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HELPING STATE AND LOCAL GOVERNMENTS MOVE AT NEW ECONOMY SPEED: ADDING FLEXIBILITY TO THE FEDERAL IT GRANT PROCESS

HEARING

BEFORE THE

SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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CONTENTS

	Page
Hearing held on July 9, 2002	1
Statement of:	
Heller, Sherri Z., Ed.D., Director, Office of Child Support Enforcement Administration for Children and Families, U.S. Department of Health and Human Services, accompanied by Richard Friedman, Centers for Medicare and Medicaid Services	46
McClure, David L., Director, Information Technology Management Issues, U.S. General Accounting Office	7
Salazar, Roberto, Administrator, Food and Nutrition Service, U.S. Department of Agriculture	58
Singer, Larry, CIO, State of Georgia, National Association of State Chief Information Officers	76
Stauffer, Robert, health and human service business development manager, Deloitte Consulting	86
Valicenti, Aldona, CIO, Commonwealth of Kentucky, National Association of State Chief Information Officers	69
Letters, statements, etc., submitted for the record by:	
Davis, Hon. Tom, a Representative in Congress from the State of Virginia, prepared statement of	4
Heller, Sherri Z., Ed.D., Director, Office of Child Support Enforcement Administration for Children and Families, U.S. Department of Health and Human Services, prepared statement of	48
McClure, David L., Director, Information Technology Management Issues, U.S. General Accounting Office, prepared statement of	10
Salazar, Roberto, Administrator, Food and Nutrition Service, U.S. Department of Agriculture, prepared statement of	60
Singer, Larry, CIO, State of Georgia, National Association of State Chief Information Officers, prepared statement of	79
Stauffer, Robert, health and human service business development manager, Deloitte Consulting, prepared statement of	88
Valicenti, Aldona, CIO, Commonwealth of Kentucky, National Association of State Chief Information Officers, prepared statement of	71

HELPING STATE AND LOCAL GOVERNMENTS MOVE AT NEW ECONOMY SPEED: ADDING FLEXIBILITY TO THE FEDERAL IT GRANT PROCESS

TUESDAY, JULY 9, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Tom Davis of Virginia, Horn, Ose, and Schrock.

Staff present: Melissa Wojciak, staff director; George Rogers, Uyen Dinh, and John Brosnan, counsels; Victoria Proctor and Teddy Kidd, professional staff members; Todd Greenwood, clerk; Mark Stephenson, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. TOM DAVIS OF VIRGINIA. Good morning. Welcome to the Subcommittee on Technology and Procurement Policy's oversight hearing on State and local governments' information technology grant management process. Before I continue, I ask unanimous consent that all Members' and witnesses' written opening statements be included in the record. And without objection, so ordered.

I also ask unanimous consent that articles, exhibits and extraneous or tabular material referred to be included in the record. Without objection, so ordered.

The Federal Government provides over $2 billion in grants each year to support a variety of State programs including Medicaid, child support enforcement, food stamps, and juvenile justice. The State governments, through their chief information officers, have voiced concerns that restrictions on how Federal funds are spent inhibit their ability to coordinate related functions across departments or agencies, thus making it difficult to provide effective service to citizens.

Information systems are a critical tool to support and enhance program administration, improving the ultimate goal of serving clients. In fiscal year 2000, the Federal Government's expenditure for information technology [IT] planning, development, acquisition and operations for State systems that support the child support enforce-

ment, child welfare, Medicaid and Food Stamp programs totaled almost $2 billion.

Measuring the effectiveness of Federal investment in State and local IT initiatives requires a look at whether these investments have improved productivity and the quality of services delivered by State and local governments.

Most State governments have embraced information technology's promise to deliver better services to citizens at a lower cost. State and local governments spent $39 billion on information technology products and services in 2001. That's 48 percent of all government spending on IT. State and local spending on IT is increasing at a faster rate than Federal spending, not including defense and security-related expenditures, and State and local governments will be the beneficiaries of much of the supplemental funding approved for homeland defense. However, State and local IT planning faces the same general challenges that the Federal Government faces: incompatible legacy systems, stove-piped organizations and difficulty in transforming government processes to best use the new technologies.

Stove-piped, or vertical organizations, where each agency develops and guards their own independent IT capabilities, often result in higher procurement costs and multiple IT systems that can be incompatible. Data and processes maintained by one agency's systems are usually not accessible to another agency's systems. SAP, a leading enterprise software firm, reports that roughly 40 percent of the average IT budget is spent on trying to achieve interoperability of different IT programs.

Presently, many commercial solutions already permit different information systems to communicate with one another and to be used as a single, compatible whole, often known generically as ERP or Enterprise Resource Planning systems. Compatibility of IT systems requires changing process and management structures which has made it difficult to achieve government buy-in. Most Federal, State and local agencies are resistant to change or reluctant to attempt solutions that could erode their power. This problem is compounded because IT compatibility is an issue that crosses jurisdictional lines between State and Federal.

The subcommittee is interested in learning more about how State and local information technology grants are managed and if the process of allowing States the flexibility to procure these systems in a timely, efficient and cost-effective manner while giving the Federal Government the appropriate and proper oversight. The focus is clearly directed at providing the delivery of government services to citizens efficiently. The private sector has already developed the information systems and programs that will facilitate this process. This hearing will attempt to determine whether the Federal Government should re-evaluate its role and permit State and local governments greater flexibility while maintaining accountability standards so that they can obtain the information technology tools they need to share information and deploy systems to achieve effective service delivery.

The subcommittee today is going to hear testimony from Dr. David McClure, the Director of Information Technology Management Issues at the GAO; Dr. Sherri Heller, the Commissioner of

the Office of Child Support Enforcement Administration for Children and Families, U.S. Department of Health and Human Services, accompanied by Mr. Richard Friedman, the Director of Division of State Systems, Center for Medicaid and State Operations Centers for Medicare and Medicaid Services; Mr. Roberto Salazar, the Administrator of Food and Nutrition Services, U.S. Department of Agriculture; Ms. Aldona Valicenti, the chief information officer, Commonwealth of Kentucky; Mr. Larry Singer, the chief information officer of the State of Georgia; and Mr. Robert Stauffer, the health and human services business development manager, Deloitte Consulting.

[The prepared statement of Hon. Tom Davis follows:]

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SUBCOMMITTTEE ON TECHNOLOGYAND PROCUREMENT POLICY

OVERSIGHT HEARING

"Helping State and Local Governments Move at New Economy Speed: Adding Flexibility to the Federal IT Grant Process"

OPENING STATEMENT

July 9, 2002

10 a.m.

Room 2154 Rayburn House Office Building

Good morning and welcome to the Subcommittee on Technology and Procurement Policy's oversight hearing on state and local governments information technology grant management process.

The Federal government provides over $2 billion dollars in grants each year to support a variety of state programs, including Medicaid, child support enforcement, food stamps, and juvenile justice. State governments, through their Chief Information Officers, have voiced concerns that restrictions on how Federal funds are spent inhibit their ability to coordinate related functions cross departments or agencies, thus, making it difficult to provide effective service to citizens.

Information systems are a critical tool to support and enhance program administration, improving the ultimate goal of serving clients. In FY2000, the Federal government's expenditures for information technology (IT) planning, development, acquisition, and operations for state systems that support the child support enforcement, child welfare, Medicaid, and Food Stamps programs totaled almost $2 billion.

Measuring the effectiveness of Federal investment in State and local IT initiatives requires looking at whether these investments have improved productivity and the quality of services delivered by State and local governments.

Most State governments have embraced information technology's promise to deliver better services to citizens at a lower cost. State and local governments spent $39 billion dollars on information technology products and services in 2001. That is 48% of all government spending on information technology. State and local spending on IT is increasing at a faster rate than Federal spending (not including defense and security-related expenditures), and State and local governments will be the beneficiaries of much of the supplemental funding approved for homeland defense. However, State and local IT planning faces the same general challenges that the Federal government faces: incompatible legacy systems, stove-piped organizations, and difficulty in transforming governmental processes to best use the new technologies.

Stovepiped, or vertical organizations, where each agency develops and guards its own independent IT capabilities, often results in higher procurement costs and multiple IT systems that are incompatible. Data and processes maintained by one agency's system are usually not accessible to another agency's system. SAP, a leading enterprise software firm, reports that roughly 40% of the average IT budget is spent on trying to achieve interoperability of different IT systems.

Presently, many commercial solutions already permit different information systems to communicate with one another and be used as a single, compatible whole—often known generically as ERP or Enterprise Resource Planning systems. Compatibility of IT systems requires changing processes and management structures which has made it difficult to achieve government buy-in. Most Federal, state and local government agencies are resistant to change or are reluctant to attempt solutions that may erode their power. This problem is compounded because IT compatibility is an issue that crosses jurisdictional lines, between state and state or between state and Federal.

The Subcommittee is interested in learning more about how state and local information technology grants are managed and if the process is allowing states the flexibility to procure these systems in a timely and cost effect manner while giving the Federal government the proper oversight. The focus is clearly directed at providing the delivery of government services to citizens efficiently. The private sector has already developed the information systems and programs that will facilitate this process. This hearing will attempt to determine whether the Federal government should re-evaluate its role and permit state and local governments greater flexibility while maintaining accountability standards so that they may obtain the information technology tools they need to share information and deploy systems to achieve effect service delivery.

Mr. TOM DAVIS OF VIRGINIA. I now yield to Congressman Turner for any opening statements he may wish to make.

Mr. TURNER. Thank you, Mr. Chairman, and welcome to all of our witnesses this morning. I think this is a very important hearing, and I am glad that we're having the opportunity to not only hear from the witnesses here today, but to hear from the GAO regarding the report that the chairman and I requested some months ago regarding this issue.

You know, I found with information technology we all understand full well the advantages that it brings to both the public and the private sector in terms of increased productivity, savings, cost savings, to the taxpayer, and yet we also, I think, have to admit that it is one of those areas, because it involves so many thousands, even millions of dollars of expenditures, that the potential for making mistakes, making errors in purchasing, making decisions about infrastructure, planning can lead to significant waste of taxpayers' dollars. And one particular area that I think we all share a mutual concern regarding is whether or not some of the requirements coming from the Federal Government to our States on State-administered Federal programs has resulted in waster of taxpayer dollars because of some of those technical requirements.

So the purpose of our endeavor today is to try to be sure that we are eliminating any of those possibilities for waste and to be sure that there is a seamless relationship between the Federal Government and the State government in these programs.

So with that, Mr. Chairman, I thank you for having this very important hearing, and I look forward to hearing from our witnesses.

Mr. TOM DAVIS OF VIRGINIA. I thank you very much.

Mr. Horn, any opening statement?

Mr. HORN. Thank you, Mr. Chairman, for holding the hearing, and I'll be very brief so we can get to the witnesses.

I have just two general observations to make. One, as we have seen too many times in the past, Federal agencies often have serious problems whenever they undertake a major upgrade of their computer systems. The IRS, the FAA, the National Weather Service and others have experienced disastrous outcomes in past modernization efforts. So having Federal agencies supervise and advise the States on new information technology is an interesting proposition from the start.

Two, the States often seem equally adept at fouling up information technology projects, so it is clear that the source of IT perfection will not be found in Sacramento or Richmond or Washington or anywhere in between. That brings us to today's hearing and the question of whether we can find some ways to at least simplify and streamline the current process while maintaining accountability for tax dollars.

Federal and State agencies should not spend months and years debating, examining and then reexamining plans for new computer systems that are obsolete before they are unpacked. I doubt that there is a simple answer to this problem, but I hope and expect from our expert witnesses that we can be enlightened on this, where the problems are, and what logical systems might be pursued to allow American taxpayers to get a better return on our IT investments. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

Mr. Schrock, any opening statement?

Mr. SCHROCK. Thank you, Mr. Chairman. I don't have an opening statement except to say thank you for doing this. I came mainly to hear what you all have to say, how what you're doing can maybe help us get our act in order up here as well, and I think Mr. Turner said it best. In the chairman's opening statement the one key word I looked at was "interoperability." That seems to be the key to everything, so I'm hoping you can focus on that and help us get our ducks in a row as well. And, again, I look forward to hearing your testimony.

Mr. TOM DAVIS OF VIRGINIA. Thank you.

As you know, I'm going to call a panel of witnesses to testify. As you know, the policy of this committee is that all witnesses be sworn, so if you'd rise with me and raise your right hand.

[Witnesses sworn.]

Mr. TOM DAVIS OF VIRGINIA. Be seated.

To afford sufficient time for questions, if you could limit yourself to 5 minutes for your statements. We have a light in front, and when the light turns orange—it will be green—when it turns orange, you have a minute to sum up. When it turns red, your 5 minutes are up, and if you'd move to try and summarize after that. Your entire testimony is in the record, and Members, certainly their staffs—presumably the Members have read the testimony and have gleaned questions off of that. As I said, the total written statements are made part of the permanent record.

We'll start with Dr. McClure and move on down the aisle. Thanks for being with us.

STATEMENT OF DAVID L. McCLURE, DIRECTOR, INFORMATION TECHNOLOGY MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. MCCLURE. Thanks, Mr. Chairman. It's a pleasure to be here this morning, welcome us here at the hearing. We are here to discuss our review of the Federal funding approval process related to State IT systems used by HHS and USDA for the child welfare, child support enforcement, Medicaid and food stamp programs. I know that you and other members of the subcommittees have specific issues of interest that you want to followup on, and I'll be happy to do that in the Q and A period.

My written statement provides details on the statutory and regulatory requirements that govern the Federal approval and funding for State IT development and acquisition projects in these four program areas. It's important to note that any changes to existing processes would require modifying regulations and possibly legislation to amend current statutes, most of which were put in place to ensure oversight accountability and stewardship over Federal funding provided to the States.

There's also been much written about how the Federal IT approval process in the human services area works. In hearings and other forums, some State officials have reported that the process takes too long, is inefficient, duplicative, and yields questionable value for all of the parties that are involved. Of particular concern is the OMB requirement that when a system is to be used by more

than one Federal program, plans must be submitted to multiple agencies that provide sufficient detail to demonstrate that costs are allowable and fairly allocated among the various Federal and State programs that benefit from the project. This cost allocation provision is one which many State officials want changed largely from a practicality standpoint as it relates to today's growing demand for a highly integrated technology environment.

To obtain a factual picture about the timeliness of the Federal review processes, we examined State requests for Federal IT funding involving these four programs for 2 fiscal years, fiscal year 2000 and 2001. This entailed some 1,150 planning and acquisition documents submitted to HHS's Administration for Children and Families, to the Center for Medicare and Medicaid Services, and USDA's Food and Nutrition Service. Unfortunately, we are unable to assess how long the Federal processes took to reach final decisions on all of these State submissions because the information required to do so is simply not readily available. We also did not assess the adequacy of the Federal analysis or the agency responses.

What we can comment on is the time that it took agencies to respond to the initial State request. For a vast majority of these cases, 89 percent, agencies, the Federal agencies, did respond in the form of an approval, a disapproval or a request for more information within the 60 days generally required by regulation.

We also examined a sample of 51 requests that exceeded 60 days. When known, the most common cited reasons by the Federal agency for the additional time involved were resource and staffing shortages, the complicated nature of the issue involved or multilayer views required. A large number of these involved questions about cost estimation and cost allocation. Additionally, Mr. Chairman, in all but three of the cases where Federal responses exceeded 60 days, State officials that we spoke to reported that the timing of the Federal response had no negative impact on the State IT project. Still, some noted specific problems associated with the quality and consistency of the reviews, and clearly officials from one-third of the States that we contacted did surface problems and believe that this process should be more streamlined.

With that, let me turn to the issue of consistency of the cost allocation reviews. OMB's cost allocations requirements are based on appropriations law, which provides that an agency may not expend appropriated funds for purposes other than those for which the appropriations were made. Mr. Chairman, while ACF, CMS and FNS did attempt to coordinate their reviews, we did find instances of inconsistent Federal actions taken by HHS and FNS when reviewing APD cost allocation plans. This accentuates the critical need for effective Federal coordination on these matters.

Despite the expressed desire for change, progress in this area has been extremely slow to date in changing the processes. An ongoing work group performed by ACF, CMS, FNS to address these problems has been in place for almost 2 years, but it's currently stalled and at present has no plans to recommend changes to the ADP process.

In short, the common concerns of the involved parties in these review processes revolve around five issues: timeliness, approval and funding criteria, review duplication and consistency, Federal

and State staffing capability and competency, and governance-structured issues dealing with effective State and Federal working relationships.

To be successful it will be important for future alternatives or improvements to the existing Federal review procedures, processes and practices to address these fundamental issues. And in short, the Federal agencies and the State need to reach agreement on what parts of the process can be retained and those which should be changed to improve the efficiency of the process.

Thank you, Mr. Chairman. I look forward to dialog and Q and A.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

[The prepared statement of Mr. McClure follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Technology and Procurement Policy, Committee on Government Reform U.S. House of Representatives

For Release on Delivery
Expected at
10 a.m. EDT
Tuesday,
July 9, 2002

HUMAN SERVICES Federal Approval and Funding Processes for States' Information Systems

Statement of David L. McClure
Director, Information Technology Management Issues

GAO-02-347T

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the federal agency processes related to the approval of state information technology (IT) projects supporting state-administered federal human services programs. These programs include Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps (app. I describes these programs).

Information systems play a central role in the management of human services programs. Historically, information systems have been used to determine participants' eligibility, to process claims, and to provide participant and program information. States are also facing new information systems challenges as a consequence of the sweeping changes brought about by welfare reform,[1] in which states' programs for needy families with children have dramatically shifted their objectives and operations. The technology challenge of welfare reform is to provide the information needed to integrate services to clients and track their progress towards self-sufficiency. To help needy families prepare for and obtain work, case managers need detailed information about factors such as family circumstances, job openings, and support services, which is very different from the information needed to issue timely and accurate cash assistance payments.

Recognizing the importance of automated systems in state-administered federal human services programs, the Congress enacted various legislative provisions encouraging states to implement certain systems to improve program efficiency. In addition, federal agencies have provided technical and funding assistance. For example, in the Family Support Act of 1988 and other acts, Congress provided funding to states to develop a single statewide child support enforcement system.[2] The federal agencies responsible for the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps programs also have processes in place to review and approve state IT planning and acquisition documents supporting state human services systems as a prerequisite for states to receive federal funding for these systems. Although there are exceptions, as a general rule, the federal agencies are required to respond to these state requests for approval within 60 days. This federal review and approval process was designed to promote accountability for the use of federal funds, mitigate financial risks, and avoid incompatibilities among systems.

[1]The Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

[2]Various legislative provisions authorized up to 90 percent federal funding of these systems between fiscal years 1988 and 1997, up to 80 percent from fiscal years 1998 to 2001, and 66 percent thereafter.

Because of the importance of IT in achieving the programmatic goals of state-administered federal human services programs, you asked us to study the approval and funding of information technology projects for state-administered federal programs for the following four programs: (1) the Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) Child Support Enforcement program, (2) ACF's Child Welfare program, (3) HHS's Centers for Medicare and Medicaid Services (CMS) Medicaid program, and (4) the Department of Agriculture's Food and Nutrition Services (FNS) Food Stamps program. Specifically, our objectives were to determine, for these four programs,

- the statutory and regulatory requirements for federal approval and funding of state IT development and acquisition projects;
- whether agency processes for reviewing, approving, and funding state IT development and acquisition projects for these programs hinder or delay states' efforts to obtain approval for these projects; and
- how the agencies ensure that they consistently apply the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, to fund IT development and acquisition projects.

In doing this work, we reviewed applicable federal statutes and regulations as well as ACF, CMS, and FNS policies and guidance. We also obtained and analyzed information on state requests for the approval of planning documents (called advance planning documents and advance planning document updates) and acquisition documents (i.e., requests for proposals,[3] contracts,[4] and contract modifications) for fiscal years 2000 and 2001. On the basis of this information, we selected and analyzed examples of cases in which the federal agency took more than 60 days to process the request.[5] As part of this analysis, we reviewed files and interviewed responsible federal and state officials. However, we did not assess the adequacy of the analyses performed and the subsequent

[3]States used various terms to describe procurement request documents, such as request for proposals and invitations to bid. For purposes of this statement, we refer to such documents as requests for proposal.

[4]States used various terms to describe acquisition documents, such as contracts and purchase orders. For purposes of this statement, we refer to such documents as contracts.

[5]Federal regulations require ACF, CMS, and FNS to respond to state requests for approval of advance planning documents, requests for proposals, contracts, and contract modifications within 60 days. Federal regulations also require FNS to respond to state requests for approval of advance planning document updates within 60 days.

response by the applicable federal agency. We also interviewed agency and OMB officials on how they ensure that the cost allocation provisions of OMB Circular A-87 pertaining to IT development and acquisition projects are consistently applied. Appendix II provides additional details of our scope and methodology.

Results in Brief

Federal approval and funding for state IT development and acquisition projects for the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps programs are largely governed by statutory and regulatory requirements. These requirements establish the federal funding participation rates, the documentation (e.g., advance planning documents, each of which includes a cost allocation plan and feasibility study; requests for proposals; and contracts) that states must submit, and the timeframes in which the federal agency must respond to the request. With some exceptions (primarily related to the federal financial participation rates), the requirements for the four programs are largely the same. States cannot receive federal funding for developing and acquiring IT systems for the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps programs without obtaining approval of these planning and acquisition documents.

A thorough assessment of the federal approval and funding process requires complete and reliable data that track a request from the time the federal agency first receives it until the agency finally approves or disapproves the request. However, such information is not readily available and the process cannot be thoroughly assessed because (1) the system used by ACF and CMS headquarters to manage the approval process does not track the life cycle of a request[6] and (2) FNS and CMS regional offices do not have a central tracking system.[7] However, through a meticulous manual inspection of related paper documents and reviews of system reports, we were able to determine that in a vast majority of cases, agencies responded to states' IT planning and acquisition requests

[6]The system used by ACF and CMS tracks the state request and the federal response. However, if the federal response is to ask for additional information, the case is closed with the date of the letter requesting the information, even though the federal agency has not made a final approval or disapproval determination. A state response to this request for additional information is assigned a separate case number and tracked separately.

