

Schedule 13

Funding Request for the FY 2015-16 Budget Cycle

Department of Health Care Policy and Financing

PB Request Number SBA-15

Request Titles

S-15 PACAP Contractor
BA-15 PACAP Contractor

Dept. Approval By:	Josh Block 	<input checked="" type="checkbox"/>	Supplemental FY 2014-15
		<input type="checkbox"/>	Change Request FY 2015-16
		<input type="checkbox"/>	Base Reduction FY 2015-16
OSPB Approval By:		<input checked="" type="checkbox"/>	Budget Amendment FY 2015-16

Line Item Information	Fund	FY 2014-15	FY 2015-16	FY 2016-17
		Appropriation	Supplemental Request Base Request	Governor's Revised Request Budget Amendment
	Total	\$6,151,808	\$204,073 \$5,481,508	\$45,000 \$45,000
	FTE	-	-	-
Total of All Line Items	GF	\$2,225,315	\$102,037 \$1,918,265	\$22,500 \$22,500
	CF	\$727,500	\$0 \$727,500	\$0 \$0
	RF	\$0	\$0	\$0
	FF	\$3,198,993	\$102,036 \$2,835,743	\$22,500 \$22,500

Line Item Information	Fund	FY 2014-15	FY 2015-16	FY 2016-17
		Appropriation	Supplemental Request Base Request	Governor's Revised Request Budget Amendment
	Total	\$6,151,808	\$204,073 \$5,481,508	\$45,000 \$45,000
01. Executive Director's Office -	CF	\$727,500	\$0 \$727,500	\$0 \$0
General Professional Services and Special Projects	FF	\$3,198,993	\$102,036 \$2,835,743	\$22,500 \$22,500
	GF	\$2,225,315	\$102,037 \$1,918,265	\$22,500 \$22,500

Letternote Text Revision Required?	Yes	No	<input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number: FF: Title XIX				
Reappropriated Funds Source, by Department and Line Item Name: N/A				
Approval by OIT?	Yes	No	Not Required:	<input checked="" type="checkbox"/>
Schedule 13s from Affected Departments: N/A				
Other Information: N/A				



Cost and FTE

- The Department requests \$204,073 total funds, \$102,037 General Fund, in FY 2014-15 to contract with an outside vendor to complete an update of the Department's Public Assistance Cost Allocation Plan (PACAP).
- The Department requests \$45,000 total funds, \$22,500 General Fund, in FY 2015-16 and ongoing to maintain the PACAP.

Current Program

- The PACAP establishes a methodology to allocate the Department's overhead costs to the various programs the Department administers.
- The Centers for Medicare and Medicaid Services (CMS) require the Department to have a cost allocation plan; the Department's accounting staff use the plan to reallocate costs and true up the resulting federal share of the costs with CMS each quarter.

Problem or Opportunity

- The Department's current PACAP is outdated and not compliant with federal regulations, leaving the Department vulnerable to disallowances from CMS. Calculations for the PACAP are completed using a manual spreadsheet tool that is inefficient and unable to adapt to the growing number of programs and funding sources managed by the Department.
- The Department does not have the resources or expertise to develop a robust plan that will meet CMS requirements and provide better tools for cost tracking. The Department entered in a contract with an outside vendor to update the PACAP in FY 2013-14, but due to delays in the deliverables, there is further work that needs to be completed in FY 2014-15, and the Department cannot absorb the costs in its existing budget.

Consequences of Problem

- If the PACAP update is not completed, the Department would continue to allocate overhead costs using its current outdated system, which leaves the Department at risk for CMS disallowances.
- The Department would continue to use resources on an inefficient process that does not provide the necessary reporting to track costs over time.

Proposed Solution

- The Department requests to fund the remaining contract deliverables to update the PACAP to accurately reflect the Department's organizational structure and programs.
- The vendor would ensure the PACAP complies with CMS requirements.
- The new PACAP process would be more efficient and less staff-time intensive.



COLORADO

Department of Health Care
Policy & Financing

FY 2014-15 and FY 2015-16 Funding Request | January 2, 2015

John W. Hickenlooper
Governor

Susan E. Birch
Executive Director

Department Priority: S-15, BA-15
Request Detail: PACAP Contractor

Summary of Incremental Funding Change for FY 2014-15	Total Funds	General Fund
PACAP Contractor	\$204,073	\$102,037

Summary of Incremental Funding Change for FY 2015-16	Total Funds	General Fund
PACAP Contractor	\$45,000	\$22,500

Problem or Opportunity:

The Department’s current Public Assistance Cost Allocation Plan (PACAP) is outdated and does not accurately reflect the programs administered by the Department, making it non-compliant with federal regulations and vulnerable to disallowances from the Centers for Medicare and Medicaid Services (CMS)¹. The current PACAP relies on manual processes that are inefficient and staff-time intensive, and it does not produce robust reporting for tracking and forecasting to ensure allocations maximize the allowable federal share of its overhead costs.

