



COLORADO

Department of Health Care
Policy & Financing

June 30, 2015

The Honorable Kent Lambert, Chair
Joint Budget Committee
200 East 14th Avenue, Third Floor
Denver, CO 80203

Dear Senator Lambert:

Enclosed please find the Department's response to the Joint Budget Committee's Request for Information #4 regarding the allocation of administrative expenses by cash fund.

Health Care Policy and Financing FY 2015-16 Request for Information #4 states:

Department of Health Care Policy and Financing, Executive Director's Office – The Department is requested to submit a report to the Joint Budget Committee by June 30, 2015, on how the Department plans to improve the allocation of administrative expenses by cash fund, either using the Public Assistance Cost Allocation Plan (PACAP) technology, or some other method, for the FY 2016-17 budget cycle.

The enclosed response includes information regarding the Department's current cost allocation process, which is in full compliance with state laws and requirements, and the constraints around making major adjustments to the way in which the Department allocates administrative expenses.

If you require further information or have additional questions, please contact the Department's Legislative Liaison, Zach Lynkiewicz, at Zach.Lynkiewicz@state.co.us or 720-854-9882.

Sincerely,

A handwritten signature in black ink, appearing to read 'Susan E. Birch'.

Susan E. Birch, MBA, BSN, RN
Executive Director

SEB/ejg

Enclosure: Health Care Policy and Financing FY 2015-16 Request for Information #4



Cc: Representative Millie Hamner, Vice-chair, Joint Budget Committee
Representative Bob Rankin, Joint Budget Committee
Representative Dave Young, Joint Budget Committee
Senator Kevin Grantham, Joint Budget Committee
Senator Pat Steadman, Joint Budget Committee
John Ziegler, Staff Director, JBC
Eric Kurtz, JBC Analyst
Henry Sobanet, Director, Office of State Planning and Budgeting
Bettina Schneider, Budget Analyst, Office of State Planning and Budgeting
Legislative Council Library
State Library
John Bartholomew, Finance Office Director, HCPF
Gretchen Hammer, Health Programs Office Director, HCPF
Dr. Judy Zerzan, Client and Clinical Care Office Director, HCPF
Chris Underwood, Health Information Office Director, HCPF
Jed Ziegenhagen, Community Living Office Director, HCPF
Tom Massey, Policy, Communications, and Administration Office Director, HCPF
Rachel Reiter, External Relations Division Director, HCPF
Zach Lynkiewicz, Legislative Liaison, HCPF



Health Care Policy and Financing FY 2015-16 Request for Information #4 states:

Department of Health Care Policy and Financing, Executive Director's Office – The Department is requested to submit a report to the Joint Budget Committee by June 30, 2015, on how the Department plans to improve the allocation of administrative expenses by cash fund, either using the Public Assistance Cost Allocation Plan (PACAP) technology, or some other method, for the FY 2016-17 budget cycle.

The Department does not have plans to incorporate state funding sources, including cash funds, in its Public Assistance Cost Allocation Plan (PACAP). The Department's current cost allocation process is in full compliance with state laws and fiscal requirements. Major adjustments to the way the cash funds are allocated are not needed at this time and would require additional resources to implement. These issues are described in detail below.

The Department is not required by state statute to reallocate administrative expenses by state funding source – the purpose of the Department's PACAP is to satisfy federal requirements. The PACAP establishes a methodology for allocating overhead costs that support the entire Department to various federal and state-only programs benefiting from those services. This results in reallocating costs to different levels of federal financial participation (FFP) based on the rate allowable for the various programs. The PACAP must be compliant with the Office of Management and Budget (OMB) Super Circular, which consolidated several OMB Circulars, including A-87 on cost principles¹. The Super Circular outlines the principles for determining which costs are allowable in the administration of federal programs. The PACAP must also be approved by the Centers for Medicare and Medicaid Services (CMS). Without an updated, approved PACAP in place, the Department would be at risk for disallowances from CMS.

The Department is appropriated funding from cash fund sources for administrative costs based on the anticipated share of costs for each program. This includes overhead costs, such as staff salary, fringe benefits, and related expenditures, and administrative contracts. As part of this process, the Department must balance the projected expenditure on allowable administrative expenses from each cash fund with the amount of revenue available to support administrative activities. This limits the Department's ability to allocate expenses beyond the amount that was intended for each purpose. Adjustments to the allocations are made through the budget process and approved by the General Assembly in each year's Long Bill.

If the General Assembly imposes requirements for allocating state cash funds that are similar to those for allocating federal grants, the Department assumes that it would need additional funds for its cost allocation contractor to establish the cost pools for each funding source. The contractor would need to assess the activities completed by each unit in the organizational structure to determine how the overhead costs should be allocated between the cash funds for that unit. The Department is currently paying a contractor to update its PACAP to ensure compliance with federal requirements. The Department paid \$138,603 in FY 2013-14 for the contractor to begin

¹ The Super Circular is codified in 2 CFR Chapter 1, and Chapter II, Parts 200, 215, 220, 225, and 230.



evaluating the current PACAP and to draft a revised version based on the Department's programs and organizational structure. The contractor is finalizing the cost allocation methodology and submission of the PACAP to CMS this fiscal year – the Department requested and received \$204,073 in FY 2014-15 to complete this process. The Department paid approximately \$90,000 total funds for the contractor to evaluate the federal fund programs and establish the baseline cost allocation plan for the PACAP. A similar process would need to be implemented to incorporate the cash funds into the allocation methodology, although the contractor may require more funds to implement this for the state funding sources as it would need to first become familiar with cash-funded programs specific to Colorado.

In addition, incorporating state funds in the cost allocation methodology and associated software would involve internal staff time that may not be able to be absorbed with existing FTE. Department staff would initially need to work with the cost allocation contractor to understand the programs administered and how costs should be allocated to those programs. This process took several months to finalize for the updated PACAP. Once implemented, staff would need to maintain the accuracy of the cash fund cost pools, especially as cash-funded programs fluctuate in scope over time. Many of the Department's staff work on several programs with different state funding sources. To appropriately allocate costs, staff would likely need to track time to the various cash-funded programs, which would require purchasing licenses for the time tracking software and administrative oversight to ensure that time is being correctly entered. Department staff would need to gather the cash-funded expenditures and time tracking output on a quarterly basis to input the data into the cost allocation software tool, and review the data resulting from the process for accuracy and reasonableness. Staff would also need to ensure that the cash funds could support the allocated administrative expenses identified by the software and continue to be solvent each quarter.

At present, the Department has no plans to change the way that it allocates cash funds. The Department is in compliance with all relevant state statutes and fiscal rules with respect to cash fund management. There are no statutory requirements for the Department to incorporate cash funds into a formal allocation methodology, such as its PACAP, and the Department does not have the resources to implement an allocation methodology for state funds at this time. However, the Department will monitor whether its administrative expenses are appropriately allocated to state funding sources and address any inconsistencies through the budget process.