[7]Because FNS had a relatively small number of state requests, we reviewed the necessary documentation for each state request and calculated the total time until federal approval or disapproval to be about 66 days.

within 60 days, as generally required by regulation.[8] Moreover, in 48 of 51 cases in which the agency did not respond within 60 days, state officials reported that the timing of the federal response did not hinder state IT projects. Nevertheless, in response to state complaints that the federal approval process was burdensome and to a prior GAO recommendation to identify and implement plans to facilitate states' efforts to improve their systems, ACF, CMS, and FNS formed a workgroup about 2 years ago to improve the federal approval process. However, progress has been stymied by a lack of agreement among the agencies. Accordingly, at this time there are no plans to improve the APD process.

State cost allocation plans—which are used to identify, measure, and allocate expected project costs among the state and the federal program(s)—for systems development and acquisition projects must be approved by each federal agency expected to provide funding. To ensure that they provide a consistent response to state requests that include cost allocation plans, ACF, CMS, and FNS officials stated that they coordinate their reviews of multiprogram requests. These reviews are based on the requirements set forth in OMB Circular A-87,[9] which provides the states wide latitude in developing cost allocation plans for IT development and acquisition projects. However, in 3 of 11 cases we reviewed,[10] the departments of Agriculture and HHS provided inconsistent responses to the state. State officials noted that inconsistent federal responses cost the state in time and staff resources to negotiate and resolve these differences. Accordingly, to lessen the burden on the states, it is critical that the federal departments work together to ensure that they respond to the states in a consistent manner.

Background

The federal government has spent billions of dollars supporting the planning, development, and operation of state systems that support the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps

[8]Federal regulations require ACF, CMS, and FNS to respond to state requests for approval of advance planning documents, requests for proposal, contracts, and contract modifications within 60 days. Federal regulations also require FNS to respond to the state requests for approval of advance planning document updates within 60 days.

[9]Office of Management and Budget, Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Aug. 29, 1997).

[10]These 11 cases were common submissions (i.e., the same submission was made to FNS and HHS) in which at least one of the departments' responses to the state exceeded 60 days. There could be additional state submissions sent to both the departments of Agriculture and HHS that we did not identify because both departments responded within 60 days or the documents were not clear that it was a common submission (e.g., the dates of the state submission to the two departments were significantly different).

programs. For example, in fiscal year 2000 alone, the federal government's expenditures for IT planning, development, acquisition, and operations for these systems totaled $1.9 billion.[11] States request funding for a wide variety of projects, such as the following:

- Electronic benefits transfer systems, which allow food stamp recipients to authorize the electronic transfer of their government benefits from a federal account to a retailer account to pay for products received. According to FNS, as of June 2002, 49 states, the District of Columbia, and Puerto Rico were using these systems in some form to issue food stamp benefits.

- Statewide systems that support the Child Support Enforcement and Child Welfare programs. For example, one state was developing a statewide child welfare system to compile and help implement a comprehensive set of child welfare and protection practices. When implemented, the system is expected to replace many nonintegrated systems with a single, comprehensive one.

- Infrastructure projects that support multiple programs. For example, one state planned to procure an enterprise portal to serve as a universal point of access to the state government's information and services, including those related to federal programs.

State initiatives for human services systems can be complex, large-scale undertakings, and states face a broad range of issues in developing and implementing them. At a 2001 conference on modernizing information systems for human services sponsored by GAO and others,[12] participants identified the following issues states face in developing and implementing these systems: [13]

- obtaining support for the project from the state's leadership;

[11]This figure reflects only the fiscal year 2000 expenditures actually reported to the states to date. States have up to two years to claim reimbursement for their IT expenditures, so these figures may change in the future. We did not verify this amount, which was provided by the agencies in our review.

[12]The other sponsors of this conference were the Nelson A. Rockefeller Institute of Government, the National Health Policy Forum, and the Finance Project (Welfare Information Network).

[13]U.S. General Accounting Office, *Human Services Integration: Results of a GAO Cosponsored Conference on Modernizing Information Systems*, GAO-02-121 (Washington, D.C., Jan. 31, 2002). Appendix II of this report identifies the participants of this conference, which included individuals representing the four key sectors involved in developing information systems for human services—the Congress, federal agencies, state and local governments, and IT contractors.

- obtaining support for the project from staff who will use the system;
- providing adequate training to staff who will use the system;
- obtaining adequate funding for developing and operating state and local information systems;
- maximizing the system's compatibility with other systems and the capability to support future upgrades;
- minimizing the risk that conversion to the new system will result in the loss of functions or data;
- overseeing contractors' performance to maximize the cost effectiveness of systems development;
- ensuring adequate state management of the project that can survive personnel changes; and
- minimizing adverse effects of competition among state agencies for information systems resources.

In addition, one of the key challenges for systems modernization identified by the participants at this conference was simplifying the approval process for obtaining federal funding for information systems.[14] This process, generally called the "APD process," requires states to submit various documents for approval in order to receive federal funding. Specifically, subject to the statutory and regulatory requirements and thresholds discussed in appendix III, states submit the following:

- Advance planning documents (APDs), which, depending on whether the project is in the planning or implementation stage, can include a statement of needs and objectives, a requirements analysis,[15] a feasibility study,[16] a cost-benefit analysis, a statement of alternatives considered, a project management plan, a proposed budget, and

[14]Two other challenges identified were enhancing strategic collaboration among different levels of government and obtaining staff expertise in project management and information technology.

[15]According to 45 C.F.R. Sec. 95.605, a requirements analysis documents the information needs and functions and technical requirements that the proposed system must meet.

[16]According to 45 C.F.R. Sec. 95.605, a feasibility study is a preliminary study to determine whether it is sufficiently probable that effective and efficient use of automatic data processing equipment or systems can be made to warrant a substantial investment of the staff, time, and money being requested and whether the plan is capable of being accomplished successfully.

prospective cost allocations. There are two major types of APD submissions—planning and implementation—which are used at prescribed stages in the state systems development and acquisition process.

- APD updates, which are used by federal agencies to keep informed of the project status and by the states to obtain funding throughout the project's life. APD updates must be submitted annually or "as needed," which is defined as when there is a projected cost increase of $1 million or more, a schedule extension for major milestones of more than 60 days, a significant change in the procurement approach, a change in system concept or scope, or a change to the approved cost allocation methodology.

- Requests for proposals (RFPs) related to the planned system, such as to solicit bids to develop a system or to provide independent verification and validation services. RFPs may be submitted throughout the life of the project (i.e., the planning, implementation, or operations phase). Unless specifically exempted by the agency(s), RFPs are to be approved before public release.

- Contracts and contract modifications related to the planned system, which must include certain standard clauses and may be submitted throughout the life of the project. Unless specifically exempted by the agency(s), contracts are to be approved before being finalized.

ACF, CMS, and FNS review these submissions and make funding decisions on the basis of their review, which they are generally required to complete within 60 days.[17] Once the federal agency has reviewed the state request, it can respond by approving or disapproving the request or requesting additional information from the state.[18] Although the agency's response is generally to be provided to the state within 60 days, if the federal agency requests additional information from the state, once the state responds the agency has another 60 days to review and respond to the state reply.[19]

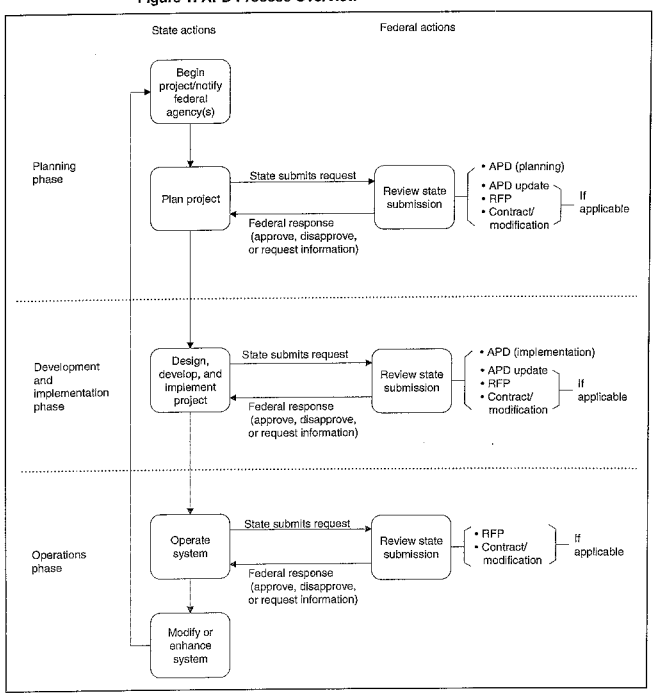
[17]Except for FNS, agencies are not required to provide their response to states within 60 days for APD updates. For HHS agencies, the regulations do not specify a timeframe for the federal response to an APD update. If the agencies do not respond to the state in the required timeframes, then the states automatically receive provisional approval, which allows the state to proceed.

[18]Federal agencies sometimes responded with a conditional approval of the state request, providing approval but asking the state to address certain concerns.

[19]Of course, rather than ask the state to submit additional information, the agency could disapprove the request, and the state would have to submit for approval a new or revised document to obtain federal funding.

Figure 1 is a simplified illustration of this general process. In addition, although figure 1 shows an iterative process, under various circumstances states may submit documents concurrently.

Figure 1: APD Process Overview



Source: GAO.

If a system is to be used for more than one federal program, documents that meet the separate requirements of each program must be submitted and approved, and planning and development costs are allocated to the various programs benefiting from the system investment. (The same documents can be submitted to each agency.[20]) For example, a state request related to a project that supports the Food Stamps, Medicaid, and Child Support Enforcement programs requires submission to the departments of Agriculture and HHS. Within HHS, for multiprogram requests, ACF's State Systems Policy Division is to distribute the material to applicable program offices (in the above case to CMS and ACF's Office of Child Support Enforcement) and coordinate responses so that a single departmental letter is sent to the state.

Statutory and Regulatory Requirements Govern the Federal Approval Process

The Congress and the departments of Agriculture and HHS have issued statutory and regulatory requirements, respectively, that govern the processes related to the approval of funding for state information technology projects associated with state-administered federal human services programs. This funding is intended to encourage states to implement systems to achieve programmatic goals, such as to improve program management and performance and to reduce error rates. However, to exercise their stewardship responsibilities over funding provided to the states, the departments and, in the case of Child Support Enforcement, the Congress, require states to submit planning and acquisition documents for approval. States cannot receive federal funding for developing and acquiring IT systems for the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps programs without obtaining such approval.

Although many of the requirements for these programs are the same, there are differences. For example, as shown in table 1, the federal financial participation rates vary.

[20]According to FNS and CMS officials, states can submit to the federal agencies the same documentation needed for internal state review processes.

Table 1: Federal Financial Participation Rates by Program

Program	Nature of funding	Federal /state funding percentage for information systems
Child support enforcement	Entitlement	66/34—system planning and development 66/34—system operations
Child welfare	Entitlement	50/50—system planning and development 50/50—system operations
Medicaid	Entitlement	
—eligibility		50/50—system planning and development 50/50—system operations
—claims processing		90/10—system planning and development 75/25—system operations
Food stamps	Entitlement	50/50—system planning and development 50/50—system operations

Source: GAO analysis of applicable statutes.

In addition, whereas the APD requirements relating to the approval and funding process for the Child Support Enforcement program are based in part in statute, the requirements for the other programs are based on regulations separately promulgated by the departments of Agriculture and HHS (although they largely mirror each other).[21] Appendix III provides additional detail on selected federal statutory and regulatory requirements related to the process for obtaining federal funding for IT development and acquisition projects.

[21]For Child Welfare, the requirements related to APDs and APD updates and, for Medicaid, the requirements for APDs used to be in statute. However, legislation in 1996 (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) and 1997 (the Balanced Budget Act of 1997) eliminated these statutory requirements for Child Welfare and Medicaid, respectively.

States Reported Limited Impact from Federal Responses Provided after 60 Days, but Key Information Is Lacking

Although some state officials have reported that the federal approval process takes too long, we were unable to comprehensively analyze how much time the process took because the federal agencies did not track the life cycle of state requests. While the entire approval process time generally could not be determined, ACF, CMS, and FNS responded (i.e., approved, disapproved, or requested additional information) to state requests within established timeframes about 89 percent of the time.[22] Moreover, according to state officials, in only a few cases in which the federal response took over 60 days was the state IT project negatively affected. Nevertheless, officials from about one-third of the states in our review cited overall concerns with the federal approval process or wanted a more streamlined process. To address state concerns, ACF, CMS, and FNS formed a workgroup about 2 years ago to improve the federal approval process, but progress has been slow, and there are no plans at this time to improve the APD process.

Agencies Do Not Track Data Necessary to Assess the Timeliness of the APD Process

The APD process was designed to promote accountability for the use of federal funds, mitigate financial risks, and avoid incompatibilities among systems. However, among the concerns raised at the 2001 conference on modernizing information systems for human services[23] was that with technology advancing so quickly, by the time federal funding under this process is approved, state plans may be obsolete.

Because the federal response to a state request may be to ask for additional information, a thorough assessment of the state's concerns about timeliness requires reliable data that track a request from the time the federal agency first receives it until the agency finally approves or disapproves it. However, this information is not readily available because (1) the system used by ACF and CMS headquarters to manage the approval process does not track the life cycle of a request[24] and (2) FNS and CMS regional offices do not have a central tracking system (although some of these regional offices used automated spreadsheets to track the status of state requests). According to an FNS official, one of the agency's regions

[22]Except for APD updates submitted to the Department of Health and Human Services, agencies are required to respond to the state within 60 days.

[23]GAO-02-121 (Jan. 31, 2002).

[24]The system used by ACF and CMS tracks the state request and the federal response. However, if the federal response is to ask for additional information, the case is generally closed with the date of the letter requesting the information, even though the federal agency has not made a final approval or disapproval determination. A state response to this request for additional information is then given a separate case number and tracked separately.

had developed a central tracking system to be used by all regions, but it is not being used because staff found that it required too much data entry and it was easier to use their own spreadsheets. In addition, at the conclusion of our review, a CMS official reported that the agency had recently implemented a centralized tracking system for state submissions related to the Health Insurance Portability and Accountability Act.

Since the Food Stamps program had a relatively small number of cases, we reviewed copies of state requests and federal approval letters for fiscal years 2000 and 2001 and determined the average time until the federal approval or disapproval of the state requests to be about 66 days and ranged from 6 to 314 days.[25] Table 2 provides an example of an FNS case in which the initial federal response was in 31 days but the total time to approve the request took an additional 130 days, out of which the agency was awaiting a state reply for 89 days.

Table 2: Chronology of a Sample Case in Which Agency Response Was Within 60 Days, but Approval Took Much Longer

Date	Federal or state action	Number of days
4/23/01	State APD update submission was date stamped as received by FNS	
5/24/01	FNS E-mailed questions and concerns	31
6/22/01	State responded to FNS E-mail	29
7/6/01	FNS E-mailed additional questions	14
8/10/01	State responded to additional questions	35
8/23/01	FNS E-mailed additional questions	13
8/28/01	FNS E-mailed additional questions	5
9/14/01	State submitted a revised APD update via E-mail	17
9/19/01	FNS E-mailed question on revised APD update	5
9/20/01	FNS E-mailed additional question	1
9/28/01	State responded to questions on revised APD update	8
10/1/01	FNS provided final approval of revised APD update	3
Total number of days to approval		161

Source: GAO analysis of FNS file.

As illustrated by the FNS example, the length of the approval process can be substantial and attributable to both the states and the federal agencies,

[25]The final disposition of one of these cases has not yet been made, about a year after the receipt of the request.

which makes tracking the state requests throughout their life cycle important to determining the cause of delays.

Federal Actions on State Submissions Are Generally within Prescribed Timeframes

Although we generally could not determine the total time it took for the federal agencies to approve or disapprove a state request, we were able to ascertain whether the agencies responded (i.e., approved, disapproved, or requested additional information) to the states within 60 days, as generally required. In fiscal years 2000 and 2001, states submitted almost 1,150 requests for federal approval related to the four federal programs:[26]

- 377 planning (APDs and APD updates) and acquisition documents (RFPs, contracts, and contract modifications) for the Child Support Enforcement program;
- 212 planning and acquisition documents for the Child Welfare program;
- 370 planning and acquisition documents for the Medicaid program;
- 75 planning and acquisition documents that were reviewed by two or more of the HHS programs in our review; and
- 105 planning and acquisition documents for the Food Stamps program.

The three federal agencies responded to these state requests within 60 days about 89 percent of the time.[27]

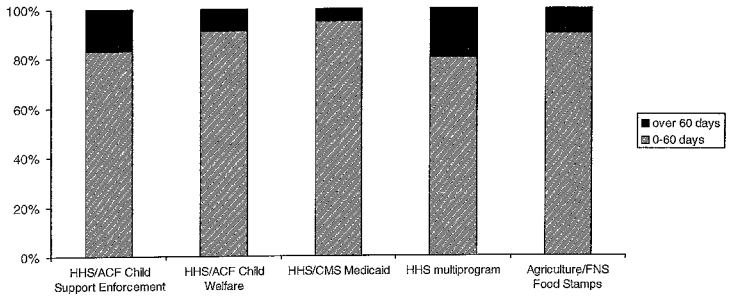
Figure 2 shows the extent to which Agriculture and HHS responses exceeded 60 days (app. IV provides additional detail of this analysis). Although we were able to determine the percentage of requests that were completed within 60 days, we could not rely on data from the system used by ACF and CMS headquarters for a more thorough analysis (e.g., a further

[26]For ACF and Medicaid headquarters (which use a common tracking system), each state submission, along with its federal response, is generally tracked separately. Therefore, if ACF or CMS headquarters responded to a state by requesting additional information, the state response (or resubmission of a corrected document) would be counted as a second submission. In contrast, under the same scenario, FNS and CMS regional offices, which do not have a central tracking system, would count the state response or resubmission as part of the original submission.

[27]According to regulations of the departments of Agriculture and HHS, the 60-day requirement for federal response begins on the date the federal government sends an acknowledgement letter to the state. While ACF and CMS headquarter sent acknowledgement letters, some FNS and CMS regional offices did not. In the latter instances, we calculated the time to respond from the date stamp or date of the state letter. In addition, federal responses generally took the form of a letter or E-mail, but in a few cases it was a telephone call or a meeting with state officials.

breakdown of how long it took for the federal government to provide its initial response). In comparing the dates in this system to the actual documentation, we found numerous discrepancies (see appendix V for more information on the data reliability concerns associated with this system).

Figure 2: Percentage of Cases in Which the Agency Response Exceeded 60 Days*



*This analysis includes APD updates. However, except for the Food Stamps program, the agencies are not required to provide their response to states within 60 days for APD updates.

Note: The HHS multiprogram category contains state requests that involved two or more of the HHS programs in our review. For multiprogram requests at HHS, the department sends a single response to the state. The majority of the cases in the Child Support Enforcement, Child Welfare, and Medicaid categories were for single-program requests (some requests included other federal programs).

Source: GAO analysis based on agency data.

ACF's acting deputy assistant secretary for administration did not agree with the inclusion of APD updates in our analysis, noting that ACF and CMS are not required to respond to this type of state request within 60 days. Although ACF and CMS are not required to respond to the states within 60 days for APD updates, these are critical documents that require federal approval in order for states to continue receiving federal funding. In addition, in some cases, a federal agency has withheld approval of other

state submissions, such as an RFP, pending the approval of an APD update, which illustrates the importance of timely federal responses to the states for APD updates. Finally, as I just mentioned, we had to limit our analysis of the timeliness of the federal agency responses because of the numerous errors we found in the dates contained in the system used by ACF and CMS headquarters. We chose 60 days as our cutoff point because the regulations generally called for an agency response within this timeframe and ACF officials told us that they try to respond to all state requests, including APD updates, within 60 days.

At the conclusion of our review, ACF and CMS officials also explained that the timeliness of the HHS multiprogram cases suffers because these projects are almost always large, expensive, and complex undertakings that frequently require more analysis, extensive coordination with other federal agencies (both within and outside of HHS) and additional discussions with the state. In addition, ACF officials stated that other required responsibilities, such as the performance of certification reviews for certain state systems, affected the timeliness of their reviews.

In about half of the 51 cases taking over 60 days that we reviewed, we could not ascertain why the agency took additional time to respond to the state request because the applicable federal analyst was no longer with the agency or the analyst could not provide an explanation. However, when reasons were cited for the late federal response, the most common were (1) resource issues (e.g., lack of staff), (2) complicated issues to be resolved, (3) multilayer review within the agency, and (4) difficulty in reaching agreement with another agency.

In addition, in those cases in which the federal agency requested additional information or approved the state request but asked the state to address certain concerns, there was no single common issue or problem. Instead agencies raised a variety of issues in their responses to the states requests, which are summarized in table 3.

Table 3: Summary of Federal Agency Issues for 29 Cases[a] in Which the Federal Response Exceeded 60 Days

Issues	Number of times cited[b]
Cost estimate issues, including unexplained, incomplete, inconsistent, and inaccurate amounts	17
Cost allocation issues	13
Missing required elements of the submission	7
Functionality issues, such as how the system will meet its goals and objectives	7
Other	13

[a]We reviewed a total of 51 cases in which the federal agency response was over 60 days but 22 were approvals without any outstanding federal issues or the documentation indicated that the federal agency requested additional information but did not provide any details.

[b]More than one issue may have been cited by the agency.

Source: GAO analysis.

State Officials Cited Limited Impact on Projects Due to Federal Responses Provided After 60 Days

According to state officials involved in 48 of the 51 cases (at 22 states) that we reviewed in which the federal agency took over 60 days to respond, the timing of the federal response reportedly had no negative impact on state IT projects. State officials cited various reasons for the lack of negative impact on their projects. Specifically, the effect of some of the federal responses that were over 60 days was mitigated because the state maintained good communications with the federal agencies or had sufficient state funding to continue the project. In other cases, additional or concurrent delays were caused by internal state processes or the state was seeking retroactive approval for a document. For example, officials from seven states reported that they maintain a good working relationship or communication with the federal agency that performed the review. Other states used their own funding to continue project planning while awaiting federal approval. Also, in three cases, state officials reported that an internal state review process contributed to the delay. Finally, in six cases that we reviewed, the states requested retroactive approval for actions they had already taken.

