PCGHealth & Human Services™

Cost Allocation/SMHP Implications for Medicaid Agencies

Webinar

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Guiding Principles for This Presentation

- States are just starting to focus on the cost allocation aspect of Health Information Technology (HIT) (and other initiatives, including Health Care Reform).
- The purpose of this webinar is to start a dialog about how cost allocation impacts these initiatives and vice versa.
- CMS is putting out guidance and many questions may be best left to CMS and/or the Division of Cost Allocation (DCA) to answer.
- Yet, understanding the need to update cost allocation practices is an important first step towards ensuring compliance with federal regulations.

Cost Allocation Plans

- A public assistance agency is the state agency responsible for the administration of one or more of the State Plans for public assistance programs, including Title XIX of the Social Security Act.
- Medicaid regulations require that an agency state in their Medicaid state plan (which is a state agency's "contract" with the federal Medicaid program) that they will prepare a cost allocation plan.
- Typically, the cost allocation plan serves as the basis for all administrative claiming to Federal programs.
- A public assistance cost allocation plan is governed by OMB A-87 and its companion guide ASMB C-10, with particular requirements outlined in Attachment D of OMB A-87 (now located at 2 CFR Part 225).

Cost Allocation Plans (continued)

- **45 CFR (Part 95, Subparts E, F, and G)**
  This series of Federal regulations establishes the basic cost allocation plan requirements that the PA agency must follow in the preparation of a plan. Section E outlines the procedures for the preparation, submission, and approval of a Plan; Section F defines the acceptability of ADP systems when submitting claims; and Section G outlines requirements for claiming FFP in the cost of equipment for agencies.

- These requirements specifically outline when a plan must be amended (including changes to organization and programs).

- Typically, a public assistance cost allocation plan will include all costs incurred by an agency, with the possible exception of “expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients” (OMB A-87).

Cost Allocation Plans (continued)

- A cost allocation plan is both a narrative document that outlines costs and how they will be allocated and related processes that pool costs and allocate them to “benefitting objectives”.
- To be in compliance, the cost allocations (“the financial process”) must be identical to what is described in the plan narrative.
- These processes provide the costs that are reported on the CMS-64.

APDs/IAPDs

- Advance Planning Documents (APD) will outline how costs associated with a systems development are to be allocated.
- If you want enhanced funding (i.e., 90%) you **MUST** get approval of your APD ahead of time, not after the fact (should go without saying, but we have seen states try to do it backwards).
- Often, various allocation methods are used for various costs in an APD.
- The cost allocation plan will usually be amended to address the APD. Time studies may be needed to capture all staff time associated with the development efforts.
- Your actual cost allocation processes should work in concert to ensure that you are in compliance with both your plan and the APD (a best practices cost allocation plan should identify all costs incurred each quarter and from one source complete all allocations).

State Medicaid Director's Highlights

- CMS published a State Medicaid Director's Letter on August 17, 2010 (SMD# 10-016).
- The State Medicaid Director's Letter (SMD) uses cost allocation to describe two different things: ensuring that Medicaid only pays its fair share of HIT initiatives and ensuring that once Medicaid costs are identified, they are allocated appropriately (what is accomplished via a cost allocation plan).
- New regulations allow for 90% reimbursement for "Administration of Medicaid Incentive payments to Medicaid EPs and eligible hospitals" and "Oversight of the Medicaid EHR Incentive Program".
- Enclosure A (Administering the Medicaid EHR Incentive Program) - Includes a list of allowable Administrative activities (though not exhaustive).
- It notes that "in order for States to claim the 90 percent FFP match, they must submit both a State Medicaid HIT Plan and an HIT Implementation Advance Planning Document (HIT IAPD)."

State Medicaid Director's Highlights (continued)

- Like all other cost allocation activities, these documents will need to be integrated with your regular cost allocation practices.
- Enclosure B (Oversight of the Medicaid EHR Incentive Program) - Includes activities related to audit/oversight eligible for enhanced funds.
- Enclosure C (Guiding Principles for Use of the CMS 90 Percent Administrative Matching Funds for the Medicaid EHR Incentive Program) - Provides just that, guiding principles.
  - Is very clear that CMS will need to approve any requests for enhanced FFP, as not all state programs will be the same.
  - Costs must be clearly distinguished from MMIS costs and that costs should first be claimed to MMIS as appropriate (which is subject to separate FFP levels).
  - Medicaid should not be the sole (or even primary) provider of funding.
  - Costs must be properly allocated in accordance with OMB A-87; this potentially includes the use of time studies.

State Medicaid Director's Highlights (continued)

- Enclosure D (State Medicaid HIT Plan and Implementation Advance Planning Process) - Outlines the advanced planning process and specific reporting requirements.
- Note that several changes are being made to the CMS-37 and CMS-64. A best practices cost allocation plan should be developed and administered to help support your CMS-64 reporting.
- The SMD also includes a FAQ section related to American Recovery and Reinvestment Act (ARRA) funds and guidance for updating both SWICAPs, indirect cost rates, and public assistance cost allocation plans.
- ARRA does have a 0.5 percent limit on administrative reimbursement which must be addressed in your state's cost allocation plan.
- As noted above, time studies may be required for all claiming where staff support more than one activity and/or program.

A Note About Eligibility System Changes

- On another note, along with the various changes coming under Health Care Reform, many states are looking at whether they should upgrade their eligibility systems beyond the changes required under the Medicaid program.
- If you decide to upgrade your system, you will need to follow OMB A-87 benefitting objectives principles.
- CMS is unlikely to pay the entire cost (never mind at an enhanced rate) of upgrading the system if it also impacts non-Medicaid programs such as Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program(SNAP).
- All allocations will need to be outlined in an APD.

Conclusions

- A Medicaid agency's cost allocation plan must mirror its organizational structure.
- Any change to the structure and functions performed will necessitate a cost allocation plan amendment, if not an entire re-write (if your plan is out of date).
- While many of these allocation requests will be submitted separately (i.e., through APDs, SMHP, etc.), ultimately they need to be in the cost allocation plan narrative and processes to be sure that you are doing everything correctly.
- If your plan is out of date, now is an excellent time to bring your plan into compliance.
- ***Do you know if states have been told to update their plans in addition to submitting their SMHP and APDs?***

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