funding Needed		\$412,500	\$81,106	\$4,331	\$327,063
	Program Splits	Total Percentage	Total Costs	General Fund	Cash Funds Exempt	Federal Funds
	Total Costs	100%	\$740,100	\$155,783	\$7,771	\$576,546
	Medicaid Costs	97%	\$717,897	\$155,783	\$0	\$562,114
	Enhancement Costs	22% of 97%		10% of 22%	0% of 22%	90% of 22%
			\$157,937	\$15,793	\$0	\$142,144
	Reprocurement Costs	78% of 97%		25% of 78%	0% of 78%	75% of 78%
			\$559,960	\$139,990	\$0	\$419,970
	Children's Basic Health Plan Costs	3%		0% of 3%	35% of 3%	65% of 3%
			\$22,203	\$0	\$7,771	\$14,432

Table C2: Funding Splits Between Medicaid and Children's Basic Health Plan for FY 07-08						
FY 07-08			Total Costs	General Fund	Cash Funds Exempt	Federal Funds
	Total Need		\$382,800	\$80,575	\$4,019	\$298,206
	Base Request from FY 06-07		\$327,600	\$74,677	\$3,440	\$249,483
	Incremental Funding for FY 07-08		\$55,200	\$5,898	\$579	\$48,723
	Program Splits	Total Percentage	Total Costs	General Fund	Cash Funds Exempt	Federal Funds
	Total Costs	100%	\$382,800	\$80,575	\$4,019	\$298,206
	Medicaid Costs	97%	\$371,316	\$80,575	\$0	\$290,741
	Enhancement Costs	22% of 97%		10% of 22%	0% of 22%	90% of 22%
			\$81,690	\$8,169	\$0	\$73,521
	Reprocurement Costs	78% of 97%		25% of 78%	0% of 78%	75% of 78%
			\$289,626	\$72,406	\$0	\$217,220
	Children's Basic Health Plan Costs	3%		0% of 3%	35% of 3%	65% of 3%
			\$11,484	\$0	\$4,019	\$7,465

Impact on Other Areas of Government: The Governor's Office of Innovation and Technology will assist with independent verification and validation.

Summary of Request FY 06-07 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Cash Funds Exempt	Federal Funds
(5) Office of Innovation and Technology, Medicaid Management Information System Reprocurement Transfer (new line)	\$90,100	\$0	\$90,000	\$0

Assumptions for Calculations: If reprocurement results in a different fiscal agent, the new fiscal agent will still be completing enhancements to the system until February 1, 2008.

Medicaid funding for reprocurement is assumed to be 97% of the total. Within the 97% total, 22% is assumed to be related to enhancements to the system, and 78% is assumed to be for regular reprocurement activities. Enhancements can be funded at 90% federal financial participation, while regular reprocurement is approved at 75% federal financial participation. If the percentages of federal financial participation change for any reason in the future, such as decertification, the Department would submit a Supplemental Request.

For this request, the Children's Basic Health Plan contribution to the total costs is assumed to be 3%. Using the same percentage as other line items in the Department that also have a contribution from the Children's Basic Health Plan, this percentage is determined by the percentage of capitations paid for the Children's Basic Health Plan in the Medicaid Management Information System compared to the total forecasted claims and capitations paid. Federal financial participation for Title XXI, the Children's Basic Health Plan, is 65%, the usual percentage for Title XXI administrative costs.

Table A calculates the costs for consultants and assumes 21 workdays per month.

The Department assumes that a consultant would use varying levels of expertise, depending on the specific work activity in progress. It is estimated that a senior consultant would cost approximately \$175 per hour, and a junior consultant approximately \$75 per hour. The per hour costs and the number of hours needed were estimated by the Department based on prior experience with Information Technology projects that involve establishing requirements for the contractor, fiscal agent testing of transitioned systems, user acceptance testing, and implementation of a system. The consultant would oversee all of these mentioned tasks. The Department gained recent experience to gage the time frames necessary for the mentioned tasks by observing the time frames used by consultants and contractors when implementing the Health Insurance Portability and Accountability Act regulations required over the past few years. Supplemental Item #5 and Budget Amendment #2 submitted on January 3, 2005 estimated the consulting hours for FY 06-07 at 3,024 for July through December. The

requested consultant hours for FY 06-07 in Table A are approximately double (6,028)¹ to extend the services to at least June 2007. If the current contractor is not selected during the reprocurement process, an additional 7 months of consulting will be necessary in FY 07-08 for an additional 3,536 hours.

The Governor's Office of Innovation and Technology estimated the cost for independent verification and validation. This requested funding would be appropriated to the Department of Health care Policy and Financing, to draw a federal match, but then transferred to the Governor's Office of Innovation and Technology as Cash Funds Exempt.

In FY 06-07, the combination of funding needed for the consultants of \$650,100 and the funding needed for independent verification and validation of \$90,000 results in the total need.

Concerns or Uncertainties of Alternative:

The Department has assumed that the reprocurement processes will be completed in FY 06-07, but it is difficult to be entirely certain. If a different fiscal agent is selected, the start of operations by the new fiscal agent probably will occur by July 1, 2007, but any needed enhancements could take until February 2008. That situation would require additional funding to keep the consultant in place until the enhancements could be fully accomplished.

Alternative B {Status quo; no change in funding; not recommended}:

General Description of Alternative:

This alternative would not fund the additional months in FY 06-07 after December 2006 for the consultant's contract to assist the Department with completing the reprocurement processes and would not allow for flexibility in the application of the "(M)" Headnote.