Although most states reported no negative impact on their projects, officials in three states (related to three cases) reported project delays, funding losses, and other negative impacts because of the federal approval process. For example, an official from one state's public welfare office asserted that the federal delay in reviewing an APD caused the project to be temporarily delayed for several weeks and that the project staff was reassigned until the response was received. In another case, the state's

federal liaison reported that the late federal response caused a delay in the release of an RFP and the loss of state funding. Specifically, according to the state's federal liaison, by the time the state received the final federal approval of an APD update and accompanying RFP, the state legislature had frozen spending on all new IT expenditures until the beginning of the new state fiscal year. As a result, according to this official, as of late June, the state funding earmarked for this project had not been released and the planned RFP had not yet been issued.

Similar to the responses provided on the effect of the federal delay, in 18 of the 24 cases in which the federal agency requested additional information,[28] state officials stated that the federal requests were reasonable. For example, ACF disagreed with one state's APD update request because it contained inadequate cost and benefit information and requested that the state resubmit a revised document. The state official for this project agreed with the agency's assessment and resubmitted a revised APD update. However, in six cases (in two states), the state officials did not believe that the federal request was reasonable. For example, one state Chief Information Officer stated that although there were some valid points in ACF's response to an APD request, other points (1) indicated a lack of technical sophistication or understanding of the state project and (2) misapplied the federal regulation. This Chief Information Officer noted that the state had to devote staff time to responding to these federal issues.

Although they generally did not cite a negative impact in the particular cases in our review, officials from about one-third of the states in our review mentioned problems related to the overall federal approval process or sought a more streamlined process. For example, officials in two states told us that the overall process takes too long. One of these officials noted that each part of the federal review process "seems to take 60 days" and makes the overall time too long. Other comments were that (1) it is challenging to meet the many requirements for receiving federal funds, (2) the federal APD process is costly to comply with, and (3) federal reviewers are not as accessible as in the past and communication had declined. Finally, according to an official in one state, one agency routinely requested more information than the official believed was necessary, asserting that about one-half of his staff was needed to respond to these requests.

[28]In some cases, the federal agency approved the state request but also requested that additional information be provided.

ACF's acting deputy assistant secretary for administration and FNS' information technology division director noted that we did not address what, if any, concerns the federal agencies had with the state submissions in our review or the validity of the state officials' views. As I mentioned at the beginning of my statement, the scope of our review was limited to analyzing the timeliness of the federal response and discussing the effect of the response with appropriate state officials. Accordingly, we did not review the adequacy of the federal responses or corroborate the views of the state officials.

Federal Agencies Began Work to Improve the Federal Approval Process, but Progress Is Slow

Responding to state complaints that the APD process was burdensome and a prior GAO recommendation to identify and implement plans to facilitate states' efforts to improve their systems,[29] in June 2000 ACF, CMS, and FNS established a workgroup to improve the federal approval process. In the summer of 2001, this workgroup, which obtained feedback on the approval process from nine states, proposed raising the threshold for when states have to submit a request for approval. The workgroup originally believed that this change could be done administratively. However, HHS's Office of the General Counsel ruled that such a change would have to go through the regulatory process, which involves a review process and public comment period. As of mid-April, the chair of this workgroup stated that the agencies had not yet decided whether to pursue a regulatory change. This workgroup also considered whether to propose other changes to the federal approval process, such as adopting a streamlined APD format used by CMS for requests related to the Health Insurance Portability and Accountability Act.

After several meetings to discuss and develop plans, the progress of this workgroup has stalled. According to the chairman of the workgroup, little progress has been made since the summer of 2001. He stated that progress began to slow down when the agencies underwent leadership changes. In addition, according to the chairman, although the workgroup has continued to meet, there is no consensus among the federal partners about the direction to take in improving the federal process. As a result, at this time there are no plans to change the APD process.

[29]U.S. General Accounting Office, *Welfare Reform: Improving State Automated Systems Requires Coordinated Federal Effort*, GAO/HEHS-00-48 (Washington, D.C., Apr. 27, 2000).

Agency Responses to State Cost Allocation Plans for IT Projects Are Sometimes Inconsistent

While federal officials from the departments of Agriculture and HHS stated that they ensure the consistency of cost allocation requirements for IT projects by coordinating their reviews, we identified instances of inconsistent federal actions. Specifically, in 3 of 11 cases we reviewed,[30] FNS and HHS provided different directions to the states, largely due to a lack of effective coordination among the federal departments. State officials told us that such federal inconsistency can cause additional state staff time to negotiate and resolve the differences and ultimately can affect a project's funding.

When submitting an APD or, in some cases, an APD update, states are required to submit cost allocation plans. These plans are used to identify, measure, and allocate expected project costs between the state and the federal program(s). Governmentwide guidance pertaining to cost allocation is explained in OMB Circular A-87 and in *A Guide for State, Local, and Indian Tribal Governments: Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government—Implementation Guide for Office of Management and Budget Circular A-87.* The cost allocation requirements set forth in OMB Circular A-87 are based on 31 U.S.C. 1301(a), which provides that an agency, absent statutory authority, may not expend appropriated funds for purposes other than those for which the appropriations were made. Since the cost allocation principles that are articulated in OMB Circular No. A-87 are statutorily based, they are not subject to agency discretion. Moreover, the principles also apply to appropriations provided through an agency grant to a state, such as in the case of the four programs in our review.

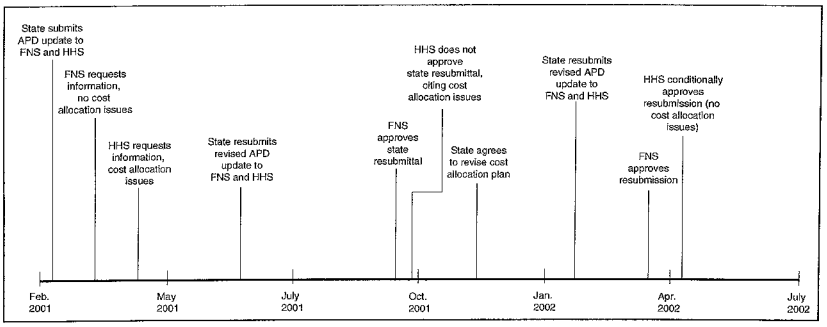
OMB Circular A-87 provides the states wide latitude in developing a cost allocation plan. According to the circular, to receive federal approval, the cost allocation plan must be complete and provide sufficient detail to demonstrate that the costs are allowable and fairly allocated among the various federal and state programs that benefit from the project. Thus, states are free to submit plans using a wide variety of methodologies, within the scope of the requirements set forth by OMB Circular A-87. For example, a state may submit a cost allocation methodology that allocates project costs based on the size of program caseloads.

[30]These 11 cases were common submissions in which at least one of the departments' responses to the state exceeded 60 days. There could be additional state submissions sent to both the departments of Agriculture and HHS that we did not identify because both departments responded within 60 days or the documents were not clear that it was a common submission (e.g., the dates of the state submission to the two departments were significantly different).

State cost allocation plans for systems development and acquisition projects must be approved by each federal agency expected to provide funding. In the case of multiprogram projects, ACF's State Systems Policy Division coordinates the review of these plans by the various program divisions within the department to help ensure that the circular is consistently applied within HHS. This division also helps resolve differences resulting from the various program division reviews and then issues the department's response to the state request. FNS performs a separate review and provides its own response to a state for multiprogram reviews. FNS, ACF, and CMS officials stated that they coordinate their cost allocation issues to ensure consistency.

Although the federal agencies reported coordinating their responses, we found examples of inconsistent federal responses. Specifically, while ACF and FNS provided a consistent response in eight cases in which there was a common APD or APD update submitted to the agencies (i.e., neither department disagreed with the plan submitted by the state), in three other cases (for three states), one agency questioned the cost allocation plan or methodology proposed by the state, whereas the other did not. In one example, FNS approved an APD update, whereas ACF did not approve the same submission, in part due to cost allocation concerns. Although after several discussions with ACF, the state agreed to change the case load statistics being used in support of its cost allocation plan, it also requested that FNS and ACF coordinate their instructions to the state in reviewing the revised plan. Figure 3 provides a timeline of this example, which illustrates this disagreement as well as the 13 months and multiple state submissions necessary before federal approval was provided. State officials involved in this case stated that receiving inconsistent initial directions from federal agencies, having to negotiate an agreement satisfactory to both federal agencies, and having to change their cost allocation plan took three state staff over 2 months and may negatively affect the amount of the federal funding reimbursement for this project.

Figure 3: Timeline of a Sample Cost Allocation Case In Which the Federal Responses Were Inconsistent



Source: GAO, based on agency and state documents.

In another example, FNS questioned a state's submission of an APD update because the submission did not contain a cost allocation plan and requested the state to submit documentation explaining how the costs would be allocated for this project. However, ACF (responding on behalf of CMS) approved the APD update without comment.

Examples such as these illustrate the importance of effective federal coordination. At the conclusion of our review, HHS officials stated that communication among the federal agencies on multiprogram projects is very important and may have deteriorated in recent years due to significant staff attrition. One of the ACF officials also asserted that there can be valid reasons for agencies having different opinions of a state's cost allocation plan. Nevertheless, the HHS officials acknowledged that the correspondence from the federal agencies to the states should be explicit

and well-coordinated in order to avoid misunderstandings. Without such coordination, states can be put in the untenable position of trying to satisfy competing or even contradictory federal direction.

In summary, Mr. Chairman, the federal approval and funding process in which states are required to submit various planning and acquisition documents for federal agency approval is largely governed by regulation. As a result, changing the existing process would require modifying regulations and, possibly, legislation to amend current statutes. One major concern that the states have with this process is that it can be untimely and can negatively affect state system initiatives. However, complete and reliable data on the total time to process a state request throughout its life cycle are not available to assess the timeliness of the overall agencies' approval process. Nevertheless, the federal agencies' responses to state requests, which may be to request additional information, generally have been within 60 days—the timeframe generally prescribed by the regulations, and when the response has been beyond 60 days, the vast majority of state officials in our review stated that there was no impact on the state IT project. However, the federal agencies did not always adequately coordinate their reviews of one critical aspect of the APD process, the cost allocation plan.

State concerns regarding the timeliness of federal reviews and inconsistent federal responses could be addressed by the federal agencies' workgroup formed to improve the federal approval process, but this group has made little progress in the 2 years it has been in place, and it has no plans to change the APD process. This workgroup needs to expeditiously reach agreement on a plan, including specific tasks and milestones that will address improving the APD process, including (1) the feasibility of tracking state requests throughout their life cycle and (2) how the departments of Agriculture and HHS can more effectively coordinate their responses to the states.

Contacts and Acknowledgments

For information about this testimony, please contact me at (202) 512-6257 or by E-mail at *mcclured@gao.gov*. Individuals making key contributions to this testimony include Robert Crocker, Jr., Pamlutricia Greenleaf, Norman Heyl, James Houtz, Franklin Jackson, Brian Johnson, and Linda Lambert.

Appendix I

Selected Federally Funded State-Administered Human Services Programs

Department of Agriculture

Food Stamps: This program provides low-income households with coupons or electronic benefits transfer cards to ensure that they have resources with which to obtain food. The Food and Nutrition Service (FNS) funds the program benefits, while state agencies administer it at the state and local levels.

Department of Health and Human Services

Child Support Enforcement: This federal/state-funded program provides four major services—locating noncustodial parents, establishing paternity, establishing child support obligations, and enforcing child support orders—to ensure that children are financially supported by both parents. The Administration for Children and Families (ACF) provides funding to states and local governments to run this program.

Child Welfare: This federal/state-funded program provides federal grants for programs delivering foster care, adoption assistance, independent living for older foster children, family preservation and support services, child welfare services, prevention of neglect/disabled infants, and programs designed to improve the investigation and prosecution of child abuse and neglect cases. ACF provides grants to states and local agencies to develop and administer such programs.

Medicaid: This is a federal/state-funded health care program furnishing medical assistance to eligible needy persons, which is overseen by the Centers for Medicare and Medicaid Services (CMS). Within broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the rate of payment for services; and administers its own program.

Appendix II

Scope and Methodology

To determine the statutory and regulatory requirements for federal approval and funding of state information technology (IT) development and acquisition projects for the Child Support Enforcement, Child Welfare, Medicaid, and Food Stamps programs, we reviewed applicable provisions of the U.S. Code and Code of Federal Regulations. In addition, we reviewed committee and conference reports to ascertain the legislative history of certain provisions.

To assess whether agency processes for reviewing, approving, and funding state IT development and acquisition projects for the four programs in our reviews hindered or delayed states' efforts to obtain approval for these projects, we reviewed the departments of Agriculture and HHS's regulations, policies, and procedures related to the approval of Advance Planning Documents (APD), APD updates, requests for proposals (RFP), and contracts and contract modifications. We also interviewed applicable agency officials, including the chairman of the workgroup formed to improve federal processes.

In addition, we obtained information from ACF, CMS, and FNS on the time it took for the agencies to respond to state requests that were submitted in fiscal years 2000 and 2001. For ACF and CMS headquarters, this information was obtained from the State Systems Approval Information System (SSAIS). We assessed the reliability of this system by reviewing the documentation supporting the cases listed in the SSAIS that were over 60 days old and a sample of cases that were listed as having been completed in 60 days or less. Except for the Child Support Enforcement program, the types of errors we found did not affect the results of our analysis. In the case of Child Support Enforcement, the type and extent of errors we found caused us to verify the dates of all cases in the system against the actual documentation. While we were able to perform sufficient work to perform the analysis provided in this report, we found a significant number of errors in the dates contained in this system, which is explained further in appendix IV.

Because CMS regional offices and FNS do not have a central system that tracks state requests, we obtained summary data from these organizations, which we verified. For FNS, we obtained all relevant documentation needed to confirm the state request and federal response dates because our preliminary analysis found substantive errors in the summary provided by the agency. For CMS, we obtained relevant documentation on all requests that took over 60 days to complete and a sample of all those that took 60 days or less.

We also reviewed 51 cases for 22 states in which the federal agency responded to the state in over 60 days to assess the types of issues

involved and ascertain the reasons why it took longer than 60 days. We chose cases to obtain a variety of states and types of requests (e.g., APD, APD update, RFP, or contract). We interviewed applicable federal analysts to determine why the response was delayed. In addition, we interviewed appropriate state officials about the reasonableness of the federal response and to ascertain what impact, if any, the federal delay had on the project. However, we did not assess the adequacy of the analyses performed and subsequent response by the applicable federal agency. Table 4 shows the number of cases we reviewed by state and program.

Table 4: Cases We Reviewed That Took over 60 Days for a Federal Response, by State and Program

	Department of Health and Human Services				Department of Agriculture
State	ACF/Child Support Enforcement	ACF/Child Welfare	CMS/Medicaid	Multiprogram[a]	FNS/Food Stamps
Alaska	1 ADP update	None	None	None	None
Arizona	None	None	None	1 APD update	None
Arkansas	1 contract	None	None	None	None
California	1 APD update 1 contract	None	None	3 APD updates	5 APD updates 1 contract modification
Delaware	1 APD update 2 contract modifications	None	None	None	None
Georgia	None	None	1 APD	1 APD	None
Idaho	1 RFP	None	None	None	None
Illinois	None	1 APD update 2 contracts	None	None	None
Maine	None	None	1 APD update	None	None
Maryland	None	1 APD update	None	1 contract modification	1 APD update
Missouri	None	None	None	None	1 APD update
Nevada	None	1 APD update	None	None	2 APD updates
New Hampshire	None	None	1 APD	None	None
New Jersey	1 APD update	None	None	2 APDs 3 APD updates	None
New Mexico	1 APD update	None	None	1 APD	None
North Dakota	1 APD update	1 APD update	None	None	None
Pennsylvania	1 RFP 1 contract modification	None	1 APD	None	None
South Carolina	None	None	1 APD	None	None
Utah	None	None	None	1 APD update	None
Vermont	None	None	None	1 contract	None
West Virginia	None	None	None	None	1 contract
Wyoming	1 APD update 1 contract	None	None	None	None

[a]This category contains state requests that involved two or more of the HHS programs in our review. For multiprogram requests at HHS, the department sends a single response to the state. The majority of the cases in the Child Support Enforcement, Child Welfare, and Medicaid categories were for single-program requests (some requests included other federal programs).Source: GAO, based on agency documentation.

To determine how agencies ensure that they consistently apply the Office of Management and Budget's (OMB) Circular A-87, for funding IT development and acquisition projects, we reviewed the circular and discussed its applicability with officials from OMB and each of the agencies. We also compared the departments of Agriculture and HHS's responses for 11 APDs and APD updates.

Appendix II

Scope and Methodology

We performed our work at ACF headquarters in Washington, D.C.; CMS headquarters in Baltimore, Md., and FNS headquarters in Alexandria, Va.; CMS regional offices in Atlanta, Ga., Boston, Ma., and San Francisco, Ca.; and FNS regional offices in Atlanta, Ga., Boston, Ma., Robbinsville, N.J., and San Francisco, Ca. We conducted our review between August 2001 and mid-June 2002 in accordance with generally accepted government audit standards.

Appendix III

Selected Federal Statutory and Regulatory Requirements Related to Obtaining Federal Financial Participation Funding

Type of request	Department of Health and Human Services			Department of Agriculture
	ACF/Child Support Enforcement[a]	ACF/Child Welfare[a]	CMS/Medicaid[a]	FNS/Food Stamps
State requirements				
APDs	42 U.S.C. Sec. 654(16) requires states to submit APDs for mandated statewide automated data processing and information retrieval systems.[b] Also covered by requirements set forth in 45 C.F.R. Sec. 95.611.	45 C.F.R. Sec. 95.611 requires states to obtain prior written approval of APDs for automated data processing systems if the system is expected to exceed $5 million ($1 million if noncompetitively acquired from a nongovernment source).	See Child Welfare requirements	7 C.F.R. Sec. 277.18 (c) requires states to obtain prior written approval of APDs for automated data processing systems with an expected cost exceeding $5 million ($1 million if noncompetitively acquired from a nongovernment source).. If the request involves electronic benefits transfer systems, there is no threshold.
APD updates	42 U.S.C. Sec. 654(16) requires states to annually update their APDs. Also covered by requirements set forth in 45 C.F.R. Sec. 95.611, as explained in the Child Welfare column.	45 C.F.R. Sec. 95.611 requires states to annually update their APDs when the project has a total acquisition cost of $5 million or, in the case of "as needed" APD updates,[c] when the change causes an increase of more than $1 million, a schedule extension of 60 days or more for major milestones, a significant change in the procurement approach, a change in system concept or scope, or a change to the approved cost allocation methodology.	See Child Welfare requirements	7 C.F.R. Sec. 277.18 (e) requires states to annually update their APDs if the expected cost of the project is expected to exceed $5 million or, in the case of "as needed" APD updates,[c] when the change causes an increase of more than $1 million, a schedule extension of 60 days or more for major milestones, a significant change in the procurement approach, a change in system concept or scope, or a change to the approved cost allocation methodology.
RFPs	45 C.F.R. Sec. 95.611 requires states to submit RFPs for approval for purchases of automated data processing equipment or services if it exceeds $5 million when competitively acquired and $1 million when non-competitively acquired.	See Child Support Enforcement requirement	See Child Support Enforcement requirement	7 C.F.R. Sec. 277.18 (c) requires states to submit RFPs for approval for purchases of automated data processing systems with an expected cost exceeding $5 million if competitively bid and $1 million if not competitively bid. If the request involves electronic benefits transfer systems, there is no threshold.
Contracts/ contract modifications	45 C.F.R. Sec. 95.611 requires states to submit contracts for approval for purchases of automated data processing equipment or services if the system is expected to	See Child Support Enforcement requirement	See Child Support Enforcement requirement	7 C.F.R. Sec. 277.18 (c) requires states to submit contracts for approval for purchases of automated data processing equipment or services if the system is expected to exceed $5 million when competitively

Type of request	Department of Health and Human Services			Department of Agriculture
	ACF/Child Support Enforcement[a]	ACF/Child Welfare[a]	CMS/Medicaid[a]	FNS/Food Stamps
	exceed $5 million when competitively acquired and $1 million when noncompetitively acquired. Approval is required of a contract modification if it includes an increase of more than $1 million or more than a 120-day schedule change.			acquired and $1 million when noncompetitively acquired. If the contract involves electronic benefits transfer systems, there is no threshold. Approval is required of a contract modification if it includes an increase of more than $1 million or more than a 120-day schedule change.
Federal approval requirements				
APDs	45 C.F.R. Sec. 95.611 requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.	See Child Support Enforcement requirement	See Child Support Enforcement requirement	7 C.F.R. Sec. 277.18 (c) requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.
APD updates	No statutory or regulatory time limit is set for approval.	No statutory or regulatory time limit is set for approval.	No statutory or regulatory time limit is set for approval.	7 C.F.R. Sec. 277.18 (c) requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.
RFPs	45 C.F.R. Sec. 95.611 requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive	See Child Support Enforcement requirement	See Child Support Enforcement requirement	7 C.F.R. Sec. 277.18 (c) requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided

Type of request	Department of Health and Human Services			Department of Agriculture
	ACF/Child Support Enforcement[a]	ACF/Child Welfare[c]	CMS/Medicaid[a]	FNS/Food Stamps
	provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.			within 60 days.
Contracts/ Contract modifications	45 C.F.R. Sec. 95.611 requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.	See Child Support Enforcement requirement	See Child Support Enforcement requirement	7 C.F.R. Sec. 277.18 (c) requires the agency to approve, disapprove, or request additional information within 60 days of the date of acknowledgment of receipt of the state request. States automatically receive provisional approval, which allows the state to proceed, if the federal response is not provided within 60 days.

[a]The thresholds discussed in this table address only current IT development and acquisition projects. Different or no thresholds apply to those IT projects that began when the Child Support Enforcement, Child Welfare, and Medicaid programs provided enhanced funding to states.

[b]The Family Support Act of 1988 requires states to implement statewide child support enforcement systems.

[c]APDs are required to be updated annually or "as needed," which is defined as when there is a projected cost increase of $1 million or more, a schedule extension for major milestones of more than 60 days, a significant change in the procurement approach, a change in system concept or scope, or a change to the approved cost allocation methodology.

