



Summary of Federal Funding Issues and Resolution

Over the past several months representatives from the Virginia Information Technologies Agency (VITA) met with representatives from State agencies to identify issues that might inhibit the transfer of personnel and other information technology (IT) resources to VITA in accordance with the provisions Chapter 981, Acts of the Assembly, 2003. In response to expressions of concern, VITA held in-depth meetings with ten state agencies for the purpose of better understanding the related federal issues. At the conclusion of these meetings, we researched the issues and developed conclusions to resolve these issues.

This document summarizes federal issues raised in our meetings and the results of our research of Federal regulations and policies pertaining to the issues. We have concluded based on our research that nothing in these regulations or policies acts to prevent the transfer of IT resources to VITA.

VITA looks forward to working with each agency to ensure that its concerns are addressed appropriately. To that end, please review the issues and conclusions presented below. If you believe our conclusions are incorrect, based on your reading of the Federal regulations and policies, we will be happy to discuss any differences with you.

Issue 1: Administrative Fee

Is the VITA administrative fee an allowable cost under Federal grants?

Conclusion

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, prescribes the general principles for determining allowable costs and defines allowable and unallowable costs. In addition, OMB Circular A-87 states that each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper administration of Federal awards.”

The VITA administrative fee will be an amount set to recover the actual administrative support costs attendant to the IT services provided to State agencies. As long as the costs covered by the administrative fee are allowable under the provisions of Attachment B and sections A. and G. of Attachment C, of OMB Circular A-87, they are allowable charges to Federal grants and contracts.

VITA will include the costs and the methodology used to allocate the costs to the transferred IT activities in its cost allocation plan, which it will submit as required by OMB Circular A-87 to its Federal cognizant agency for approval (as its predecessor department has in the past).

Issue 2: Allowability of Depreciation on Equipment Previously Purchased with Federal Funds

Can VITA include in its rate calculation depreciation on equipment previously charged to Federal grants directly?

Conclusion

No. The cost of equipment funded entirely by the Federal Government and charged to grants or contracts cannot be charged subsequently to grants or contract through depreciation. Depreciation on equipment acquired with Federal funds and transferred to VITA must be excluded from VITA's cost pool used to establish billing rates. See OMB Circular A-87, Attachment B, paragraph 15.c. (2).

VITA's Physical IT Asset Inventory System includes a field for agencies to indicate that an asset was purchased with Federal funds. These assets will be excluded from depreciation calculations provided the agency has so indicated when recording their assets.

Issue 3: Allowability of Direct Charges for Equipment Purchases

Can agencies have VITA purchase IT equipment for the agency's use; bill the agency for the equipment; and exclude the depreciation on equipment from VITA's billing? (Example: VEC use of unexpended grant funds.)?

Conclusion

Yes. VITA services include IT services in the form of personal services, equipment and software use charges, and buying services for State agencies. In the event VITA acquires equipment and software for a State agency and is reimbursed by the State agency with Federal funds, depreciation of such equipment cannot be included in billings to Federal programs. See OMB Circular A-87, Attachment B, paragraph 15.c. (2).

Issue 4: Pre-approval of IT Equipment Purchases

Federal agencies require pre-approval of agency IT purchases; will this requirement extend to VITA equipment purchases, the costs of which are recovered through the depreciation component of the service billing rate base?

Conclusion

No. VITA is a central service as defined in Attachment A, paragraph B.4, and Attachment C of OMB Circular A-87. Equipment purchases of central service activities are not charged directly to Federal programs, and, accordingly, are not subject to Federal agency pre-approval requirements. Federal programs are charged for IT services, which includes charges for depreciation on equipment used in the delivery of billed services.

Equipment purchases by VITA for other State agencies are subject to Federal agency pre-approval requirements in accordance with grant agreements. Such purchases will not be made without agency authorization.

Issue 5: Asset Ownership

Is equipment purchased with Federal funds owned by the Commonwealth or the acquiring agency?

Conclusion

The Commonwealth is the owner. "Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments," Section 92.32 (a), provides that title to equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee, respectively. Section 92.3 defines a grantee as the Government to which the grant is awarded, that is, the entire legal entity even if a particular component of the entity is designated in the award document.

Issue 6: Changes in Equipment Utilization

Can VITA use equipment acquired by an agency with Federal funds and used solely on a Federal program to serve multiple agencies and/or programs?