CMS requires the Department to have an approved PACAP in place. The PACAP establishes a methodology for allocating overhead costs that are used to support the entire Department to various major program groups benefiting from those services. Initially, these overhead costs are charged as Medicaid administration, which draws a 50% federal financial participation (FFP) rate. Through the PACAP, the costs are allocated to other major program groups that draw different FFP rates. Some of these other programs may draw a higher FFP rate than Medicaid administration, such as the Children’s Basic Health Plan, and some may draw a lower FFP rate, such as the Old Age Pension program. This reallocation is designed to ensure that the federal share of overhead costs accurately reflects the programs they benefit.

The Department’s PACAP was created in 2000, when there were only a few programs at the Department. The Department now administers more programs, including several new federal grant funded programs, with

¹ The Department’s PACAP must be in compliance with the Office of Management and Budget (OMB) Circular A-87, which outlines the principles for determining which costs are allowable in the administration of federal programs. One of these principles is that costs should be allocated to program groups based on the benefits received.

a greater complexity of funding sources. In its current form, the PACAP cannot adequately incorporate all of these programs, and as a result, the reallocation to other programs is not accurate. CMS has raised concerns that the Department's current methodology is not accounting for all its programs. In July 2013, CMS issued two disallowances to the Department, which will require the Department to repay federal funds. The disallowances were due to non-compliance in the Department's PACAP, including untimely filing and neglecting to include Hospital Outstationing in its allocation plan.

In addition, the current allocation methodology involves processing data manually in spreadsheets by Department staff. The system is inefficient and takes staff time away from day-to-day operations every quarter, when the reallocations are due to CMS. The system is not designed to track costs over time for reporting and forecasting, making it difficult to determine whether the Department's calculations are accurate and are maximizing the federal share for its overhead costs.

The Department contracted with a vendor in FY 2013-14 to develop a new cost allocation tool and methodology. The Department anticipated that the contract would be completed in that year, when the costs could be absorbed in the existing budget. Some of the deliverables were delayed due to the implementation of CORE, the new accounting system, as well as a major departmental reorganization that was effective July 1, 2014. Both of these changes required changes to the coding of the organization structure on which the PACAP is based. The Department is not able to absorb the costs of the remaining contract deliverables in FY 2014-15. In addition, the Department needs funding to maintain the PACAP on an ongoing basis to make sure it continues to accurately reflect the Department's programmatic structure.

Proposed Solution:

The Department requests \$204,073 total funds, \$102,037 General Fund, in FY 2014-15 to fund the completion of the PACAP. The Department requests continuation funding of \$45,000 total funds, \$22,500 General Fund, for the contractor to update the PACAP and associated software on an ongoing basis in response to any changes in federal rules and business processes within the Department. Having an approved PACAP is a federal requirement.

The vendor is developing the cost allocation methodology to accurately reflect the Department's organizational structure and programs. The methodology uses software that the vendor designed specifically for the Department to complete the reallocations. The software will make it more efficient for the Department to produce the reallocations each quarter and is easily adaptable to programmatic and organizational changes that occur over time. The vendor has worked with several other states to develop and maintain their cost allocation methodologies using this software, providing the Department with the expertise it needs to ensure it is not missing any pieces in its allocations. Once the methodology is finalized, the vendor will work with CMS to make sure the new PACAP meets all requirements and for final approval of the plan.

If this request is not approved, the Department would be unable to update its cost allocation methodology under the PACAP, and it would continue to allocate overhead costs using its current outdated system, which leaves the Department at risk for further CMS disallowances. The process would remain inefficient and rely on manual processes completed by Department staff.

Anticipated Outcomes:

This request would allow the Department to implement a more accurate and less resource-intensive cost allocation methodology, which fits under the Department’s strategy to enhance efficiency and effectiveness through process improvements, as defined in its Performance Plan. This would be evident by the amount of time it takes staff to prepare the PACAP each quarter and in the timeliness of submissions for payments. There would be more transparency in reporting the reallocated costs by category and program and tracking those costs over time for more effective forecasting, which would aid the Department in determining if it is maximizing the allowable federal share of its costs.

Assumptions and Calculations:

The Department estimates that it would need an additional \$204,073 total funds in FY 2014-15 for the contractor to complete and finalize the PACAP. This is based on an estimate provided by the contractor currently working on updating the PACAP. The table below shows a breakdown of the amount spent on the contract in FY 2013-14 and the amount requested for FY 2014-15.

FY 2013-14 Actual Expenditure		FY 2014-15 Request Amount	
Deliverable	Price	Deliverable	Price
Evaluative Report	\$49,878	Comparison Report: Part II	\$3,117
Draft PACAP	\$49,879	Baseline Cost Allocation System	\$87,287
Comparison Report: Part I	\$9,352	Policy and Procedures Manual	\$12,470
Final PACAP: Part I	\$29,494	Incorporating Department Reorganization into PACAP	\$29,975
		Two Quarters of Software Assistance	\$26,224
		Ad Hoc Estimate – PACAP Maintenance	\$45,000
Total	\$138,603	Total	\$204,073

The Department assumes that it would continue to contract with the vendor on an ongoing basis to maintain the PACAP, and estimates that it would need \$45,000 total funds in continuation funding based on an estimate for ongoing costs provided by the contractor.

Supplemental, 1331 Supplemental or Budget Amendment Criteria:

This request is due to new information on the costs of completing the PACAP in FY 2014-15 and maintaining it on an ongoing basis.