Source: GAO, based on an analysis of applicable federal statutes and regulations.

Number of Days for Federal Response to a State Request

Agency/program	Type of request[a]	Federal response time[b] 0–60 days	Over 60 days	Percentage over 60 days (%)
ACF/Child Support Enforcement	Advance planning document (APD)	8	1	11
	APD update[c]	80	43	35
	Request for proposal (RFP)	106	6	5
	Contract/contract modification	120	13	10
ACF/Child Welfare	APD	10	2	17
	APD update[c]	71	11	13
	RFP	32	1	3
	Contract/contract modification	80	5	6
CMS/Medicaid[d]	APD	149	10	6
	APD update[c]	42	4	9
	RFP	39	1	3
	Contract/contract modification	120	5	4
HHS multiprogram[e]	APD	10	5	33
	APD update[c]	22	8	27
	RFP	9	0	None
	Contract/contract modification	19	2	10
FNS/Food Stamps	APD	24	1	4
	APD update	21	8	28
	RFP	23	0	None
	Contract/contract modification	26	2	7

[a]For ACF and Medicaid headquarters, which use a common tracking system, each state submission, along with its federal response, is generally tracked separately. Therefore, if ACF or CMS headquarters responded to a state by requesting additional information, the state response (or resubmission of a corrected document) would be counted as a second submission. In contrast, under the same scenario, FNS and CMS regional offices, which do not have a central tracking system, would count the state response or resubmission as part of the original submission.

[b]According to regulations of the departments of Agriculture and HHS, the 60-day requirement for federal response begins on the date the federal government sends an acknowledgement letter to the state. While ACF and CMS headquarters sent acknowledgement letters, some FNS and CMS regional offices did not. In the latter instances, we calculated the time to respond from the regional office receipt date stamp or date of the state letter. This federal response generally took the form of a letter or E-mail, but in a few cases it was a documented telephone call or a meeting with state officials.

[c]The regulation does not set a time limit for a federal response to an APD update for these programs.

[d]Three additional Medicaid cases are not included in this table because the applicable regional offices (1) did not review two state requests and (2) could not provide the date of the state request.

[e]This category contains state requests that involved two or more of the HHS programs in our review. For multiprogram requests at HHS, the department sends a single response to the state. The majority of the cases in the Child Support Enforcement, Child Welfare, and Medicaid categories were for single-program requests (some requests included other federal programs).

Source: GAO analysis based on agency information.

Appendix V

Data Reliability Concerns

In attempting to obtain statistics on how long the federal agencies took to respond to state requests, we encountered substantial data reliability problems related to the SSAIS, which is used to track these data for the Child Support Enforcement, Child Welfare, and Medicaid (headquarters only) programs.[31] The SSAIS assigns a tracking number to each state submission, and ACF officials are responsible for entering information related to the federal review process, including the date that the state request was acknowledged and the date that the federal response was sent.[32] SSAIS also calculates the number of days in review based on these dates.

To determine whether we could rely on the number of days in review calculated by this system, we performed a preliminary review of a sample of cases. Because we found numerous errors during this preliminary review, we decided to limit our analysis to determining the number of federal responses completed within or over 60 days. Accordingly, we checked the dates in the system for all cases reportedly over 60 days and a sample of cases 60 days or less and made adjustments to the data as needed.[33] We found that over half of the cases we reviewed had errors in one or more of the dates in the system. However, only a few of the errors affected the category in which the case was placed.

An official in ACF's Office of Child Support Enforcement attributed the incorrect dates in the system to a number of reasons, including (1) human error in entering the data; (2) a system that is not user friendly;[34] (3) the official not being informed when superiors actually sign a response; and (4) the official not being informed when administrative staff date and send

[31]CMS headquarters reviews state Medicaid eligibility system requests, while its regional offices review other Medicaid system requests (primarily related to Medicaid Management Information Systems). There is no central system used to track state requests and federal responses for the regional offices.

[32]Because CMS cannot enter data into the SSAIS, ACF performs this function for this agency.

[33]Because we found three errors related to the Child Support Enforcement program in which the category the case was to be placed in moved from 60 days and below to over 60 days, we reviewed all cases for this program.

[34]When entering the case closure, the system defaults to the current date, and it takes several operations to change the date to the date of the letter, if it is different. Also, in certain situations, when program managers query the system to determine the current status of cases, the system will automatically close the case on the date of the query.

the response. ACF needs to ensure that appropriate processes are put in place to make certain that the data in the SSAIS are accurate and reliable to improve its usefulness as a management tool.

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Mr. TOM DAVIS OF VIRGINIA. Go ahead, Dr. Heller.

STATEMENT OF SHERRI Z. HELLER, Ed.D., DIRECTOR, OFFICE OF CHILD SUPPORT ENFORCEMENT ADMINISTRATION FOR CHILDREN AND FAMILIES, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY RICHARD FRIEDMAN, CENTERS FOR MEDICARE AND MEDICAID SERVICES

Ms. HELLER. Thank you. Good morning, Chairman Davis and members of the subcommittee. Thank you for inviting Rick Friedman of CMS and myself to be with you. I look forward to the dialog as well.

At HHS we review and approve major IT developments and programs for which Federal funding is open-ended. These programs are Medicaid, the child support enforcement program and the child welfare programs. Since States receive matching Federal funds for IT expenditures on these programs, and since these can be costly and risky, the Federal Government has exercised oversight in this area for quite a long time. HHS committed $1.903 billion in fiscal year 2001 to State systems. States contributed $809 million. These systems provide important information that helps States and HHS manage Medicaid, child support enforcement, and child welfare programs, including providing performance and outcome information that assists Congress in making decisions.

We've traditionally seen the necessity of reviewing expenditures in programs that are potentially open-ended such as Medicaid. The Clinger-Cohen Act establishes that Federal IT projects should be subject to high-level scrutiny in terms of cost, IT system outcomes and relationships with other projects. This public stewardship role is especially relevant for this administration's management agenda, which stresses improving financial management and the effectiveness of e-government solutions and reducing IT project redundancies in the Federal Government.

We want an approval process that helps States meet their program goals, serve the taxpayers' interests and adheres to applicable regulations and cost principles. The APD process generally provides States with fast responses. In the past 2 years of APDs, we have responded to States within 60 days in 94 percent of the cases. Even where more complex situations demanded more lengthy analysis, such as integrated systems that serve multiple programs, we maintain productive communications with States and coordinate with our Federal peers to ensure fair and timely review.

And I'll skip some things here because you said them very nicely.

The APD process reduces potential problems or waste by ensuring that once taxpayers buy a new IT system for one State, that same system can be offered to other States across the country. This prevents States from duplicating work that was already performed using Federal funds.

We are pleased to have the GAO reaffirm for us that in the vast majority of cases we are timely in our response to States, and we're also encouraged by the States' report that when delays did occur, they did not generally cause problems for the development of their systems.

We continue to believe that Federal oversight, including prior approval of open-ended major IT expenditures, is necessary, but we

think that the funding process and review process could be improved to reduce the States' burden and improve program outcomes.

After working with several years—for several years with States, State associations and with the Federal Government, in 1996, the Department raised the dollar threshold for triggering the APD requirements. We have helped lead an interagency group with State representatives that is examining whether such thresholds could be raised again, and that group is also identifying other potential improvements in the process as well, including ways to reduce documentation and process requirements in exchange for increased accountability from States and better system outcomes.

We provide a variety of technical assistance to States including weekly meetings with States that are developing major systems. We also conduct training sessions, share best practices at conferences and through Websites, and facilitate system transfers to help States and the Federal Government save money.

We acknowledge that it does take some time and management attention to develop a strong plan for a major IT project and to assure that all the relevant organizations approve it. We, of course, go through a similarly demanding process for any new IT investment at HHS as required by the Clinger-Cohen Act. As overseers of these investments the Office of Management and Budget and the Congress frequently request additional information or explanations about the project, raising important issues that we need to address before moving forward with a project.

Likewise, we want to make sure that State investments of Federal dollars in IT are the best investments possible. We have worked to ensure that States have access to federally funded IT tools and systems that are already developed and want to continue to maximize our previous investments.

We intend to work continually with our Federal partners and with our State partners to develop some new approaches, such as performance measures for the development of systems that would tie funding specifically to desired outcomes. We think it's important, in short, to maintain accountability for the substantial investment being made in these systems, especially where the funding is open-ended, but we think that there is room to be responsive to the kinds of concerns that are being raised.

We look forward to the dialog today and think that it's just the first step at an ongoing constructive dialog. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

[The prepared statement of Ms. Heller follows:]

Statement of

Sherri Z. Heller, Ed.D.

Commissioner, Office of Child Support Enforcement

Administration for Children and Families

U.S. Department of Health and Human Services

Before the

U.S. House of Representatives

Committee on Government Reform

Subcommittee on Technology and Procurement Policy

July 9, 2002

Chairman Davis and Members of the Subcommittee, thank you for inviting me here today to discuss the State information technology (IT) systems through which the Department of Health and Human Services (HHS) programs are administered. You have indicated an interest in the process by which we review and approve States' IT systems and have asked questions about opportunities for improving this process. I hope that the information I will provide today is helpful and that it opens doors to a constructive dialogue about improvements we can make to the review and approval process.

HHS, as well as the US Department of Agriculture (USDA), reviews and approves major IT developments in programs for which federal funding is open-ended. These programs in HHS are Medicaid, the child support enforcement program, and child welfare programs. Since States receive matching Federal funds for IT expenditures related to these programs, and since IT projects can be costly and risky, the Federal government has exercised oversight in this area for a long time.

For example, HHS committed $1.903 billion in FY 2001 to State systems, with States contributing $809 million. State IT systems provide important information that helps both the States and HHS manage the Medicaid, child support enforcement program, and child welfare programs, including performance and outcome information that assists Congress in making legislative decisions.

The Federal government has traditionally seen the necessity of reviewing expenditures in programs that are potentially open-ended, such as Medicaid. The Clinger-Cohen Act establishes that, at the Federal level major IT projects should be subject to high-level scrutiny in terms of cost, relationship with other projects, and IT system outcomes. This public stewardship role is especially relevant for this Administration's management agenda, which stresses improving financial management and the effectiveness of e-government solutions and reducing redundancies in IT projects in the Federal government.

HHS is committed to a review and approval process that helps States meet their program goals, serves the taxpayers' interests, and adheres to applicable regulations and cost principles. The process used by HHS to review and approve State programs' IT expenditures (referred to as the Advance Planning Document, or APD, process) ensures that States have thought through their systems planning and that they are identifying cost-effective IT solutions that improve the management of these programs.

How Does the Review and Approval Process Work?

Briefly, the process works as follows:

There are two major types of APD submissions; planning APDs are used to seek reimbursement for planning costs and implementation APDs are used to seek reimbursement for costs of designing, developing and implementing a system. Before starting a project, States must submit

a planning APD. Once the planning phase is complete, States are required to submit an implementation APD in order to obtain funding for the complete project.

After States submit APDs, Federal agencies grant approval, grant conditional approval, disapprove the request, or defer decision pending submission of additional information. An implementation APD may be disapproved if the State does not comply with the regulatory requirement for a feasibility study and analysis of alternatives, there are not enough resources allocated to the project, the project management is poor or inadequate, the project plan is ill conceived, or for a variety of other reasons.

If a State does not receive a written response from Federal agencies within 60 days regarding their decision, the State receives "provisional approval" from the 61st day following the Federal agencies' receipt of the State's APD submission. Under these conditions, a State can proceed with its project, at its own risk, without waiting for Federal, written prior approval. Once the Federal agency approves the project, the project will be eligible for funding from the date of provisional approval.

In addition to planning and implementation APD submissions, States are also required to submit APD updates. The purpose of these updates is to keep the Federal government informed of the systems projects' status and are used to obtain continued federal funding throughout the life of the project. There are two types of updates-annual updates are used to provide official project status updates, request continued project funding, and report post-implementation costs and

benefits. As-needed updates are used to report significant changes to the project approach, procurement, methodology, schedule or costs as they occur.

Finally, States also have to obtain written prior approval from Federal agencies before releasing Request for Proposals (RFP) and before executing contracts and contract amendments that exceed a certain dollar value.

This summary is only a generalization because the statutory and regulatory authorities for Medicaid, child support and child welfare are all somewhat different as they relate to Federal reimbursement of State systems and for the requirements of State systems in general. However, HHS and USDA have worked together continuously for decades, publishing corresponding regulations to ensure that our processes coincide to the maximum extent possible.

How Well Do We Do With This Process?

The APD process generally provides States with fast responses. In the past two years of APDs, HHS responded to States within 60 days in 94 percent of the cases. Even where more complex situations demand a more lengthy analysis, such as integrated systems that serve multiple programs of several Federal agencies, HHS staff maintain productive communications with the States and coordinate with their Federal peers to ensure a fair and timely review. In fact, in the recent GAO audit of this process, out of a total of about 1,150 State submissions, only three incidents were identified in which a State claimed that the Federal process had contributed to project delays.

HHS has also worked to require no more documentation than is necessary for adequate Federal oversight. For example, in many cases a State's own IT project plan suffices for an APD. Also, we routinely waive the requirement for a State to submit contracting documents, such as RFPs, contracts or contract modifications, as long as a State's APD does not indicate a high level of risk or likelihood of problems for an IT project.

The APD process reduces potential problems or waste by ensuring that once taxpayers buy a new IT system for one State, that same system can be offered to other States across the country. This prevents States from duplicating work that was already performed using Federal funds.

GAO recently worked with us to gain a better understanding of the APD process and to assess whether it hindered State development of IT systems. We were pleased to have GAO reaffirm for us that, in the vast majority of cases, we are timely in our responses to States. We were encouraged by the fact that States generally reported that when the delays did occur, they not cause problems in the development or implementation of the new IT systems. We were also very pleased that a number of the States interviewed by GAO commented on the positive working relationships they have with the Federal agencies.

We would like to point out GAO found that such delays usually cited cost/funding issues as the reason for the longer time needed the for review, which means we are continuing to stress our financial responsibilities and not getting caught up in the bureaucratic process. However, we also note that GAO found a few States that were not happy with their experiences, and we

continue to strive to maintain open communications with such States so that we can move forward together in their systems development.

What Have We Been Doing to Improve?

While we continue to believe that Federal oversight, including prior approval of open-ended, major IT expenditures, is necessary, we also believe that the review and funding process could be improved to reduce States' burdens and to improve program outcomes.

In 1996, after working for several years with States, State associations, and within the Federal government, we raised the dollar threshold for triggering the APD requirements. HHS helps lead an interagency group with State representatives that is examining whether thresholds could be raised again. The workgroup is devoted to identifying other potential improvements in the process as well, including ideas for helping reduce documentation and process requirements in exchange for increased accountability from States and better system outcomes.

HHS also provides technical assistance to States through a variety of means, including weekly meetings with States that are developing major systems. We conduct training sessions, share best practices at conferences and through web sites, and facilitate system transfers to help save States and the Federal government money.

Why Do We Continue to Believe That IT Planning and Review Is Necessary

We realize that some States have raised questions and concerns as they move through this process. For example, some States believe that the process induces project development delays that cost both time and money, and some States feel the process prevents them from making the best decisions in terms of systems integration or system design.

We acknowledge that it does take some additional time and management attention to develop a strong plan for a major IT project and to ensure that all relevant organizations approve it. We go through a similarly demanding process for any new IT investments at HHS, as required by the Clinger-Cohen Act. As overseers of these investments, the Office of Management and Budget (OMB) and Congress frequently request additional information or explanations about the projects. However, this process often raises important issues that HHS needs to address before moving forward with a project and therefore, the time taken to move through such a review and approval process is critical to the success of the project.

Likewise, we want to make sure that State investments of Federal dollars in IT are the best investments possible. The management attention and time are important parts of the project's success. Decisions about allocating the costs of an IT system among all relevant programs are made in accordance with OMB Circular A-87 cost principles, which allocate an organization's or program's costs among different cost centers or programs according to the extent to which the centers or programs benefit. While we sympathize with some States' financial situations, we are

not in a position to authorize cost allocations designed purely to maximize Federal financial participation.

We have worked to ensure that States have access to Federally funded IT tools and systems that already are developed and want to continue to maximize our previous investments. For example, the Oklahoma child welfare system has been transferred to seven States, and eight other States also chose to transfer in another system rather than develop one from the ground up. While system transfer is not always the best solution, we believe that exercising our right to reuse these systems and building upon the work of other States can substantially reduce system development costs, time frames and risks when Federal funds were used.

Some States also have sought to select a vendor's product without engaging in full and open competition. We have the obligation to enforce Federal rules that grantees must create opportunities for full and open competition, and we believe that such competition generally ensures that the most cost-effective IT solution is procured.

Potential Next Steps

As described above, we continue to work with States and our Federal counterparts at OMB and USDA to improve the process for reviewing and approving these major IT expenditures. One approach that is being considered at this time is to assist States in achieving industry-standard certification in such areas as software development and project management. This would require

an investment in the States' IT organizations, but would ultimately result in better and more successful projects, for which less Federal oversight would be required.

In addition, we would like to involve both the State and Federal partners in a joint effort to develop performance measures for the development of systems that would tie funding specifically to desired outcomes. We believe that it is important to maintain accountability for the substantial investment being made in these systems and that any approach to more comprehensive reform should achieve an appropriate balance between Federal oversight and State project management including, but not limited to, financial responsibility.

We look forward to working with States on issues surrounding review and approval of IT systems. In particular, we want to focus on how we can help States implement IT systems that support the program outcomes they want to achieve. This hearing is a wonderful opportunity to engage in that dialogue and I look forward to further discussions.

Mr. TOM DAVIS OF VIRGINIA. Mr. Salazar.

STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. SALAZAR. Good morning, Mr. Chairman, members of the subcommittee. I'm Roberto Salazar, Administrator of the U.S. Department of Agriculture's Food and Nutrition Service, also known as FNS. I am pleased to join you here today as you review the management of State information technology grants, an interest shared by this administration in its support to States in acquiring computer systems for an array of Federal programs.

A little over 2 months ago, I joined Secretary Ann Veneman's team at USDA. I had previously served as executive director of the Office of Science and Technology for the great State of New Mexico. I was eager to join with Food and Nutrition Consumer Service's Under Secretary Eric Bost and Deputy Under Secretary Suzanne Biermann, who have extensive State program and administrative experience. This collective experience allows us now as Federal administrators to see both sides of the coin. Together we bring an understanding of this State perspective to the issues that I believe we will discuss today. Each of us has experienced both the frustrations and successes of the APD process, and because of those experiences we are committed to providing leadership at the Federal level in order to work with our State partners to improve and expedite the approval process while maintaining integrity.

The development of successful computer systems is a joint responsibility of Federal agencies and their State partners. FNS devotes resources, both human and financial, to the development and upgrade of State computer systems. In fiscal year 2002, FNS received a budget allocation of $750,000 to enhance our ability to support timely reviews and provide state-of-the-art technical assistance on food stamp and WIC program State-automated systems, and we expect to have those funds obligated before the end of this fiscal year.

FNS and the States combined spend an estimated $340 million per year on these State-owned and operated systems that are instrumental to the effective administration of the food stamp program—this amount includes both operational and development costs—while the WIC program, which is nearly 100 percent federally funded, spends about $145 million in Federal funds per year on automated systems. A total combined Federal and State funds of approximately $485 million per year is spent in support of this area by FNS grantees.

Technical support can be used to strengthen project management practices in order to reduce the risk of project failure and improve project outcomes. Federal support, however, must be a coordinated effort among Federal agencies to be successful.

I'm very happy to be here today with my colleagues from the Department of Health and Human Services to hear their comments on the working relationship that we must ensure with our State partners. An example of that partnership is a site systems requirement reform project. The reform project was established among DHHS, FNS and our State partners to better respond to the effects

of rapid changes in information technologies and increased flexibility as a result of changes impacting our programs, such as welfare reform. The vision of the reform project is to facilitate and encourage the use of information technologies designed to support State-operated programs that drive significant improvements and efficiencies, effectiveness and the delivery of services to needy households. The project seeks to insure a positive Federal-State partnership. Arizona, Kansas, Maryland, Minnesota, New York, North Carolina, Pennsylvania, Texas, and Virginia have participated in these discussions.

The reform project is a work in progress that focuses on complex issues. Most of these center around improving current methods and processes for the APD approval and enhancing States' flexibility while optimizing Federal oversight. For example, some States have indicated that Federal agencies are not sensitive to State internal project approval schedules. This is a serious concern, especially for States with legislative sessions that provide for minimum opportunity for program agencies to seek approval for project implementation and the finances to support the effort. We must be sensitive to these timeframes and agree that there is room for improvement as we strive to better accommodate States' internal time lines.

We have been a strong advocate of the use of industry standards and increased use of off-the-shelf software to reduce costs and length of development cycles. We continue to believe that through our joint efforts, Federal agency and States, greater efficiencies in the review and oversight process will be accomplished.

The APD process is the established means for Federal and State agencies to communicate about very complex acquisitions. By its very nature, computer systems development demands the need for close, trusting working relationships among all the parties. There is a need for Federal and State agencies to share responsibility for ensuring that the systems will work as promised to accurately establish and record the case information eligibility systems and to deliver and reconcile program benefits. While the process at times is frustrating, we are committed to a process that promptly responds to the requests of States for funding, while maintaining our stewardship of the Federal funds and client access to our programs. There are successes and improvements that we should always recognize, and it is important that we continue to buildupon our partnership with both our Federal and State partners.

Mr. Chairman, I truly appreciate the opportunity to appear here before you today, and I look forward to working cooperatively with this committee and our Federal and State partners to speed and simplify the APD process. This concludes my remarks, and I stand for questions.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

[The prepared statement of Mr. Salazar follows:]

TESTIMONY OF

ROBERTO SALAZAR

ADMINISTRATOR, FOOD AND NUTRITION SERVICE

U.S. DEPARTMENT OF AGRICULTURE

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY

JULY 9, 2002

Good morning, Mr. Chairman and Members of the Subcommittee. I am Roberto Salazar, Administrator of the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS). I am pleased to join you today as you review the management of State and local information technology (IT) grants management. As Administrator of FNS, following the leadership of Under Secretary Eric M. Bost, I am responsible for the Nation's Food Stamp Program, National School Lunch and Breakfast Programs, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), and eleven other domestic nutrition programs. Together, we bring a wealth of State-level program administration experience in the areas of health and human service, nutrition assistance and economic development.

