January 23, 2012

Dear State Exchange Grantees, Medicaid and CHIP Directors, and Health and Human Services Directors:

On August 10, 2011, we announced a time-limited, specific exception to the cost allocation requirements set forth in OMB Circular A-87 (Section C.3) that requires benefitting programs to pay their share of the costs associated with building State-based information technology systems. The exception allows Federally-funded human services programs to benefit from investments in the design and development of State eligibility-determination systems for State-operated Exchanges, Medicaid and the Children's Health Insurance Program (CHIP). This letter provides additional guidance on how States may take advantage of this exception to leverage these investments to serve multiple programs and needs. The U.S. Departments of Health and Human Services (HHS) and Agriculture (USDA) are committed to a strong partnership with States and our Federal partners as we work together to implement the Affordable Care Act.

Timeline

January 1, 2014 marks the expansion of health insurance coverage through new Affordable Insurance Exchanges (Exchanges) and Medicaid. We encourage States to consider the benefits of interoperable systems and how system development can be staged to ensure that the Affordable Care Act timeframes are met. Many States will make long-needed investments in Medicaid, CHIP and Exchange eligibility systems, and these systems need to be operational and fully tested no later than the summer of 2013. While we encourage States to take into account the needs and requirements of human services programs in developing these systems, any human services system requirement that would delay meeting the deadline will not be permitted.

States pursuing an integrated eligibility system strategy should consider mechanisms for phasing their IT development, such that the additional functionality needed to determine eligibility for human services programs can be added after the health components are operational. It is not required that a State implement a shared eligibility system through a phased approach, but it is an allowable approach and may enable States to implement the health components of an enterprise system in accordance with the Affordable Care Act requirements.

Such phased projects would be allowed under the exception to OMB Circular A-87 cost allocation principles, which remains in place through December 31, 2015. States would need to incur costs for goods and services furnished no later than December 31, 2015 to make use of this exception. This would mean that if an amount has been obligated by December 31, 2015, but the good or service has not yet been furnished by that date, then such expenditure must be cost allocated as currently required under OMB Circular A-87.

Additional Considerations to Using the Exception

1. Maintenance and operational costs for these systems shall continue to be cost allocated as currently required under OMB Circular A-87.

2. Further, any service, expansion of service, or increase in capacity beyond that required for the health programs, must be cost allocated to the benefitting program, consistent with the current practice under OMB Circular A-87. For example, the automation needed to track a court's determination of "reasonable efforts" to maintain a family is a function needed for title IV-E foster care and does not benefit Medicaid, CHIP, or the Exchange. An example of an "increase in capacity" that would require a State to allocate to the other benefiting Federal human services programs would be the need for additional infrastructure, equipment and/or data storage capacity.

3. To the extent that human services programs can make use of core eligibility determination business processes and technical services that will be used in the integrated eligibility systems, their ability to link to the system more easily and cost-efficiently in the future without requiring extensive changes to the common components is a cost-effective approach to systems engineering.

4. Regardless of the approach, should a State elect to implement a multi-program enterprise system, the project team must engage all programs that may be included in the eventual enterprise system in a cross-program collaborative planning and design process. The cross program collaboration should start as soon as possible and continue throughout the development life cycle of the planned enterprise system.

Allowable Shared Services under the Exception

A number of business processes and technical services that the Medicaid, CHIP, and Exchange programs may need to build or enhance to determine program eligibility and enroll clients into health care coverage have the potential for being useful to other Federally-funded human services programs. Taking steps now to explore the feasibility of developing shared eligibility services across all health and human service programs will reduce the number of duplicative and costly "siloed" systems performing the same function for different programs.