Calculations for Alternative's Funding:

No change in funding with this alternative and no flexibility for the "(M)" Headnote.

¹ 6,028 equals 1 senior consultant at 1,980 hours plus 2 junior consultants at 2,024 hours each (see table A).

Concerns or Uncertainties of Alternative: The Department does not have the staff or the expertise in the Medicaid Management Information System monitoring work group to perform the duties that the consultant performs. The Department would have to stop the consultant's work after December 2006. Without the consultant's duties being completed, the completion of reprocurement would be further delayed. If reprocurement were further delayed, the Department risks reductions in federal financial participation to as low as 50%, the minimum level, for the time frame that reprocurement is still not completed. Reductions to the federal financial participation rate would increase the need for General Fund. The Department would need to submit a Supplemental Request for additional General Fund for the Medicaid Management Information System Contract line item if federal funds are reduced due to extended reprocurement.

Supporting Documentation

Analytical Technique: Further analysis by considering return on investment can reveal the profitable alternative for the State. The results of the investment can be expressed in proportion to the investment.

Fiscal Year	Investment: Alternative A	Cost Avoidance (Potential Loss to State): Alternative B
FY 06-07	Total funds of \$740,100 with State funds of \$155,783 General Fund and \$7,771 in Cash Funds Exempt	Without consultant during FY 06-07 and FY 07-08, reprocurement may continue up to three more fiscal years through FY 10-11. Loss of federal funds participation for three more years is estimated at \$5,339,976 ² per year minimally and likely would be higher due to continued increasing claims volume causing higher operating costs for the Medicaid Management Information System.
FY 07-08	Total funds of \$382,800 with State funds of \$80,575 General Fund and \$4,019 Cash Funds Exempt	
FY 08-09 through FY 10-11	No funds requested for reprocurement	
Total Cost to State	\$248,148 in State funds appropriation	At least \$5,339,976 per year lost in federal financial participation for three more years (FY 08-09 through FY 10-11) = \$16,019,928 lost.

Quantitative Evaluation of Performance -
Compare all Alternatives:

Alternative A would result in a qualified fiscal agent procured under federal and state required competitive bidding processes and a transition phase with enhancements so that the Medicaid Management Information System can continue operating without interruption. Alternative B would extend the time frame that federal financial participation is at risk and could cause the State to lose \$16 million more in federal funds (\$5,339,976 times 3 more years = \$16,019,928).

Alternative A is the preferred alternative.

Statutory and Federal Authority:

26-4-403.7 (3) (b), C.R.S. (2005) (3) *The executive director of the state department shall develop and implement an automated system through which medical assistance claims and payment and eligibility determinations or other related transactions may be*

² The Medicaid Management Information System Contract has a Base Request in FY 06-07 of \$23,047,082 in total funds and \$16,863,517 in federal funds. If reprocurement is not successful by FY 08-09, federal funds participation could drop to 50% of \$23,047,082, or \$11,523,541. This would be a loss of \$5,339,976 (\$16,863,517 - \$11,523,541) in federal funds participation.

processed. The system shall provide for the use of automated electronic technologies. The automated system may be implemented in phases if deemed necessary by the executive director. The automated system shall be implemented only after the executive director determines that: (b) Adequate financing is available to facilitate the implementation and maintenance of the system. Financing may include, but is not limited to, federal funds, appropriations, from the general fund, provider transactions fees, or any other financing mechanism which the state department may impose, and grants or contributions from public or private entities

24-75-102(1), C.R.S. (2005) Except as otherwise provided by law, all moneys appropriated by the general assembly may be expended or encumbered, if authorized by the controller, only in the fiscal year for which appropriated. Except as otherwise provided by law, any moneys unexpended or not encumbered from the appropriation to each department for any fiscal year shall revert to the general fund or, if made to a special fund, to such special fund. Determination of such expenditures or encumbrances shall be made no later than thirty-five days after the close of the fiscal year and pursuant to the provisions of section 24-30-202 (11).

State of Colorado Fiscal Rules, Rule 7.3 (2005) EXCEPTIONS TO RULE: The State Controller may approve the carry over of the unexpended appropriations to a subsequent fiscal year under one or more of the following: .01 The appropriated funds have been legally committed by purchase order or contract and there are extenuating circumstances that warrant carry over of the remaining appropriation.

42 C.F.R. §433.119(c) [Centers for Medicare and Medicaid Services] will issue to each Medicaid agency, by the end of the first quarter after the review period, a written notice informing the agency whether its system is reapproved or disapproved. If the system is disapproved, the notice will also include – (1) [Centers for Medicare and Medicaid Services’] decision to reduce [Federal Funds Participation] for system operations, and the percentage to which it is reduced, beginning with the next quarter.

42 C.F.R. §433.120 (a) *If [Centers for Medicare and Medicaid Services] determines after the reapproval review that the system no longer meets the conditions of reapproval in §433.119, [Centers for Medicare and Medicaid Services] will reduce FFP for system operations for at least four quarters...(b) however, [Centers for Medicare and Medicaid] will not reduce FFP by more than 10 percentage points in any four-quarter period.*

Department Objectives Met if Approved:

- 1.3 To assure payments in support of the programs are accurate and timely.
- 2.2 To improve management of the Department's information systems technology.
- 2.3 To hold accountable the Department's administrative contractors, including other State and local agencies, by more outcome-based contracting and more sophisticated contract management.