Mr. Chairman, this Administration shares the Committee's interest in providing Information Technology (IT) grants and management support to States

for acquisitions of computer systems for an array of Federal programs. In addition, FNS has a longstanding commitment to assist the States in the development and upgrade of computer systems that support the Food Stamp Program, as well as other FNS administered programs. The development of successful computer systems is a joint responsibility of Federal agencies and their State partners. FNS has devoted a significant portion of its resources, both human and financial, to this critical task. Working within the requirements of the Advance Planning Document (APD) process, we have assisted States in completing computer systems that accomplish the States' objectives and assure more effective program management and administration.

Although the Food Stamp Benefits are funded at 100% by the Federal government, administrative costs, including automation costs, are shared at a 50-50 rate with our State partners. We fully support the concept of the APD process but recognize the fact that its implementation has at times been frustrating. The APD process is the established means for Federal and State agencies to communicate about these very complex acquisitions. By its very nature computer systems development demands the need for close, trusting working relationships among all the parties. There is a need for Federal and State agencies to share responsibility for ensuring that the systems will work as promised to accurately establish and record the case information in eligibility systems and to deliver and reconcile program benefits. We are committed to a

process that promptly responds to the requests of States for funding while maintaining our stewardship of Federal funds.

To do this, FNS devotes considerable effort to the overall task of system approvals. With the support of our Regional Offices, FNS provides assistance to States as they procure systems and services. One of the added benefits of the APD process for the State is the availability of years of Federal expertise achieved through systems development oversight related to similar human services automation projects. We also provide assistance to States with unique requirements and needs. We participate with other Federal agencies, and join States and associations for the purpose of exchanging technology information and providing training.

For all APD approvals, FNS works with the States to identify potential project difficulties, resolve discrepancies and assure a clear and mutual understanding of the project supporting documents. It seems a reasonable request to make of any responsible project management team that, prior to embarking on a multi-million dollar automation project, basic information be presented – Is the need adequately defined? Have all possible solutions been considered that support the project's objectives? What solutions have been determined to be best? How long will the project take? What guarantees are in place to ensure timely delivery of the system? What guarantees are in place to ensure the system will be effective?

This does not mean that the APD process is perfect. FNS has been involved in a number of efforts for making improvements. We have participated with the Department of Health and Human Services (DHHS) and our State partners in a State Systems Requirements Reform Project. The vision of the Reform Project is to support and encourage the use of information technologies designed to support human services in ways that drive significant improvements in efficiencies, effectiveness and the delivery of services to needy households. There are a number of concerns that suggested the need of the Reform Project. Principle among these are; recognition of the effects of rapid changes in information technology; the need to increase flexibility as a result of changes in the programs, such as welfare reform; and, a sincere interest in improving Federal/State partnership. The Federal agency workgroup invited State participation in the examination the APD process to make recommendations for change within the authority and flexibility currently available: Arizona, Kansas, Maryland, Minnesota, New York, North Carolina, Pennsylvania, Texas, and Virginia have participated in these discussions.

The Reform Project should be considered a work in progress not so much because of the range of concerns that have been brought to the table by both the States and Federal agencies but because of the complexity of the issues. Most of these center around improving current methods and processes for APD approval and enhancing States' flexibility while optimizing Federal oversight. For

example, some States have indicated that Federal agencies are not sensitive to State internal project approval schedules. This is a serious concern especially for States with legislative sessions that provide for a minimum opportunity for program agencies to seek approval for project implementation and the finances to support the effort. We are now better aware and sensitive to these time frames and agree that there is room for improvement as we strive to better accommodate States' internal time-lines. We have been a strong advocate of the use of industry standards and increased use of off-the-shelf software to reduce costs and length of development cycle. We continue to believe that through our joint efforts greater efficiencies in the review and oversight process will be accomplished.

In another significant area FNS has received a budget allocation of $750 thousand to enhance our ability to support timely reviews and provide state-of-the-art technical assistance on Food Stamp and WIC Program State automated systems. FNS was very successful in our effort to provide technical support to assist our State partners in becoming 'Y2K' compliant. We believe that the 'Y2K' model can be utilized as States implement new IT systems. FNS and the States combined spend an estimated $340 million annually on these State systems that are instrumental to the effective State administration of the Food Stamp Program (this amount includes both operational and development costs). Technical support to States would be used to strengthen project management practices in order to reduce the risk of project failure and improve project outcomes. With input from the Reform Project, this assistance will be used to

facilitate the development, implementation, and support of new processes aimed at project management and control.

One place we can look is our experience with implementation of the Food Stamp Electronic Benefits Transfer (EBT) State systems. This experience has provided valuable insight for enhancing State flexibility and streamlining federal oversight of the APD review process. Working within the structure of the APD process, we believe we succeeded in coordinating with other Federal agencies, when appropriate, as well as supporting States as they transformed the process of benefit delivery to electronic systems. There are now 18 States nearing the end of contracts and in various phases of procuring their next systems using the APD process. EBT systems currently deliver more than $1.3 billion a month in FSP benefits to 7 million households. About half of the systems also deliver cash benefits of the Temporary Assistance for Needy Families (TANF) program and various State cash programs. Many Federal agencies cooperated to make the transition to EBT possible and we believe the overall experience in EBT has been a positive one for States.

Early in the process, FNS participated in the Interagency Steering Committee to coordinate the program and financial policies for EBT implementation. This involved the U.S. Departments of Agriculture, DHHS, Treasury, and the Social Security Administration, and the Office of Management and Budget. As lead agency for EBT, we worked closely with the DHHS to

review APD and procurement materials quickly. After passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the Aid to Families with Dependent Children program was replaced with State TANF block grants and DHHS no longer participated in the approval process for EBT projects thereby allowing FNS to move forward alone.

Internally, FNS changed its organization to create a group solely concerned with EBT approvals. Our agency's APD process was examined and modified to centralize and streamline review and approval as much as possible. We recognized early on that although EBT projects and APDs received from program eligibility projects would be reviewed using the same APD review process there were significant distinctions that could streamline the review schedule. For instance, EBT systems basically use existing software that has been developed and operationally tested (i.e. already available in the commercial marketplace). Due to their complexity and uniqueness, software used to support eligibility systems must be developed from scratch and tailored to a State's specific needs. Eligibility systems must be integrated with a host of other Federal and State programs in addition to the Food Stamp Program. We were proactive with States, meeting with them in groups and individually to explain our expectations and to help them in any way they wanted including drafting and revising every type of ADP document. One early problem in EBT was that States needed to obtain internal political and financial support and once accomplished, they needed to move quickly through their planning stages to

procurement. Because EBT was one of our agency's highest priorities, we streamlined some items. For example, we authorized States to release procurement documents prior to the approval of implementation documents. The implementation document could be approved later but before a State could obtain funds for their EBT vendor contract payments. We did not require an implementation document update for expansion beyond the pilot stage. We did not require the functional requirements and general system design since the EBT regulations were extensive in explaining the system needs. We aimed at shortening the approval process to 30 days whenever possible. The experience of both States and Federal agencies in using the APD process for EBT system approvals showed there was flexibility and responsiveness in an entirely new area.

The APD process is established as the common means for Federal and State agencies to communicate about complex automated systems acquisitions. There is a need for Federal and State agencies to share responsibility for ensuring that the systems will work as promised to accurately establish and record applicant and participant case information and to deliver and reconcile program benefits.

I believe that Under Secretary Bost and I bring a wealth of State-level experience to the Federal table. We have personally experienced the frustrations associated with the APD process from our prior State positions. While it is true that the States have a responsibility to work with us, we must acknowledge that

there is room for improvement. FNS is committed to working with our State partners to improve the process and expedite the approval process while maintaining its integrity.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer your questions at this time.

Mr. TOM DAVIS OF VIRGINIA. Ms. Valicenti. Thanks for being with us.

STATEMENT OF ALDONA VALICENTI, CIO, COMMONWEALTH OF KENTUCKY, NATIONAL ASSOCIATION OF STATE CHIEF INFORMATION OFFICERS

Ms. VALICENTI. Good morning. Mr. Chairman, honored members of the committee, thank you for this opportunity to appear in front of you one more time. What I would like to do is—by the way, we have submitted testimony in writing, and we will actually amend that and resubmit it because we'd like to cite some of the past work that had already been done on the APD process.

Mr. TOM DAVIS OF VIRGINIA. Without objection.

Ms. VALICENTI. But what I do is I bring you a practitioner's perspective, and a practitioner's perspective is one that may be somewhat different from a policy perspective. But as you know, the States today are moving very much into what I would call a one stop/one screen environment, treating our citizens as customers, as customers of the system. And as we do that, we have found, in fact, what has already been echoed here over and over again, that individual stovepipe systems do not lend themselves to such an environment, and therefore, there are and have been identified two issues which, in fact, are the impediments. One of them is the ADP process, and second is the cost allocation model.

Now, you have already heard a great deal about the ADP process, and it has been being worked on continuously to integrate the forms and distribution. But allow me one small story from Kentucky. You know, you have already heard stories about two printers and two computers on a desktop. We decided a couple of years ago that we needed a common desktop with a common set of software to allow for much greater flexibility and support and, frankly, to lower the cost of support. In order to achieve that, it took multiple trips, multiple answering of questions, the cabinet CIO making trips to Washington to coordinate that process. So although we have—might have worked on the form end of it, we have not yet arrived at the practice end of it.

Recently I've had the opportunity to speak to representatives from New Mexico, who, in fact, are also embarking on a one stop/one screen kind of environment, with the opportunity for them to look forward to integrating eligibility systems and working with nine different agencies. Frankly, folks, they have narrowed that down to three now and are equally as frustrated in trying to integrate the three systems. Because of continuous questions, restarting of the 60-day clock, they have backed off to three agencies and, in fact, are talking about backing off of requesting any Federal funds.

I bring you those two stories as examples of a practitioner. The cost allocation process is one that was alluded to, but let me give you one number. I asked a couple of people in my agency—and by the way, we are very well versed in cost allocation not only internally in the running of the environments that we do for the Commonwealth, but also in allocating back the appropriate costs to the Federal agencies. I asked them to estimate for me what percentage of every dollar is, in fact, due to the cost allocation process. Un-

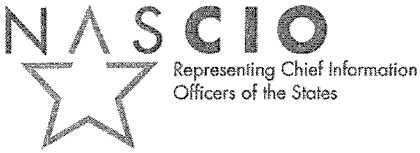
equivocally I got 20 percent; 20 percent of every dollar goes back to the cost allocation process. That is a very large number. That is used in the delivery of the service and not in the service itself. And let me make that point again: in the delivery of the service, and not in the service itself. Those are staggering numbers, and there might be many more scientific ways to do that, but when I asked other people, that is pretty much the same number that I get, 20 percent.

Not only that, but sometimes when we look forward to the more sophisticated environment that we are moving to, which is the Internet, to be able to provide some of the services over the Internet, I have been told that number may, in fact, be higher. So consequently, we have two processes that need additional work, the APD process and the cost allocation process. I bring you those two examples from a practitioner's point of view.

I think NASCIO is very much in tune to being accountable, and accountable from a State perspective, to the money that is allocated, but, again, there is a huge environment which is changing, and that is the environment of how we serve citizens, and that, folks, requires our attention now. Thank you very much.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

[The prepared statement of Ms. Valicenti follows:]



TESTIMONY BY ALDONA VALICENTI
CIO, COMMONWEALTH OF KENTUCKY
PAST PRESIDENT, NATIONAL ASSOCIATION OF STATE CHIEF INFORMATION OFFICERS (NASCIO)

HOUSE SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON STATE/LOCAL INFORMATION TECHNOLOGY GRANT MANAGEMENT
JULY 9, 2002

Mr. Chairman and Members of the Committee, I am honored to be here as the Chief Information Officer for the Commonwealth of Kentucky and on behalf of the National Association of State Chief Information Officers (NASCIO). NASCIO appreciates your attention to this important issue, which affects every one of our CIOs. The relationship between the federal government and state governments is a critical partnership in the provision of service to our citizens. Through such programs as Temporary Assistance to Needy Families (TANF), Medicaid and the Food Stamp programs, the federal government provides assistance to America's needy, adding to the states' own efforts in support of their citizens' needs. Information technology has played an increasing role in these programs, allowing states to automate many functions. The regulatory processes for federal funding for information systems have evolved over time to meet the oversight requirements of the specific agencies and programs. However, this approach is becoming increasingly out of sync with the states' recognition that human services must be consolidated and integrated – so that citizens can meet their needs with as little effort as possible. The regulatory process for federal funding for human services IT programs – the Advance Planning Document (APD) and the related cost-allocation process – is in dire need of reform. This reform should first enable, then encourage – and finally even reward – the states' efforts to build integrated IT infrastructure.

The states are moving to provide services to citizens from an integrated, "one stop" or "one screen" approach, allowing one office to work a citizen case, or allowing several offices to work from one case file managed on a common IT system. The states are doing this for a range of reasons. First, new approaches to human services emphasize moving citizens off assistance to self sufficiency, rather than simply providing financial assistance. This requires an integrated IT infrastructure. Second, citizens are demanding a holistic approach to service, becoming increasingly less and less willing to visit offices to provide the same information, over and over again. Finally, the common IT infrastructure that provides the basis for integrated services provides cost efficiencies in maintenance and operation, an important consideration as states continue to struggle with the effects of the downturn in the economy.

This ideal of the provision of all or most federal/state assistance – welfare, labor, food, education, and health assistance – will only be possible through an integrated information system

that can evaluate an individual's or a family's need and eligibility for all of these services. In this direction, many states are working to consolidate the traditional stovepiped information systems through which these services are provided now – but are encountering significant difficulty with federal regulation that focuses more on approval processes and accounting for expenditures rather than accounting for service to citizens.

The states are encountering two primary obstacles: the bureaucratic Advance Planning Document process by which states apply for federal funding assistance for information systems, and the burdensome cost-allocation process that discourages investment in efficiency-building cross-program IT infrastructure. I would like to emphasize one point before addressing these challenges – NASCIO absolutely agrees that the goal of federal/state grant management is to maximize flexibility AND accountability. Congress must be assured that funds are spent for the purposes for which they are authorized and appropriated. Having said this, our purpose is to remove or modify those legislative or regulatory barriers that restrict innovation, not those that provide accountability for how federal funds are spent.

NEED: Restructure the APD Process to Allow for Greater Flexibility to Use Federal Funds for Cross-program IT Infrastructure Many states are initiating innovative approaches to "integrating the front end" – that is, developing systems where citizens can, in the process of providing their personal information and qualifications *on one site or to one office*, determine their eligibility and how to receive services across a variety of federal and state programs. However, the APD (the Advance Planning Document) process is currently as much an obstacle as a facilitator in the implementation of integrated systems.

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 reinforced the states' motivations to create an integrated approach to providing human services. As welfare agencies shifted focus from providing checks to recipients to moving recipients off assistance programs into self-sufficiency, they found that they require information from programs other than welfare – such as education, employment training, and housing. These programs are managed under separate state agencies in many cases. As a result, states came to realize they needed information systems that allowed state human services workers to access data from these programs across agencies at the state level. However, they soon found that because these programs are supported by federal funds also from separate federal agencies and programs, there are few clear processes for using funds from two or more federal human service programs to build the common IT infrastructure for integrated information systems.

The APD process applies to Child Support, Welfare, Medicaid and Food Stamps, and is a means for states to inform and secure approval for federal reimbursement for a percentage of the costs associated with an information technology project that supports one of these programs in the state. First, the "Planning APD" must be submitted prior to initiating a project, then an "Implementation APD" that serves as a comprehensive written plan of action, followed by an Annual Advance APD to update federal agencies on progress and changes, and finally, an optional "As-Needed APD", that also serves notice of changes and can be used to request additional funding. The APD process began some time ago as an effort to provide federal expertise to states in the use of large mainframe computers to support human services provision. The process established a separate, distinct approval process for IT projects within overall state

plans for programs, such as child welfare. While this made sense at the time for a variety of reasons, it is the states who are now at the forefront of innovation, combining the internet, networks and personal computers to dramatically increase efficiency.

The current APD process for a project that pertains to a program overseen by just one federal agency adds the unpalatable ingredients of bureaucracy and delay. One common complaint of the states is the federal penchant for form over substance. A state official related the experience of a federal agency returning an APD requesting, among other changes, that a 3 ½ page executive summary be expanded to the required full four pages. Another is the frustrating requirement that the project, even if being funded in part with state funding, not be started until an APD is approved. While this seems logical, much of the data required to complete the APD, such as degree of difficulty and some cost figures, cannot really be known until the project is underway. Finally, the system can produce prodigious delays. The initial Planning APD is approved automatically 60 days after submission – but the 60 day period begins again should the agency request clarification or a reworking of the cost-allocation. As long as the agency approves the APD *within 60 days of the last submission* by the state, it can claim to have approved the APD "within 60 days" – no matter how many times it restarted the clock. Further, as the GAO noted in its January 2002 report on Human Services Integration, by the time this process has run its course, the technology plan can become obsolete by the fast pace of technology development. A pilot project in New Mexico whose APD approval process is into its twelfth month, has been returned by the approving federal agency three times, each time re-starting the 60 day deadline. State officials estimate the technology has gone through three significant "jumps" in capability during that time – on average once very four months.

For IT projects where more than one federal agency might be involved, the challenge is compounded. In this case, a state must meet the individual APD requirements of each program (and agency). As a result, a unified approach to seeking federal funding for such common information infrastructure programs is beyond the states' grasp. An example from my own Commonwealth of Kentucky is worth noting. What should have been a fairly straightforward effort to purchase common desktop PC software to determine eligibility for a range of our Cabinet of Families & Children programs, including TANF, Medicaid and food stamps, in reality had to be shepherded through the separate APD approval process for multiple agencies by our human services department CIO. Our CIO had to travel to Washington to meet with representatives of each agency to accomplish this. The result of having to secure separate approvals from multiple agencies was significant delay in implementing a common-sense approach to services management. In another example from New Mexico, a state pilot project to merge eligibility determination for nine (9) human services programs was begun in July 2001. After the initial APD was rejected due to different and often contradictory requirements from the various federal agencies, the state decided to scale back the consolidated programs from nine (9) to only three (3). After a second draft of the APD was rejected in November 2001, the state is seeking private grant funds to determine if it can complete the effort without using federal funds at all.

It is clear that the APD process strongly discourages using federal program funds to create common IT infrastructure. This despite the fact that although it frequently costs less to the original program than creating a separate, stand-alone IT system – it is precisely because it

would benefit other programs that it is often termed unallowable. States report that agencies often give one of two answers as to why they reject many cross-program IT APD requests. The first is the Office of Management and Budget (OMB) – most agencies assume a conservative interpretation of OMB APD guidelines, particularly when these are broad and not specific – and worry that OMB will not approve of these plans. The second is the General Accounting Office – agencies have told states that they worry that the GAO will conduct an audit and disapprove of complex APDs that build IT infrastructure across programs.

As a result of this feedback, NASCIO proposes that the Subcommittee, OMB, GAO, the states and related associations begin a collaborative discussion on the issue. In the first instance, this discussion should determine if the APD process still adds value to the goal of accountability for federal funds expended on IT for human services. If it does, the discussion should be aimed at finding a common APD model, approved of by OMB and GAO and supported by the relevant Departments (HHS, Agriculture and Labor) for use with IT projects that cross federal agency programs. NASCIO believes that such a common APD model should encourage and reward the creation common IT infrastructure where it creates real efficiencies in cost and service to citizens.

NEED: Streamline the Cost Allocation process: "Stovepiped" funding streams have resulted in the notorious examples we are all so familiar with: separate computers or printers, for different programs (ie one for child welfare and another for Medicaid eligibility) on the same desk. The cost allocation process evolved logically as a subprocess of the APD process to allow for a way out of strict stovepiped funding. Cost allocation allows for some degree of allocating funds between federal and state sources, and between programs. The very appropriate goal is to ensure that federal funds are spent for the purposes for which they were authorized and appropriated. However, the states face a significant challenge in working with federal agencies for approval of cross-program cost allocation plans. Federal agencies have not been issued clear guidance what cost allocation models are appropriate for cross program IT infrastructure, and as a result, do not feel comfortable approving many such APDs with this type of cost allocation. The result, when combined with the APD process described above, is that federal agencies often first require the states to submit cost allocation plans on their own, providing very little guidance. They then often reject such plans due to their discomfort brought on by their own lack of guidance. The ensuing delays often penalize the states for pursuing funding for common infrastructure, even though this infrastructure serves the recognized goal of integration and efficiencies.

Since this integration is often the very purpose of modernizing the IT systems for these programs, the result is that states either choose not to modernize, or when possible, do so only with state funds. For example, a State of Arizona project found federal cost-allocation guidelines to be so vague that they needed to seek clarification from the federal agencies involved, who could provide no specific recommendations. Arizona submitted several possible cost-allocation models on their own, which were all ultimately rejected.

The cost allocation process adds a large and burdensome accounting and bureaucratic layer onto the administration of these programs. Teams of accountants must be hired at the state level to monitor the cost allocation process, accountants who must then track their own time for cost

allocation purposes. One state program official estimated that the cost-allocation process, requiring determination of how much time individual state employees were spending working with which program, chewed up nearly 20% of the federal funding that was provided for that program in the first place! The solution to this complex problem will also be complex, and NASCIO does not pretend to have an easy answer. We are, however, prepared to engage in a collaborative effort to arrive at one. A potential alternative that NASCIO has discussed in the past is a "cost per service" allocation formula, one that my colleague Larry Singer can elaborate on.

Finally, Mr. Chairman, I would like to conclude that many of the challenges and ideas discussed here today have already been recognized and/or embraced by a wide variety of government and associated organizations – including the Office of Management and Budget, in their vision for IT programs for the federal government itself. Mark Forman at OMB has made progress in pushing federal agencies to design their IT programs, from their very inception, to serve multiple agencies' needs, as in OMB's Quicksilver initiatives. We see the further extension of this philosophy in discussions about the Administration's proposed Department of Homeland Security. Administration officials have made it clear that a key factor in the success of its mission will be its ability to share information horizontally across the organization and with other departments, as well as vertically with states and localities. These examples show that the federal government is getting its own house in order, recognizing that "stovepipes" and stand-alone systems are detrimental to the goal of shared information and integrated services. Now, extending this philosophy to the management of state and local IT human services funding, with the implementation of a few modest reforms, can move us closer to that goal. Thank you.