Under the exception to OMB Circular A-87 cost allocation principles, to the extent these business services are core components of the health program eligibility system, design and development costs would not be required to be cost allocated to the other Federally-funded human services programs for certain business process and technical services, such as the following:

- ✓ Client Portals
- ✓ User Interfaces
- ✓ Master Client Index
- ✓ Business Rules Engine and Operating Systems
- ✓ Interfaces to: Federal and State verification sources; Community Assisters/ Outreach Organizations; Exchange Infrastructure
- ✓ Enterprise Service Bus

- ✓ Data Warehouse
- ✓ Workflow Management Tools
- ✓ Notices
- ✓ Customer Services Technical Support
- ✓ Automated Account Creation and Case Notes
- ✓ Identity Management
- ✓ Document Imaging and Digitization of Case Records
- ✓ Privacy and Security Controls
- ✓ Business Intelligence
- ✓ Analytic Tools, including Decision Support and Program Integrity
- ✓ Telecommunications
- ✓ Information Security and Privacy Controls
- ✓ Infrastructure and Data Center Hosting

Because each State's system solution may vary, States interested in taking advantage of the opportunities permissible under the exception should discuss their cost allocation approach with their representatives from the Centers for Medicare & Medicaid Services (CMS), the Administration for Children and Families (ACF), and Food and Nutrition Service (FNS) who are working together to ensure a close level of coordination. The list above is not exhaustive, and there may be other services that are allowable under the exception. As noted above, any expansion of these services or increase in capacity beyond that required for health programs must be cost allocated to the benefitting program, consistent with current practice under OMB Circular A-87. CMS and the Human Services Federal partners would be pleased to discuss specific variations from those listed above, provided they are consistent with Federal guidance.

Advance Planning Document (APD) Process

On October 28, 2010, the regulations governing the APD process were changed at 45 CFR 95 Subpart F. The purpose of the revised APD process is to simplify and streamline the submission and review process for those system-related documents. Considering the 2014 Affordable Care Act deadline, CMS developed an expedited APD checklist for use with Medicaid and CHIP that aligns with Exchange review initiatives. The expedited APD checklist can be found here: http://www.medicaid.gov/AffordableCareAct/Provisions/Information-Technology-Systems-and-Data.html. Both ACF and FNS have agreed to accept the CMS checklist for enterprise projects that support multi-agency or cross-agency initiatives. Consistent with current practice, States should continue to submit APDs to all program offices from which they are requesting funding, and if necessary, to ACF's Office on Administration that acts as the clearinghouse for all HHS-related APDs that include two or more HHS entitlement programs and coordinates review with FNS. If the State only requests funding for eligibility systems that provide functionality for the Medicaid and CHIP programs without the intent of building an integrated system in the future, the APD should be submitted directly to CMS for review and approval.

CMS issued the expedited APD checklist template prior to OMB's approval of the exception to OMB Circular A-87 cost allocation principles. The template does not include a specific section for a State to explain and document its efforts to include the common eligibility systems needs of human services programs under this exception. Therefore, we request the following information with submission of the expedited APD checklist:

- A State must provide a detailed narrative to indicate which human services programs will eventually be included in the proposed solution.
- For a State pursuing a phased-in IT approach, the narrative should explain how the State will identify, capture, and implement the foundational needs of human services programs as they first implement Medicaid, CHIP, and Exchange requirements for the enterprise system project.
- The narrative should also identify the human services agencies and staff working on the design and implementation of the ACA-related system.

We recognize the State might not need or use funding from ACF or FNS during the first phase of the IT project. Nevertheless, the State must demonstrate in the CMS expedited APD checklist and accompanying narrative that the State staff responsible for the Federal human service programs that will eventually benefit from the new application are meaningfully involved in the design and development process of the common components of the enterprise system. This level of coordination will alert USDA and ACF, as appropriate, of the need to monitor progress of the system through the review of the State's APD updates and the CMS Gate Review process and will allow those other human services programs to transition to an active review responsibility as the State focuses on the unique needs of those programs in later phases of the project.

Funding requests should follow the guidance of the CMS-issued expedited APD checklist, which summarizes the Federal requirements for planning and implementation activities. States requesting funding for integrated eligibility systems should submit their APD to CMS and the human services program offices that will eventually benefit from the system. The Federal human service agencies in ACF and USDA have committed to a timely review of these submissions.

Please refer questions to the Federal analyst responsible for your program area.

Sincerely,

/s/

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