Conclusion

Yes, unless specifically provided otherwise in the grant program regulations. "Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments," Section 92.32, paragraph (b) provides that a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

However, it is important that VITA be mindful of the provisions of paragraph (g) of the foregoing Section. This paragraph provides that a Federal agency may reserve the right to transfer title of equipment acquired with Federal funds. VITA will give careful consideration to the use provisions of paragraph (g) when it takes possession of equipment acquired with Federal funds.

VITA will not use equipment acquired with Federal funds for any purpose other than the purpose for which it was acquired without coordinating such a change with the original purchasing agency.

Issue 7: Sale of Equipment

How will VITA handle proceeds from the sale of equipment acquired with Federal funds?

Conclusion

"Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments," Section 92.32, paragraph (b) provides that a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

However, it is important that VITA be mindful of the provisions of paragraph (g) of the foregoing Section. This paragraph provides that a Federal agency may reserve the right to transfer title of equipment acquired with Federal funds. VITA will give careful consideration to the use provisions of paragraph (g) when it takes possession of equipment acquired with Federal funds.

VITA will not sell equipment acquired with Federal funds without coordinating such a sale with the original purchasing agency.

Issue 8: Allowability of Direct Charge Salaries

Time and effort reporting is a requirement for personnel charges to Federal grants; during transition to a rate based system, will VITA be able to identify the grants to which its direct charge salaries relate?

Conclusion

OMB Circular A-87, Attachment B, paragraph 11(h), addresses the support requirements for salaries and wages. VITA currently has no automated way to identify the specific grants to which direct charge salaries relate. VITA and State agencies working collaboratively will identify the time worked on Federal programs by employees in a manner that fully complies with this requirement.

Issue 9: Third Party services

Are VITA services (e.g., patient billings) on behalf of state hospitals reimbursable under Medicaid?

Conclusion

Allowable costs of central services are allowable under all Federal programs unless otherwise prohibited or limited by program legislation. We are unaware of any prohibitions against charging otherwise allowable central service costs to Medicaid.

Issue 10: Interagency Billings

Will costs associated with providing IT services to hospitals continue to be recoverable from billings to the DMAS/Medicaid?

Conclusion

Allowable costs of central services are allowable under all Federal programs unless otherwise prohibited or limited by program legislation. We are unaware of any prohibitions against charging otherwise allowable central service costs to Medicaid.

Issue 11: Rate base cost variances

How will VITA handle income over expenses or losses?

Conclusion

Income over expenses will be considered in the setting of future rates.

Issue 12: Allowability of duplicate services

The costs of certain agency administrative services do not change substantially by the transfer of a portion of such services to VITA. Example: Purchasing. This has the effect of increasing the cost of such services to Federal programs, consequently, the Feds may push back because its programs do not benefit from the service transfer. Will the cost of both VITA and agency services be allowed?

Conclusion

Generally yes. OMB Circular A-87, Attachment A, paragraph A.1 provides that "The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project." This provision provides discretion to Federal agencies. However, of equal importance is the provision of the Circular that provides that "The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles, except where restricted or prohibited by law." Paragraph A.2.a. (3) of Circular A-87 states that "Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper administration of Federal awards." The foregoing "fair share" principle considered with the "management discretion" principle makes it difficult to disallow these costs, especially in light of the overall cost reduction and operating efficiency objectives of central service activities, such as VITA.

Issue 13: Indirect Cost Rate

Movement of equipment or personnel may impact an agency's current indirect cost rate (approved or otherwise); what action needs to be taken to address this?

Conclusion

No action is required if the affect on cost pool underlying the rate and Federal reimbursement is minimal. The affect of the change is simply to change the character of expenses from personal services and equipment purchases to IT service costs. If the affect on the cost pool and the Federal reimbursement is material, the agency should address the matter by contacting the grantor or cognizant cost negotiation agency for guidance.

Issue 14: Allowability of increased costs for similar or like services

VITA services with the fee may be greater than the cost of current services. Will the cost increases be allowed by Federal agencies?

Conclusion

The VITA administrative fee will be an amount set to recover the actual administrative support costs attendant to the IT services provided to State agencies. As long as the costs covered by the administrative fee are allowable under the provisions of Attachment B of OMB Circular A-87, they are allowable charges to Federal grants and contracts.