STATEMENT OF LARRY SINGER, CIO, STATE OF GEORGIA, NATIONAL ASSOCIATION OF STATE CHIEF INFORMATION OFFICERS

Mr. SINGER. Thank you, Mr. Chairman. The members of the committee, and, first of all, I want to thank you for inviting me here today. This has been a subject of intense interest of mine for many, many years, and, in, fact I've had an opportunity—participated on a variety of work groups, task forces with the agencies represented here, with States from when I was in academia, and we've been reviewing this issue for many years.

I would like to take this opportunity to identify three issues or three points, to make three points that I think might help us address this. The first is that the review of information technology expenditures associated with Federal program grants should become part of the actual review of the program itself rather than through a separate review process; second, that Federal funds should be promoted and not only permitted to be used on program systems run across integrated networks; and third and finally, Federal funds should be authorized for the purchase of proprietary software for programs with the understanding that custom development software continues to be placed in the public domain.

All of these reforms will help State governments focus on the delivery of services to their constituents in a more effective and efficient manner without sacrificing accountability, while reducing costs to both Federal and State programs.

The first point regarding the review of IT expenditures. Currently all States' program plans are reviewed by a Federal agency prior to the receipt of Federal dollars. That process applies whether the funding is for Medicaid, transportation or child enforcement. All of those programs undergo appropriate and rigorous scrutiny. Unfortunately, however, in addition to that scrutiny, information technology expenditures associated with those programs oftentimes have to go through a completely separate and additional review process. The APD process requirements applied by HHS and Department of Agriculture force States to submit separate and detailed plans. They also force prior approval for related procurement in addition to the plan approvals and for IT expenditures approval prior to each procurement or project initiation.

Of all the Federal grant processes across the entire Federal Government, this APD process is by far the most cumbersome, expensive, and perhaps provides the least value to the Federal oversight and to the States. The APD process once had great value when it was originally developed. It was developed around 30 years ago, and it was developed around a time where the initial implementation of information systems to determine eligibility for Medicaid, food stamps and general welfare programs, the AFDC programs.

With the rollout of eligibility determination responsibilities to States, there was great fear among Federal authorities of whether States would be able to handle large system deployments and procurements. At that time the States were not using systems for the other operating activities to any great extent, and the only real public sector successes with large-scale information systems had been with Federal programs such as Social Security and Medicaid—Medicare systems. As a result, it made a lot of sense to im-

pose specialized reviews for IT to take advantage of the much greater expertise and experience at the Federal level to assist States and to provide assurance of State capabilities to spend funds in a responsible manner when procuring or planning information systems.

Today, however, States are the largest consumer of IT resources in this country, larger even than the financial services industry, retail and manufacturing industries, and, combined with local governments, larger than the Federal Government. States understand their environments, their associated risks, and all have established procurement rules that are consistent with those imposed on Federal agencies by the General Services Administration.

In addition, the people at HHS charged with the responsibility of reviewing these programs are no longer in many cases the same individuals charged with responsibilities for the Federal systems their agencies are responsible for deploying. Oftentimes they have no IT experience and almost always have less experience than those of their State counterparts.

What we'd like to suggest as an alternative to the ADP process itself and is a more effective method of review, the approval of the IT approaches and systems should be integrated with program planning approaches at the beginning of the year. There should be nothing special about IT expenditures when compared to other program initiatives designed to improve programming performance. IT expenditures should be considered just another tool to improve program performance, no different than organizational changes, policy changes, process change initiatives and personnel changes. Having an integrated review process will foster a comprehensive understanding on the State change initiative by reviewing the entire plan in context.

My colleague has talked a lot about the use of cross-integrated networks. Interoperability is a major concern to every State. We focus very much on integrated architectures, on using the Internet to provide a seamless interface for citizens to share information across agencies. But the APD process creates a tremendous barrier to developing these common architectures. Also, the cost allocation process, which it works pretty well when it comes to buildings and personnel and others, isn't a process that works very well when it comes to allocating the electrons that cross across a common network.

We think it's very important that we get together with OMB and the General Accounting Office and we look at something like a CPU-based costing model or a cost-per-service model that allows allocation on real, tangible, dividable items.

Finally, and I'll make this very quick, there are currently restrictions at HHS against the use of Federal funds to purchase proprietary applications under the belief that this restriction will allow States to transfer systems readily between one another, pay for the system once. But what we've learned in the software industry is that a market economy allows for sale of package software at a much lower cost than custom development. We haven't been able to find a very good model for system transfer, and so in almost every case on the programs that are under APD control we have a preponderance of the systems that are developed as custom-built

systems with a significantly greater cost than could be enjoyed if we were to allow a vendor to make a system specifically for implementation on a particular program across the States.

So I'd suggest we look at those three points. I look forward to the discussion. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Thank you.

[The prepared statement of Mr. Singer follows:]

TESTIMONY OF LARRY SINGER
CHIEF INFORMATION OFFICER, STATE OF GEORGIA

HOUSE SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON STATE/LOCAL IT GRANT MANAGEMENT
JULY 9, 2002

Mr. Chairman and Members of the Committee,

Thank you for inviting me before you today. It is a great pleasure and honor for me to have an opportunity to speak to you. I am also grateful for the work of this committee. I have three points for my testimony today. The first is that the review of information technology expenditures associated with federal programs should become part of the actual review of the program itself rather than through a separate review process. Second, federal funds should be permitted to be used on program systems' run on integrated networks. Third, federal funds should be authorized for the purchase of proprietary software for programs with the understanding that custom developed software continues to be placed in the public domain. All of these reforms will help state governments focus on delivering services to their constituencies in a more effective and efficient manner without sacrificing accountability while reducing costs to both federal and state programs.

Point One: Review of Information Technology Expenditures Associated with Federal Programs Should Become Part of the Review of the Program Itself Rather Than Through a Separate Review Process

Currently all states' program plans are reviewed by a federal agency prior to the receipt of federal dollars. That process applies whether the funding is for Medicaid, transportation, or child support enforcement. All of those programs undergo appropriate and rigorous scrutiny. Unfortunately, however, in addition to that scrutiny information technology expenditures associated with those programs sometimes have to go through a completely separate and additional review process. The Advance Planning Document (APD) process requirements applied by the Departments of Health and Human Services

and Agriculture force states to submit detailed plans, all related procurements, systems approaches, and IT expenditures for approval prior to each procurement or project initiation. Of all federal grant processes, this APD process is the most cumbersome, expensive and provides the least value to the federal oversight process and to the states.

The APD process had great value when it was developed around thirty years ago. It was developed around the time of the initial implementation of information systems to determine eligibility for Medicaid, Food Stamps and the general welfare program then known as AFDC. With the roll-out of eligibility determination responsibilities to states, there was great fear among federal authorities of whether states would be able to handle large systems deployments and procurements. At that time states were not using systems to any great extent, and the only real public sector success with large scale information systems had been with federal programs such as Social Security & Medicare. As a result, it made sense to impose specialized reviews to take advantage of the much greater expertise and experience at the federal level to assist states and to provide assurance of state capabilities to expend funds in a responsible manner when procuring or planning information systems.

Today, however, states are the largest consumers of IT resources in this country, larger than the financial services, retail and manufacturing industries, larger even than the federal government. States understand their environments, associated risks, and all have established procurement rules that are consistent with those imposed on federal agencies by the General Services Administration. In addition the people at the Department of Health and Human Services (HHS) charged with responsibilities for review of state plans and procurements are no longer the same individuals responsible for the development, procurement or operation of their own federal agency's information systems, and in fact, in most cases reviewers have no significant IT experience, training or knowledge, their expertise and responsibility is only in the approval process associated with the APDs themselves. The APD process simply does not provide the value it once did. In fact, it is a deterrent to the application of procurement and systems best practices such as modular and iterative systems development and smaller iterative risk reducing procurements. In addition, the APD process now represents an extra burdensome bureaucratic step that adds unnecessary delays, costs, and hinders innovative and industry standard approaches to complex system deployments.

Congress has tried to address this problem in the past. To avoid the protracted decision making process associated with APD approvals, Congress acted to limit the time a federal agency can ponder their decisions to 60 days. As a result, however, within 60 days a state can often be assured of at best "conditional approval." The conditional approval, of course, is of little value since the reviewers can later determine that it in fact wasn't approved. Further, because approval is required at the planning stage, approval of the procurement stage, and at contract award stage, the 60 days' limit for each of those stages provides no relief at all to the time penalty on state's projects, with cumulative timeframes for federal approval extending from six months to a year on even modest sized systems efforts. In today's world, these interim approvals take longer than what a whole project should take and add considerably to the risk profile of a project. In fact,

the APD system creates a perverse disincentive to breaking down monstrous, expensive, high risk projects into smaller more manageable iterative projects by creating large gaps between phases where federal approval must be re-obtained. As a result, the risk is increased, delays for approval are inevitable, and it is not at all clear that the process adds value to either the state or the federal government. Instead it simply adds delays and cost to the project.

As an alternative to the APD process itself, and as a more effective method to review and approve IT approaches to program implementation, approvals should be part of the annual program plan approval process generally. There should be nothing special about information technology expenditures when compared to other program initiatives designed to improve program performance. Those IT expenditures should be considered another tool, no different than organizational, policy and process change initiatives. Having an integrated review process will foster a comprehensive understanding of state change initiatives by reviewing the entire plan in context. With that approach rather than a separate review process for IT, federal agencies can focus on programmatic deliverable requirements rather than bureaucratic process requirements. States would be allowed more flexibility in approach and solution while appropriately still being required to fall within standard acceptable federal practices. This alternative approach would save states millions of dollars and provide a much more innovative and understandable approach to federal IT program oversight.

This proposed approach reflects the wisdom that Congress applied when passing the original welfare reform legislation. That legislation created block grants, allowing states to apply their TANF funds to IT projects without the historical APD review for those general welfare programs. Since that time there have been no major systems failures or federal censures, procurement scandals or failed audits related to TANF IT expenditures. In that same period of time there have been many such problems with the systems that have remained under the APD process.

I am asking that this committee consider legislation that requires that federal granting authorities and agencies limit their review of IT projects to the same level and type of review applied to other grants in the same program areas.

Point Two: Restrictions on cross program uses of federal funds when IT program systems share integrated networks and architectures should be eliminated.

The federal government prohibits the use of federal funds originally appropriated to support a specific program from being used to benefit any program area other than that specified program, and the states understand the importance of that principle. There should not be the opportunity for states, or for that matter federal agencies, to redirect appropriated funds for any purpose other than the designated congressional authorization.

In the information technology arena, however, modern architecture and common networks and computing infrastructures make practical implementation of the principle

problematic. There are many circumstances in which it is in the mutual interest of the federal and state governments to encourage exploitation of common networks and architectures to promote both reduced costs and information sharing. The common network or shared systems support multiple programs, and therefore, when funds appropriated for a specific program are used to finance portions of an integrated architecture, some of the benefit of that integrated architecture inure to the benefit of other programs. This is true despite the fact that if a separate "dis-integrated" architecture, network or computing environment were to be constructed solely to support the single intended program, the cost to that program, and therefore the size of the federal grant, will usually far exceed the proportional cost of participating in a shared environment. When funds from multiple federal grants are leveraged together to build a common infrastructure there is inherent confusion amongst federal oversight authorities in determining whether the intent of Congress is being followed with all due integrity, and out of an abundance of caution they create circumstances that inhibit this sort of effort. This despite the cost savings and potential for increased operational productivity would be to the benefit of the original specified program.

Computer systems were developed quite differently even fifteen years ago. At that time, large mainframe based applications would be developed, accessible by dedicated terminals that would only be able to access the application operating on the attached mainframe. Today, of course, with modern architecture and tools such as the internet, it is possible for intelligent terminals such as personal computers equipped with browsers to communicate across sophisticated networks with many mainframe or server based applications. Frequently that interoperable communication is beneficial. With the ongoing discussions of a federal Department of Homeland Security, for example, there is an acknowledgment that many different information systems supporting law enforcement, intelligence, infrastructure assurance, health and other critical functions of government should be able to connect across shared networks to serve the business objective of creating a more secure nation. One of the principle functions of the proposed new homeland security agency will be to promote that sort of information sharing. Similarly, the field of health and human services is better supported when there can be integration between Medicaid, welfare, child protective services, juvenile justice programs and juvenile and family courts and others to meet the need of our nations most needy citizens and families. Most importantly states cannot afford to maintain redundant and overly complex and desperate network and technical architectures in order to conform to the arbitrary distinctions implied by "stovepipe" funding sources. The federal government suffers financially when each program must fund 100% of a dedicated architecture rather than a proportional share of a shared architecture.

There are tremendous inefficiencies with implied and express prohibitions on common networks or incidental benefit from dedicated funds to other public programs. With homeland defense grants to states, for example, public health agencies recently received funds to build a network connecting local public health offices with new statewide networks. Public health should not have to establish its own separate network, but rather existing state networks should be expanded to fit the new required capacity of public health. That is more cost effective for the federal granting authorities and states and more

efficient without sacrificing the quality or integrity of the supported programs. The funding to increase the capacity of statewide networks to provide connectivity to public health offices may incidentally provide increased capacity to the state network generally, but with no additional cost to public health programs. I do not believe it is ever the intent of Congress to assure that no benefit accrues to other programs in this manner.

The requirement of completely separate funding streams at all costs does not take into account the networking opportunities and efficiencies of which states could take advantage, and often causes states to avoid opportunities for cost savings. The incidental benefit to other programs that may be gained by working on common architecture approaches with federal dollars should not be discouraged, and in fact should be strongly encouraged.

Having said that, however, it is equally clear that an appropriate method for assuring fiscal accountability in such an environment is needed. It will be a difficult process to establish one. While current, tried and true cost allocation methods may still work for such expenditures as personnel, office space and supplies whose actual time and use can be predicted and measured with great precision, we know that information traveling in electronic pulses is not the same measurable commodity. NASCIO, the professional association of my fellow state IT leaders, has proposed an approach where a "cost per service" approach or "CPU based costing" may make far greater sense than the current complex and outdated cost allocation process. There needs to be a unit based allocation process that assures that both federal and state auditors can assure that no misappropriation of funds has taken place, while promoting the very real technical benefits of shared services, networks and architectures. I propose that Congress direct the General Accounting Office and the Office of Management and Budget to work with NASCIO, the National Association of State Auditors and the National Governors Association to develop new rules and clear guidelines to federal granting agencies for the promotion of shared architecture and appropriate accountability.

Point Three: Restrictions against the use of federal funds to purchase proprietary applications and systems development should be eliminated.

This proposal is to roll back an unfortunate but well meaning effort by some bureaucrats in the department of Health and Human Services, and occasionally in other federal agencies, to manipulate the free market for information system applications through a single hastily developed rule, which has taken root in the federal grant system. That rule prohibits states from procuring any license to operate a software program product to manage a state function which is supported by federal dollars, if the intellectual property imbedded in that software program product is owned by a commercial entity. The original purpose for imposing this rule was based on the seemingly sound principle that the federal government should not need to compensate a single vendor multiple times for the acquisition of the same piece of software by multiple states. Unfortunately the rule has created some perverse incentives that have increased project risks to states substantially and increased costs to the federal granting authorities by many times over

what they would be if this rule did not exist and the market was able to operate more freely.

To understand this problem one must examine the dynamics of the public sector IT application market in the context of the overall technology marketplace. Let's use as an example the child welfare program area. Several years ago, the federal government agreed to reimburse states' for the costs associated with the development and deployment of systems to support case management of programs such as child protective services, foster care and adoption through an effort known as SACWIS. There are fifty some states and territories eligible to receive these SACWIS grants to utilize information systems to deliver these child welfare programs. When this funding became available it was evident that there were many similarities between each state's child welfare programs, and therefore it was fair to assume that there would be similarities in their requirements for systems to support those programs. In order to gain benefit and reduce costs, HHS has prohibited the states from acquiring packaged or proprietary Child Welfare systems from commercial software vendors, under the assumption that states would share the systems developed by the earliest state implementers as a more cost-effective vehicle for the states and for the federal government.

Unfortunately, however, in reality information systems developed for a single purpose (like an individual state's use) do not "transfer" for other uses (like by another state) easily. Of necessity, the early SACWIS adopters' information systems have contracted with systems development and integration companies for custom developed SACWIS solutions, developed from scratch. Although the resulting software would be in the public domain, very little of it would be useable by another state. Software developed for commercial purposes is developed very differently from custom developed software designed to meet the explicit needs of an individual user. Those early adopter states developed the systems without regard for the design requirements that allow sufficient flexibility in terms of not only functionality, but also of technical issues that would enable the transfer of the system to a second user. The cost of developing reusable software systems traditionally is 15 – 25% greater in terms of both dollars and time than software that is developed with the intent of a single deployment to the entity for which it was developed. Since no state had any incentive to pay those costs, or to survey the rest of the market for systems requirements that may have been different than their own, what has resulted is that each state has had to pay for a custom developed SACWIS system at an average cost of nearly $75 million. Multiply that by 50, and recognize that the federal government has provided reimbursement to the states at an average rate of nearly 60% and the whole national effort costs HHS and the federal taxpayer $2.25 Billion. If instead a commercial vendor would have spent 25% more than the original $75 million to build a system (absorbing the cost to make the system reusable, and of commercial quality) and then sold it to the 50 states for $10 million each they would have made a substantial profit and the total cost to the federal government for SACWIS would have been only $500 million, saving the federal granting authority over 75% or more than $1.75 billion dollars that could have been better spent on the children in those programs. The states share was also similarly wasted. In fact, a scenario in which 2 or 3 vendors each developed a SACWIS solution would have provided for price competition that might

have the dropped the costs to states and the federal government even further, with each of the vendors still potentially making a substantial profit.

SACWIS is only one example where if the rule against proprietary software were overturned there would be market conditions created that would promote commercial vendors providing reusable solutions to the financial benefit of the states and the federal funding authorities. Not only would there be substantial financial benefit as demonstrated, but the risk of systems failures, which have been rampant in SACWIS and other federal systems enduring the pressure of this rule, would be reduced, with states able to license solutions that have demonstrated their effectiveness in other states' implementations.

Over the last decade or so a new marketplace has developed in which commercial applications have been developed and entire industries benefit, in fact the entire US economy has benefited. Software companies such as Peoplesoft, SAP, BANN and Oracle, for example, have changed the industry with human resources, procurement and financial systems packages known as enterprise resource planning applications (ERP). Companies that used to build custom systems now purchase those systems creating tremendous benefit to our whole economy, with greater productivity and reduced costs in attaining it. It is about time that the public sector also enjoyed the benefit, like the commercial sector has, of commercial-off-the-shelf (COTS) applications.
To get there, I propose the removal of all bans on the acquisition of commercial and proprietary software program products when federal grants are involved.

Thank you for giving me the opportunity to make these points. It should be noted that most of the positions taken here have been expressed by my colleagues in the American Public Health and Human Services Association as well as by state IT and program executives in forums hosted by GSA, The Rockefeller Institute and others. I hope that you are able to act on these suggestions soon.

Mr. TOM DAVIS OF VIRGINIA. Mr. Stauffer.

STATEMENT OF ROBERT STAUFFER, HEALTH AND HUMAN SERVICE BUSINESS DEVELOPMENT MANAGER, DELOITTE CONSULTING

Mr. STAUFFER. Good morning, Mr. Chairman and members of the subcommittee. I am honored to have a few minutes to speak with you today on the topic that is very important to Deloitte Consulting, our State government clients, and ultimately the millions of the citizens those clients serve.

Allow me to begin by saying I was involved in establishing the original Federal approval requirements for information technology grants management in the late 1970's and believe that after more than two decades, it is time to reform the process. It is a process that has not kept pace with the changing technology needs of the States and in some instances has hindered innovation, integration and competition.

In the interest of time, I plan to focus on the issue of cost allocation and will provide some suggestions of Federal Government action related. Cost allocation. Over the past two decades, the combination of different Federal funding streams along with the fact that some programs are entitlements and others are block grants have influenced the development of very complex cost allocation process formulas. Today HHS program integration is a focus around the country. However, the existing cost allocation process is a barrier to that integration initiative in almost every State.

State HHS integration efforts, which vary from State to State based on what programs are included, are critical to improving HHS program delivery throughout our Nation. Our recommendation is that the Federal Government develop a simplified cost allocation process which reduces the number of formulas. This simplification will encourage HHS program integration and hopefully accelerate the funding process.

Steps for the Federal Government. We would recommend that the Federal Government reform the approval process, and also recognize that is the required legislation in many areas; redefine their role to focus on technical assistance and to develop performance measures. We also suggest that HHS IT project standards be established, and if a project meets those standards, that approval is not required. Those standards should address project management qualification for both the contractor and State project management. Neither the project manager for the State nor the contractor should be making their debut on a high-risk, high-cost project.

No. 2, require that the business side and the IT side of the project be partners and sponsors. We believe there is a direct correlation between project success with active participation on both sides.

Three, realistic procurement dates to maximize competition.

Four, realistic project milestone deliverables and completion dates.

Five, communication guidelines to maximize competition.

Six, risk management that includes active terms and conditions to protect the State and maximize competition. Onerous terms and

conditions such as unlimited liability, increase project costs and frequently force quality contractors from bidding.

Next, procurement guidelines to outline when a planning contractor can bid on the development project.

And finally, project outcome performance measures with the high—with a focus on high-risk and high-cost projects.

We believe that any exceptions to the above, such as State procurement practice, etc., would require Federal approval. With these items clearly addressed within a new set of Federal standards, States will gain the consistency needed, and competition will be encouraged. This cannot help but improve the process that has outlived its time.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much.

[The prepared statement of Mr. Stauffer follows:]

Deloitte Consulting

U.S. House of Representatives
Committee on Government Reform
Subcommittee on Technology and Procurement Policy

Oversight Hearing on State and Local Information Technology Grant Management
Tuesday, July 9, 2002
10 a.m.

Testimony of Robert G. Stauffer
Health and Human Service Business Development Manager
Deloitte Consulting

Biography

(1) 28 years with the Federal Government and 10 years with the private sector
(2) 16 of the 28 years with the Federal Government were with the Department of Health & Human Services (DHHS)
(3) Eight of the 16 years were spent in the Philadelphia Regional office and eight in the Central office in Washington, DC
(4) Private sector experience has been split between Electronic Data Systems (EDS) (seven years and three months) and Deloitte Consulting (two years and nine months)
(5) 26 years of involvement in the planning, design, development and implementation of Health & Human Services (HHS) systems
(6) HHS programs/systems experience includes TANF (AFDC), Medicaid and Food Stamp Eligibility Determination Systems, Medicaid Management Information Systems, Child Support Enforcement Systems and Child Welfare Systems
(7) Has chaired the Information Technology Association of America (ITAA) Human Services Information Technology Advisory Group for nearly 10 years

Introduction

Good afternoon Mr. Chairman and members of the subcommittee. I am honored to have a few minutes to speak with you today on a topic that is very important to Deloitte Consulting, our state government clients and, ultimately, the millions of citizens those clients serve.

Allow me to begin by saying that I was involved in establishing the original Federal approval requirements for information technology grant management in the late 1970's, and I believe that, after more than two decades, it is time to reform the process. It is a process that has not kept pace with changing technology needs of the states and, in some instances, has hindered innovation, integration and competition.

In the interest of time, I plan to focus on the issue of Cost Allocation and will provide some suggestions for Federal government action related to this matter.

Outline of Testimony

(1) **Statutory and Regulatory Framework:** My comments on this issue will be included in my discussion of the Advance Planning Document process.

(2) **Cost Allocation:** Over the past two decades, the combination of different Federal funding streams, along with the fact that some programs are entitlements and others are block grants, has influenced the development of a very complex cost allocation process/formula. Today, HHS program integration is a focus around the country.

However, the existing cost allocation process is a barrier to that integration initiative in almost every state. State HHS integration efforts, which vary from state to state based on

what programs are included, are critical to improving HHS program delivery throughout our nation.

Our recommendation is that the Federal Government develop a simplified cost allocation process, which reduces the number of formulas. This simplification will encourage HHS program integration and, hopefully, accelerate the funding process.

(3) **Advance Planning Process:** In the past, we believe the Advance Planning Document (APD) process has HELPED states by providing a realistic checklist for HHS information technology projects, especially in the area of maximizing competition. For example, APDs require that states consider the following:

a. Does the state have adequate internal support at the highest appropriate level on both the business and technology side of the project?
b. Are the state's procurement and project timelines realistic?
c. Is the state's budget realistic?
d. Does the state's risk management approach, especially in the area of terms and conditions, provide a balance between protecting the state and maximizing competition with quality bids?
e. Is a change leadership plan in place?

However, today states are HINDERED by inconsistencies in the APD approval processes caused in part by the varying lines of authority among the major HHS funding agencies, including DHHS/ACF, DHHS/CMS and USDA/FNS. Additionally, there are limited Federal staff assigned to the review and approve APDs, which exacerbates the problem even further.

Last but not least, the APD process is basically the same as it was 20 years ago and has not kept up with the reality that information technology is a critical tool for states to manage their HHS programs. For example, requiring prior approval for additional PCs in today's HHS state business environment is outdated.

Our recommendation for this issue is included under Issue 6.

(4) Effectiveness of Federal Government Response: We are not in a position to comment directly, but recommend that the process be streamlined and reformed with an emphasis on consistency.

(5) **Proprietary Systems:** Based on my experience, the use of proprietary systems has been prohibited to keep the software in the public domain. This helps facilitate information sharing, including the sharing of application software. It also can impact future competition where a proprietary system, language, etc. can limit competition. An unintended consequence has been limiting market entry of companies insisting on keeping their solution proprietary. Therefore any innovative business models they could provide to the HHS industry are limited at best.

Our recommendation is that it is time to take a look at this policy to determine if and how it should be reformed. Since there are valid concerns on both sides of the issue it is difficult to provide a specific recommendation. However, any reform should address how to use proprietary solutions more effectively.

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(6) **Steps for the Federal Government:** We recommend that the Federal Government reform the approval process (which will require legislation in many areas), redefine their role to focus on technical assistance and to develop performance measures. We also

suggest that HHS IT project standards be established, and if a project meets those standards, that approval is not required These standards should address:

a. Project management qualifications of both the contractor and state project management. Neither the project manager for the state nor the contractor should be making his/her debut on a high-risk, high-cost project.
b. Require that the business side and the IT side of the project be partners/sponsors. We believe there is a direct correlation between project success and active support from the contractor and the state.
c. Realistic procurement dates to maximize competition
d. Realistic project milestones, deliverables and competition dates
e. Communication guidelines to help maximize competition
f. Risk management that includes adequate terms and conditions to protect the state and maximize competition. Onoius terms and condition, such as unlimited liability, increase project costs and frequently force quality contractors from bidding.
g. Procurement guidelines to outline when a planning contractor can bid on the development project.
h. Project outcome/performance measures with a focus on high risk and high cost projects.

We believe that any exceptions to the above, such as state procurement practice, etc., would require Federal approval. With these items clearly addressed within a new set of Federal standards, states will gain the consistency needed and competition will be encouraged. This can't help but improve a process that has outlived its time.

I'd be happy to entertain any questions if time permits. I would also be pleased to provide the Subcommittee with additional commentary in the future if deemed appropriate.

Thank you for your time.

Robert G Stauffer
Business Development Manager
Health & Human Services
Deloitte Consulting
(412) 402-5134
bstauffer@dc.com

Mr. TOM DAVIS OF VIRGINIA. It looks to me that the key question is, from a philosophical point of view, that government wants to have its oversight and make sure this money is spent correctly and efficiently. And on the other hand, in overseeing that, we seem to have about a 20 percent loss in efficiency so as Ms. Valicenti said what's the tradeoff here? How much, if you didn't have the same kind of oversight, could you gain in efficiency, and how do you maximize this for the taxpayer? And that is the crux that we will try to get at a little bit today with some of the questions.

Let me start questioning with my fellow subcommittee chairman on the government committee, Steve Horn from California. Mr. Horn. Thank you.

Mr. HORN. Thank you, Mr. Chairman.

I was very interested, Mr. Stauffer, in your fine series of things to look at. What specific steps can you recommend to rationalize increased efficiency of the Federal moneys for information technology grants? I just want to go down the line, see if anything's missing.

Mr. STAUFFER. I mean, that was a list that I developed. I'm sure it's probably incomplete, and it probably needs to be worked. But I think there's a number of things the Federal Government really adds to the process from a private sector standpoint, especially about competition. There's a number of procurements that you can look at in the States that you'll get four, five, six bids, and then you will see a number that you'll get maybe one bid. So there's got to be a whole look at that type of effort to ensure that there's consistency around the country from a private sector standpoint.

Mr. HORN. Mr.—I can't see it through the thing there.

Mr. SINGER. Singer.

Mr. HORN. Yeah. Mr. Singer, you've had a lot of experience, and what do you feel on that question, rationalizing and increasing efficiency of Federal moneys for information grants?

Mr. SINGER. One of the issues that I think Clinger-Cohen addresses is a focus on outcomes is generally the best way of getting the best efficiency for the expenditures of Federal dollars. We're focusing on the wrong end of the process. I think, as Mr. Stauffer suggested, if there were some specific guidelines up front that people were required to follow, instead of the approval process, but if there were specific outcomes established by Federal granting agencies, that program outcomes, not technology outcomes, that are expected to be achieved with the expenditure of the IT funds and an annual review of whether those outcomes are being achieved, and if they're not, then a more restrictive process of granting to the States or an elimination of those Federal grants might be appropriate.

Unfortunately, when you focus on the IT expenditures themselves, separate from the program outcomes, you focus on the tool rather than the end product.

Mr. HORN. Ms. Valicenti, anything to add to that?

Ms. VALICENTI. Congressman, I would like to echo maybe a couple of the things. One of them is really that the more we can do to integrate information technology into the entire business plan, the better. And that, my background being primarily in the private sector, the more you can do, that the more successful you are at the outcome. And the States that are doing that—and by the way,

the States have begun to do that. In the Commonwealth now, we actually do not have a separate IT plan. There is an IT plan, though, that is associated with the business plan for each of the agencies, because that in itself drives the oversight in focus on the outcomes, as Mr. Singer said.

Mr. HORN. Mr. Salazar.

Mr. SALAZAR. Mr. Chairman and Congressman Horn, it would be difficult to disagree with the statements made, and so I would echo, and simply I think it is best said by Steven Covey, start with the end in mind. And clearly we have an opportunity here to partner with our States to craft perhaps performance standards that would define the outcomes that we want to focus on as opposed to on the process.

Mr. HORN. Mr. Friedman, want to add anything to that?

Mr. FRIEDMAN. I think just with regard to the interoperability issue, I think one of the reasons why we haven't been terribly successful so far is the lack of national standards. We're seeing with HIPAA, the Health Insurance Portability and Accountability Act, the opportunity to define standards which cut across the data silos that we all live in. And so I think one of the critical things is in addition to looking at the outcomes, make sure that there is national standards that facilitate going across the different programs.

Mr. HORN. Ms. Heller, Dr. Heller, anything to add?

Ms. HELLER. Thank you.

I agree with so much of what's been said that I—there's no need to rattle off a list of all that I agree with. I do think it important, however, to characterize where we are right now.

I don't think we're in a situation where the States are badgering a reluctant administration to come into the 21st century. To the contrary, I think that the characterization that was made earlier be the work group sort of being stymied for a while has more to do with the transition. That is what happens at the end of an administration. People wait and hold their new ideas to try to pitch them to the next crew, and I think that what you have now is an eager crew of seven people like myself who have 22 years of State and county IT development experience. Having been on the other side, I think you're going to see some increased cooperation and partnership and progress made. It's not that we have to be sort of kicked into action.

Mr. HORN. Mr. McClure, GAO always has something else to add. What are they?

Mr. MCCLURE. Well, Mr. Horn, if you look at Mr. Stauffer's list, it resembles GAO's recommended practices for IT management, so I think the list is a good one. If you compare that list to the requirements of an APD, you're going to see some match, and you're going to see some mismatch.

Referring to Aldona's statement, form over substance, I think if you look at the APD process and its requirements, it does expect business-case-type needs to be presented. It does expect program needs to be built in. So these things are not absent from the existing process.

I think what we have to look at is what are the problems caused by the process versus the implementation of the process, and I

think we're finding that there's issues in both areas, but it's not all one or the other.

Mr. HORN. The next part of this question, people will say, my gosh, we're not going to go back to that. When you've got a series of small States that could benefit from a certain amount of working together, is there any thought here that the smaller States would have a compact where they could either have a center or whatever it is? And, of course, with Governors everybody's parochial, but it could be that it might be a way to solve some of these problems. What do you think about that?

Mr. MCCLURE. I agree, there's nothing specifically that precludes that from happening now. I think what you're seeing is that the governance process for funding and approval is not totally in sync with that kind of mode of operation. It's exactly the challenge that is being confronted by the Federal Government in moving toward electronic service delivery. Our funding and approval processing are all mostly geared toward individual programs and agencies. So the request for money, when it cuts across these boundaries, is problematic for the existing process.

Mr. HORN. Mr. Friedman, you want to add something to that?

Mr. FRIEDMAN. Yeah. We have several examples actually where small States are working together in the New England area, for example. Let's see now. New Hampshire, Maine and Massachusetts are working on a collective pharmacy system. The State of Hawaii is working closely with Arizona in terms of a collaborative center in terms of Medicaid and eligibility.

So I don't, frankly, believe that the APD process is an obstacle to collaboration. I think there are other problems associated with trying to make sure that everybody's in sync, but I wouldn't lay that at the doorstep of the APD process.

Mr. HORN. I've found in my own university experience when I always would get out there and say, hey, let's do this, and I found that over time the beginning of the alphabet in Latin is no longer any better. And I'd rather be the zebra at the end of the line and take some of the shots, but hopefully that we would have common sense when it relates to large things to do. And that's what—what's your advice for any eager beaver that wants to get something done and just wonder how you see these, because some people really know how to get this done, and others don't? And are they going to have different committees that would work that and get it from the national organizations and the agencies, so forth?

So is there anything in terms of which ought to be added besides just the paper? Yes.

Mr. SINGER. Congressman.

Mr. HORN. Mr. Singer.

Mr. SINGER. In the last several years, the way systems are built has changed pretty radically. Instead of what we have always done, which are very large, complex, tightly integrated, hierarchical systems, which take a long time to build and a lot of money and you plan them all at once and then you do it continuously without stopping, we are now able, with the Internet and with Web services and with object development, Java and Dot.Net, we are able to build systems in components and little pieces. And while it may be difficult for a compact of States, whether large or small, to agree

on all of the issues on a total system, we find that especially as it relates to Federal rules that are common that we all follow around HIPPA and other activities, there are pieces of our systems that we are willing to concede are identical from place to place, and it's possible to reuse pieces of software and services.

A lot of our colleagues in the systems integration business, like Deloitte & Touche, oftentimes bring reusable code with them when they go from one engagement to another engagement.

I will disagree a little bit with my colleague about the APD process. Because the APD process is so strenuous and that you have to project cost allocation over the life of the whole project, it discourages taking projects in incremental pieces, defining them as separate projects, because each time you have to go through the APD process again.

So I think perhaps your point of us working together is very much a goal not only of NASCIO but of the vertical associations in Health and Human Services and Transportation and others. But there is a lot more collaboration in transportation and law enforcement and other areas where the Federal agencies work as facilitators of these common programs rather than as reviewers.

Mr. HORN. Do you believe that the Federal funding and procurement regulations encourage—and this is a term I just detest, and that's "stovepiping." I once spent 15 minutes to get 15 members of the Civil Service to tell me what is their definition, and it was as sad as when we started. And, anyhow, let's talk about the work against the transformation of government's processes needed to make IT investments successful.

Ms. VALICENTI. I would like to offer one more perspective, and that is that we often talk about a common infrastructure. And let me offer an analogy. We expect electricity to be there when we turn on the light switch. And that's the way it operates when we try to turn on a program. We expect the infrastructure to be there, the computing devices, the networks, the ability to plug in.

And it is very difficult to build an infrastructure in programmatic thin slices or even robust slices. The infrastructure needs to be built in such a way so that programs, when delivered, can plug into that infrastructure. We tend not to build it every single time. When we move into an apartment or a house, we expect electricity to be there. And, frankly, when we add a new program, we expect the infrastructure to be there.

This process, as we are practicing it today, makes it virtually very, very difficult to build an infrastructure which is robust for programs to plug into.

Mr. HORN. I think my time is up.

Mr. TOM DAVIS OF VIRGINIA. It is, Mr. Chairman. Thank you very much. Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman.

I thoroughly enjoyed hearing what you all said today, and I guess I'm having a rough time knowing where to start; but I think I'm going to start with Ms. Valicenti.

You said something about integrating three different systems, I don't know how you'd do that—with a lot of difficulty—and achieve the commonality you want. Have you been able to do that in Kentucky? And have the folks in Kentucky talked to Mr. Singer down

south in Georgia, and have either of you talked to people like Mr. Salazar out in New Mexico? Because I think what Mr. Horn is talking about, getting the States—you know, we don't operate totally within our States, we operate across borders. And if we can share with one another and everybody is interoperable, the costs are going to be less, the 20 percent won't be there. How have you been able to achieve that? Or——

Ms. VALICENTI. Well, first of all, the States all do talk to each other almost continuously.

Mr. SCHROCK. Great.

Ms. VALICENTI. We share best practices. It may not sometimes be in a very formal way, but very much in an informal way, many times. When I gave the previous analogy about a common infrastructure, that has probably been one of the first things that we have done. We have leveraged each others' experiences, whether they are a procurement document which we freely distribute among our fellow States, or whether it be a certain practice that we actually engage in.

It has probably been a bit more difficult with specific systems because of the way the systems were developed in the past and deployed. They tended to be very specific to a singular State process. And so let me talk about process for a few minutes.

Because of the way that States have evolved, their business model practice has always been incorporated into the delivery of system. Not only, for instance, how do I pay a check; because, frankly, whether you pay a check in the public sector or the private sector is pretty much the same. I think what we have done at the State level is embellished that with years of tradition, and many times that has crept into the way that systems have been developed. But I think when we take a process approach, which is sort of strip away the practices and look at what are the key elements, you will find that there is probably much greater commonality among the States rather than differences.

I think what is evolving is the ability to deliver components of systems or commercially built systems that in fact would address those critical pieces, yet still allow for some configuration at the State level, which is important to each State. And I think that's where the industry is evolving.

And when you ask about Kentucky, we have delivered a common system for all agencies to do our accounting, our procurement, and our budgeting; that it was not only a huge technical undertaking, but a huge cultural change process where traditionally people have had 20 or 30 or 40 different systems. So, if you multiply that across the States, that is even a bigger challenge. But I think we are taking that challenge in small bites as we do the best practices.

So, when I talked about one stop or one screen, that is a practice that I think that States have adopted from the private sector, because we all want to be treated as customers. And I think that our citizens need to be treated as customers. And so asking them the same questions 9 times or 20 times over is probably not what we want to do from a customer service prospective.

But I think that there is a more serious issue here, and that is when we have asked those questions, we have in fact duplicated or

triplicated those systems, which have not had the same information and, in fact, hindered us, how it worked.

Mr. SCHROCK. I don't mean to keep picking on you. Mr. Stauffer talked about change. How do you get people engaged to change? You know, the attitude I've found—I'm a first termer, and every time you talk to somebody up here, "Why do you do it?" "Well, we've always done it that way." I get so sick of hearing that, I could scream, because that's not going to serve anybody.

How do you get people engaged in trying to get this stuff changed, so that you are operating at today's level and not 20 years ago, without having them stepping in the way and getting—causing problems?

Ms. VALICENTI. Well, sir, I think that process has started, and has started some years ago and, frankly, I believe will be continued. Because of the way that I think that States are operating, and we are hoping that the Federal Government will operate in a similar manner, is that we bring people into positions who have previous experience or multiple experience to provide—whether it's a private sector view or whether it's a public sector view or a State view, to better understand that many processes are not that different; that they are probably the same, and we've sort of got to figure out how to strip away all these trappings.

Second, I cannot find any substitution for leadership, and leadership is one of the things that all of us, the State CIOs, are expected to have. And, frankly, we take that from our Governors and we take that from the Federal Government. So leadership is required at multiple levels.

And I think that this—that the dialog that we are having here is a very good one, because it in fact brings together multiple levels of government to talk about the leadership issues.

Mr. SCHROCK. Mr. Chairman, I know my time is up. I would like to ask a couple quick questions of Mr. Salazar.

Mr. Salazar, you mentioned you didn't feel there was enough coordination between the Federal and the State levels. I agree. In your view, how could we correct that? That's one question. I have a second question after that.

Mr. SALAZAR. I think communication is always key. From my experience at the State level, I noted that we were always most successful in the APD approval process, cost allocation formula process, when we were most communicative with our Federal partners, when we reached out to the Federal agencies far in advance of the process and communicated with them on a regular basis and looped them in, so to speak. We discovered that as a State, when we took the approach that it was easier to ask for forgiveness than for permission, we ran into roadblocks and difficulties and then threw up our hands.

So communication is key, and there is always room for improvement. And that's true regardless of any issue one is dealing with, is that ongoing communication.

The sharing of best practices is also key in the process. We have experienced great successes at Food and Nutrition Service with the deployment and development of electronic benefit transfer systems, the E BT systems for the delivery of food stamp benefits; we have seen multistate acquisitions that have taught us valuable lessons

both in terms of the point that competition was stymied at times, that costs rose when States got together and attempted to purchase multistate acquisitions.

We have seen successes with the appointment of WICEBT systems. We currently have two multistate projects taking place. We have six New England States currently developing and doing E BT. Iowa and South Dakota are another model of two States who are jointly doing single system development.

So it is clearly possible. With those activities we learn lessons in terms of cost and competition.

Mr. SCHROCK. Mr. Chairman, just one very personal question.

I could not help but notice that wonderful water bottle you have got there. I have been looking for one like that. Where in the name of common sense did you get that? That is terrific.

Mr. SALAZAR. Mr. Chairman, Congressman Schrock, it was a gift, and I will get back to you for the record as to where it was purchased.

Mr. SCHROCK. Great. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Just note, it looks like it's under the $50 gift limit.

Mr. SCHROCK. It does. It's magnificent. I have been trying to find one. Thank you very much.

Mr. TOM DAVIS OF VIRGINIA. Mr. Ose, do you want to followup on that question, or are you going to pursue your own line here?

Mr. OSE. I have some questions having to do with that gift, Mr. Chairman.

Thank you, Mr. Chairman. I have a couple questions at the moment.

Ms. Valicenti, welcome to the committee. A couple questions. In Kentucky, the budget for IT services and programs is how much?

Ms. VALICENTI. We have a centralized budget of $60 million, and then there is an additional budget of about $200 million within the agencies.

Mr. OSE. And then on top of that, any Federal grants that might be added?

Ms. VALICENTI. Yes, there are specific grants, and I'm not sure that I can give you a number for that this minute.

Mr. OSE. Is the money—the money that comes from the Federal Government through these grants, it's very targeted?

Ms. VALICENTI. The money that comes from the grants is specifically targeted to programs or to certain initiatives.

Mr. OSE. So if the State of Kentucky had a certain initiative it wanted to do, it could apply for a grant; and then, if it received the grant, it could take those moneys and dedicate them to that initiative. And, if I understand the testimony, thereafter the operating costs would be 50/50.

Ms. VALICENTI. Yes, sir, if that is the structure of the grant. It depends on what the grant requirements are. In some cases, the grant may in fact require a match; others require a match in kind. So there's various grants.

Mr. OSE. So it varies all over the border?

Ms. VALICENTI. Yes, it does, sir. And it varies from agency—from department to department. Justice may have a different structure than HHS.

Mr. OSE. Now, I noticed in the testimony, particularly from Mr. McClure, that the grants are focused primarily in three areas—actually, two areas, the Department of Health and Human Services and the Department of Agriculture that you reported on within your testimony.

Mr. MCCLURE. That's correct.

Mr. OSE. And I noticed in your testimony a reference to California. I obviously have an interest there. And we have a curious situation exists in California relative to a certain IT issue having to do with acquiring licenses to use IT that we don't have employees to use.

My question is how does the Federal Government protect itself from the kind of folly that occurred in California? In other words, we don't want to write a check for $95 million and then have the Governor buy licenses to use software, the total number of which the licenses exceed the number of State employees by a ratio of 2 to 1. How do you protect against something like that?

Mr. MCCLURE. I think it's a good question that goes back to something that we should factor in, and that is how do the State processes work reviewing those kinds of issues compared to the Federal processes? And are they in sync so that they are not out of connection with one another?

Mr. OSE. It would seem to me that the money—whatever the money is, it's fairly fungible, in that—in the sense that the State could take its resources and move them in order to make room for a Federal grant. And this is where—I'm thinking holistically, much as you are, and I appreciate you mentioning this. So I would like to hear your answer at length.

Mr. MCCLURE. Well, I will continue to expand on it as much as I can. I think, again, you have to remember that State spending for I T—and we have State folks here—are also subject to review and regulations that are passed by the State. So that it's not just a question of how much latitude you have in the use of the Federal dollar, it's also what are the requirements for the use of the State portion of these—of the State portion of spending in these projects as well. And there can be differences because of differences in State law and Federal law, except where the entity is asking for funding from both at the same time, and they are laying out the argument where this money will be spent, for what specific purposes, and what will be allocated to the State share and what will be allocated to the Federal share.

But I think we have a lot of information on what's working and not working in the Federal review process, and it would be interesting to ask of the States what's working and not working among the State processes that could be best practiced, that we could emulate more of, so that when we resolve these issues, we are working from both ends. And I'm not sure that's adequately being done.

Mr. OSE. Ms. Valicenti, would that work?

Ms. VALICENTI. Sir, each State has procurement laws which in fact are—probably have more commonality than differences. And in many cases, the States have adopted some of the Federal procurement regulations, schedules, etc. If I may be so bold as to comment on the California case that you cited.

Mr. OSE. I would appreciate any insight to that you can give to that $95 million——

Ms. VALICENTI. I would say that maybe there is one where there was inadequate oversight about the requirements for the State. As you mentioned, a number of licenses. For instance, enterprise kind of agreements are done by the States all the time. We do them in our State. We do them with a great deal of foresight on trying to figure out what is going to be our future deployment of systems and where do we need such software and a schedule of when that software might be needed, so that when we do that kind of procurement, that we have some knowledge and foresight about the deployment.

The issue, it appears to me, in California was management oversight; then, maybe, inadequate looking at the numbers.

Mr. OSE. You can understand my concern.

I did pull from CRS, Mr. Chairman, a list of the IT grants for fiscal year 2001 that California received. The total exceeds $120 million within just two departments: one, the Department of Education; the other, the Department of Commerce. I just—I mean, this issue of oversight is—obviously, that's why we are all on this committee. But it's such a shame that California has squandered $95 million at this point, when we have established practices in other States where we could completely avoid this issue. I would hope that we would not go away from this as we go into the days ahead. And I know my time has expired.

Mr. TOM DAVIS OF VIRGINIA. Thank you. And I think that the California issues could be adequately aired over the coming months in California, from my reading on it.

Mr. OSE. I guarantee you.

Mr. TOM DAVIS OF VIRGINIA. Let me make a comment and then ask some questions.

First of all, IT is ubiquitous now in government. I met with a group of Burger King franchises, and I said, "Well, how's the burger business?" and they said, "Well, we are not in the burger business. We are an IT company. I mean, burgers is our product component, but—" and then they just walked through the way they get to it. And it's not that you are an IT firm or you are not an IT firm. Technology just permeates everything we do in business, and it's getting that way in government.

It's not quite the same in government yet, and that's why we have some of these inefficiencies and are still developing. And the fact of the matter is, when we make laws and go to conference and pass it, the State and local governments aren't at the table in the conference. Now, some of us who have served at State and local governments are there, and it occurred to us along the way how this could be implemented downstream.

But the fact is, many times that's the last priority when you are trying to get out of a conference and resolve difficult issues. And the result is a lot of rules and regulations that, frankly, when you move them downstream to the people we're asking to implement than at the State and local level, they don't work as efficiently as they might. And we tend to err on the side of oversight.

I've said before, and it's been said by others, that we spend literally billions of dollars making sure that public officials, politi-

cians, and people in the bureaucracy don't steal money, and we are fairly successful at that. But the result is that they can't do much of anything else either.

And what risks are you willing to take to allow people out there, who are trained to do things, to do their job without having to check and write reports for everything they do and allow them to be efficient?

And if, in fact, Ms. Valicenti, your number, 20 percent, is correct, that's too high a price to pay. I would rather allow people out there to make their own moves without the oversight than pay a 20 percent cost to oversee everything they do and trying to get at what that right balance is.

Now, obviously, we'd like to have oversight, we'd like to have accountability. We don't want to just throw money out the door to State and local governments without knowing where it's going, how it's being spent; if it is for its intended purpose? But if you are paying a 20 percent premium to oversee this, that's a lot of money. And no wonder people sometimes don't feel they are getting their money's worth for the taxes they pay if that's the kind of oversight they get. I just think we can do a better job, and I think that's what it's all about: finding the right balance.

So nobody is wrong here, but I think where it is a situation is when you have identified some glaring inefficiencies where it doesn't work. And I think we can start when we are writing legislation to do a better job up front so that in the future, as we write additional rules and promulgate additional regulations, we are not creating a burden downstream. As was said, you should start with the end in mind. We don't always do that when we are implementing these issues.

I guess I have a couple questions as we move through. Is there a way that somehow we could build more flexibility into this process without having to rewrite everything? Are there a couple simple lines we could put in somewhere that would allow people like Dr. Heller and Mr. Friedman to allow more flexibility in overseeing this so that they don't have to have two terminals at a desk where the State—or council of State governments, or a group of States could come to you and say, "Look, here is the way we like to do it; can you give us a waiver?" Where we could give a kind of blanket option for you all to do things in a very practical, commonsense way?

Ms. HELLER. Certainly. And I think it's already underway. I think we have to be careful not to set up straw men, as if the existing requirements are preventing anything good and novel from happening. Already the cost allocation methodology, for example, permits cost allocation based on caseload or function or development costs or data element counts or screen counts or any other methodology that a State can make a case for.

The majority of States already have integrated their eligibility systems for TANF, Medicaid, and food stamps. In four States—Florida, Nevada, Maryland, and Rhode Island—the child support program is already integrated. Georgia, North Carolina, New Jersey, New York, have under development enterprise-wide systems that include portals for accessing from multiple systems.

In other words, I don't think it helps the discussion to set up the straw man of having three computers on everyone's desk.

Now, on the other hand, is it difficult to get there? Are there a lot of processes that could be streamlined in terms of having to fill out reports multiple times? Sure, I think there's improvements that can be made. Some of what's been said on focusing on program outcomes instead of more ritualistic, procedural things ought to be a big help to make sure that kind of thing happens. I just think we ought to be careful not to oversimplify or set up a straw man. We can all nod approvingly at words like "more efficient review process" and "maximizing competition," but we have to realize that when you make a more efficient review process, you sometimes get less competition.

So we shouldn't oversimplify how these concepts hook together. I mean, the story we heard about California made us say, yes, oversight is a good thing. But we have all been talking about how to administratively get less oversight. I just think we have to be—the differences are subtle and they're complex, and it's a question of having the will to sweep the debris out of our way without sacrificing the concept.

In answer—the short answer to your question is, yes, of course there are things we can do to streamline this, short of rewriting everything.

Mr. TOM DAVIS OF VIRGINIA. Well, maybe there is some flexibility we can give you legislatively that right now you don't feel you have when State and local governments, maybe other Federal agencies, come to you at the end of the day. You would hopefully exercise it judicially, but we could end up with some reasonable outcomes. There needs to be a sniff test, a common sense test, for whether something is working or not. And I think there are enough stories out there that are well documented that don't pass the sniff test because of this.

It's nobody's fault. You don't think everything through when legislation is passed, and another set of laws are passed and another set of laws. And, Dr. Heller, you weren't here to write any of those laws; you were in Pennsylvania or doing something else when all of this was done. So I don't think you have to go overboard defending. We are just constantly improving.

Ms. HELLER. I think you are absolutely right about common sense. The basic idea of the planning and approval process is a feasibility analysis of the project, assurance that alternatives were looked at and cost/benefit analyses were done to make sure that this was the cheapest and best alternative, a project management plan, a schedule of budget. Those things are—any private sector as well as public sector IT project would be expected to have. Now, over the years, we got a lot of forms and we got a lot of dates and repetitive processes and——

Mr. TOM DAVIS OF VIRGINIA. Well, technology changes too. I mean, we have to constantly review it. Look, you know, you read about the history of Federal procurement. We go back and forth about too much oversight, and then it gets too burdensome, and then we swing back the other way and give it to the guy at the desk; and then we don't train the guy at the desk who's making the decision, and you get some mess-ups and so you go back.

It's hard to get the right balance, particularly in a time when technology continuously evolves, when our needs continuously evolve, and to try to get it right. And I think, appropriately, we continue to ask questions.

But if, in fact, what Ms. Valicenti has said, that it's about a 20 percent markup to oversee it, that's, I think, too high a price.

Ms. HELLER. I want to state for the record that I'm not necessarily accepting that as a fact.

Mr. TOM DAVIS OF VIRGINIA. I understand. But you haven't come up with any numbers. She has come up with it just through an informal survey of her people in Kentucky. So we will stick with it for now.

Ms. HELLER. Well, it turns out that they're a lot more sensitive about Federal people making up and inventing numbers than they are about State, in my own personal experience. But I think there is a genuine will, as I said, to clean the debris out of the way administratively, to whatever extent possible, to make this make more sense and to make it responsive to modern realities like off-the-shelf software and so forth.

Mr. TOM DAVIS OF VIRGINIA. Well, I headed a county government, Fairfax. It has the second-largest county budget in the country. In fact, not to brag, but during our tenure we were the second-best financially managed in the country, my last 2 years there as head of the government before I came to Congress.

Mr. OSE. Mr. Chairman, and I can tell you—would you yield?

Mr. TOM DAVIS OF VIRGINIA. Yeah. Well, I was on a roll, but that's OK.

Mr. OSE. The rest of us during that period of time in that county—who was in charge?

Mr. TOM DAVIS OF VIRGINIA. I was in charge.

Mr. OSE. That's what I thought. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Thank you very much. Did you hear that? I was in charge.

But the fact is, we had a lot of State burdens on us, a lot of Federal burdens on us, and we thought we could do a better job. We thought we were pretty hot shots. But the reality is, as IT becomes more interwoven into the fabric of everything we do, and intercommunicate between governments at all levels, we've just got to get better about it. And the culture has not been thinking about how we do that, it's just getting these rules and regulations out there so we can get services to the people. And I think we now are going to rely on people like you to get us to the next level. That's all I'm saying.

Ms. HELLER. I appreciate that. And, frankly, optimistic because there are people like us who share experiences. I mean, I've managed State IT projects and you've managed State—we're coming from—we're sitting in different seats, but we have had the same handful of formative experiences.

On the other hand, I look at a State right now that has a single bid on a project that's going to exceed $1 billion, and the vast majority of it is going to be paid for with Federal funds, and I'm frankly glad that I have the authority to ask for a cost/benefit analysis and insist that the State compare what they are going to build from scratch.

Mr. TOM DAVIS OF VIRGINIA. Sure.

Ms. HELLER. With what they can purchase that's already been built by another State.

Mr. TOM DAVIS OF VIRGINIA. Sure. And let's face it, some States do a great job. And Kentucky and Georgia are very good States, with Governors that put a lot into the governments, and some States are still the Wild West; some localities are still the Wild West when it comes to this. I'm not mentioning anybody by name. I don't think that's appropriate.

But I was also general counsel for a large contractor, $1 billion a year, and we worked with many State and local governments. And you'd go into procurements in some of these cities and counties, and you never knew what the rules were or how they did it. And a lot of it is just telling what the requirements are. Huge problems come around.

But what I'm asking all of you—and you don't need to answer this here today—is if you can come up with some specificy language enabling legislation that just gives you more flexibility at the Federal level to fix the problem right there, instead of saying, "Sorry, the regulation says I can't do it." I think that could be very, very helpful because, frankly, Dr. Heller, I would trust you to make that decision better than I would or the legislature. You are trained, you have an experience factor.

And there are some times you may not have the flexibility to get something past the sniff test. That's all I'm saying.

Ms. HELLER. I'd appreciate the invitation.

Mr. TOM DAVIS OF VIRGINIA. And if you can think of that, we would be very interested in hearing about it, and I know our State and local governments would be as well.

Mr. Schrock? He's chomping at the bit.

Mr. SCHROCK. Mr. Chairman, let me followup on the oversight thing for just a second. I agree with what Dr. Heller said. But let me ask Ms. Valicenti, the 20 percent you talked about—you will probably regret ever mentioning that 20 percent—but that 20 percent, was that because of the oversight and reporting procedures you were subjected to? And, if not, how much of that 20 percent was that?

Ms. VALICENTI. Sir, it was very formal, so I have no scientific basis for it. But it is—but it also—it is. It's the oversight, it's the process, and it's also the cost allocation, which, by the way, is fairly rigorous and onerous. I run the single largest computing environment in the Commonwealth of Kentucky, larger than any of the private sector. I allocate back to the agencies; the agencies reallocate. So, consequently, when you take all that allocation back, 20 percent may not be out of line.

Mr. SCHROCK. Thank you.

Mr. TOM DAVIS OF VIRGINIA. Anything else anyone wants to add down here? I had some other questions, but I think we have gotten—yes, David.

Mr. MCCLURE. Mr. Chairman, I think you hit it right on the target. I think there are a range of things that can be done, and we need to keep that in mind. It's not a single thing that you magically change and this process gets better. There are some simple things. As neutral observers of this process and doing this work,

there are some simple things that can be done to improve the efficiency by which it works. One of them is just the consistency in what is submitted by the States. If there could be an agreement on some standards that the States would adhere to and there would be a clarification with the Federal folks as to what would be submitted and what it should look like, that in many instances could resolve this back and forth——

Mr. TOM DAVIS OF VIRGINIA. That's a good point. I think the States are trying to get there. And, in fact, if they meet this criteria, they get rewarded for doing that. And I think they have tried to do that. I don't know if, Mr. Singer, you wanted to address that?

Mr. SINGER. One of the difficulties——

Mr. TOM DAVIS OF VIRGINIA. We are not 100 percent there by any means.

Mr. SINGER. But one of the difficulties with that is—I think part of what makes this country great is that each of the States becomes isles of innovation. The technical approaches that we are taking in Georgia, for example, of an integrated architecture, which, as much as I complain about the APD process, we got a lot of very good feedback from HHS in that. But I think they will agree it was fairly unique as to what they have seen at this point. And we are working very closely with our colleagues who are observing what we are doing to determine what they can learn from our actions. And I think the difficulty of requiring standardization is that you want to be careful not to suppress innovation.

The suggestion the chairman made of allowing flexibility by the folks at the Federal level I think is very important. That was a particular case where we asked for some flexibility for people to consider this architecture before the individual system, and the folks at HHS really did give that flexibility. They looked at the architecture separately from the application and then put the two together.

I guess the difficulty is that sometimes that's applied and sometimes that's not. And I think the reason we are talking about HHS right now is Department of Justice, for example, doesn't have a specific APD process that every program follows. But different programs have a different level of rigor, depending on the type of system and the type of funding. Because of legislation, HHS is required to use the same APD process regardless of the particular grant. And I think that's really the inhibitor, is they don't have the flexibility. You have to go through the same process; sometimes it makes sense, sometimes it doesn't.

Mr. MCCLURE. And I would agree, Mr. Chairman. And I didn't mean by standards, that a standard be applied to everyone. I think standardization in the information being submitted would be a great step forward, because there are tremendous inconsistencies in what is being submitted that really dictates a lot of the back and forth.

Mr. TOM DAVIS OF VIRGINIA. The difficulty there, of course, is that people keep the records different ways. And sometimes you ask for something that people don't keep, and that just needs to be worked through.

Mr. MCCLURE. Exactly.

Mr. TOM DAVIS OF VIRGINIA. Also, the State and local governments are the laboratories of democracy in which we learn more at the Federal level. That's where the innovation has taken place. It's not usually at the Federal level. It's taking place at these other areas. But I think that what we've suggested here can try to complement everything together. And I think as long as we have adaptive, innovative, intelligent people at the Federal Government that are not unwilling to bend over backward sometimes to make it work, to basically start with the end in mind in terms of the way they think, this could work very, very well.

It's when people at the Federal level are afraid to make any changes because if something goes wrong, they are to blame. I mean, a lot of times the rewards are perverse if something goes wrong. But if you do the same old, same old, nothing——

Mr. MCCLURE. I think it's important, Mr. Chairman——

Mr. TOM DAVIS OF VIRGINIA. It's a cultural issue.

Mr. MCCLURE [continuing]. To also recognize that the process does work well in some State/Federal relations.

Mr. TOM DAVIS OF VIRGINIA. Absolutely. Most of the time. Look, it does most of the time. I don't think anybody here is denying that. But, you know, there is a value added here to the taxpayer that is, I think, in the billions if we can just do this right.

Ms. HELLER. Thank you. I just wanted to echo Mr. Singer's point about the Federal agencies being responsive to what the State is doing anyway, rather than imposing a standardization. To the extent that we can, we have tried to move in the direction of accepting as our documentation, the documentation that already had to be produced under State rules.

Mr. TOM DAVIS OF VIRGINIA. All I'm saying is we may be able to put some catch-all language in here, either specific legislation as we rewrite it in the future, or across the board in some of these areas that gives you a little more flexibility; that maybe if we gave you a little more flexibility right now in working with the States, we could save some money for everybody. That's really what we are after here, because time is money.

Ms. HELLER. I'm new at this, and I don't know the etiquette. Is it permissible for me to ask my colleagues on the panel a quick question?

Mr. TOM DAVIS OF VIRGINIA. Well, we generally don't do that. Why don't you ask me a question, and then I'll ask it.

Ms. HELLER. All right, I will be happy to. One of the things that did not come up in any testimony that is a big thrust of our thinking right now about how we review projects has to do with data security and privacy safeguards, and we see that as an important responsibility we have. And it is of interest to me what these knowledgeable people have to say about the Federal rule in that.

Mr. TOM DAVIS OF VIRGINIA. Well, I wonder if anybody on the panel would like to address that issue.

Ms. HELLER. Thank you, sir.

Mr. SINGER. Well, I will be happy to start. I know Ms. Valicenti has spent a lot of time on this. It's probably the toughest nut to crack for the States right now. Like the Federal Government, especially if you are a southern State, we have sunshine laws that shine very brightly on all the information that we have. Our open

records laws are incredibly open, and we have a tremendous deal of—amount of difficulty dealing with the balance between security, interoperability, which is specifically to promote the sharing of information, and with open records. There the security models that have been developed for the private sector oftentimes don't apply terribly well in the public sector. So there is a tremendous amount of work.

We are working very closely, NASCIO with the Office of Management and Budget, to establish a security practice for State and local government like we have for the financial industry and others to allow the sharing of information, to allow sharing of best practices. But there is by no means a pat answer to how to solve this yet.

Ms. VALICENTI. Let me comment in two areas. First of all, I think that as you probably well know, 47 of the States are in serious financial need. In the one area that most States, including ours, has still continued to make investments in this, in the whole area of security, security of the infrastructure, and then security of individual systems. And.

So let me address these really as two separate issues, because security of the infrastructure is one that we deal with every day. That manages how we get to our e-mail, that manages how we get to offnet access and all of that. So there are physical practices there. There are also investments that are being made in software and in hardware to make that much more secure. And we are working with many of the Federal agencies and offices, including the Homeland Security Office.

I think in the area of systems—and I distinguish this more because I think this is the area where maybe some additional questions could be generated to make States aware that in systems deployment, security needs to be part of the planning process, not an after-thought, after you have deployed the system. And I think this is one area where we could all work together with the Federal agencies to help us to do that better.

I think the States recognize that now, but in many cases it may be the programmatic people or the business people that say, well, forget about it; think about that afterwards, because it is a more serious investment, in many cases an investment upfront that sometimes people are not willing to look at. So I think in that area, there would be a tremendous amount of help by doing that.

In general, the privacy issue is an issue of how information is disclosed and who has access to that and the amount of the citizens' control over their private information. The States today are making a tremendous amount of effort to understand how the data is disclosed, to understand how the data is sold, because in some cases the decisions have in fact been made at a very low level in a Cabinet or an agency.

So I'm not sure that there is a good answer yet about the privacy issue, but I think that this is one which is continuously imbalanced today. How do we make our environment more secure and at the same time still provide the citizens the privacy that they expect?

I do know, though, that there is one thing that is probably unequivocal, and that is the citizens will hold the States to a much

higher level about the privacy of their data than, frankly, any of the private sector.

Mr. TOM DAVIS OF VIRGINIA. All right.

Ms. HELLER. Thank you for your courtesy.

Mr. TOM DAVIS OF VIRGINIA. Thank you.

Do you want to add something, Mr. Salazar? And then I'm going to ask Mr. Stauffer for the last word, as our private consultant here has no ax to grind, so I'm going to——

Mr. SALAZAR. A very personal observation, Mr. Chairman. It was not long ago that I was notified by an Internet-based vendor that somebody had breached their system and obtained numerous credit card numbers from consumers, mine included. And the concern was that information had been released or obtained. Sure enough, somebody was attempting to purchase things with my credit card number; caused me to question who controls the flow and the security of this information.

In this knowledge-based, fast-paced, high-tech economy, we all want to do business at the speed of thought, not necessarily at the speed of government. But we are government, and we are held to a higher standard than those of the common consumer marketplace. And so I caution that we, at the risk of being cliche, not throw the baby out with the bath water, because the APD process by its very nature is designed to ensure those issues of security and integrity. Albeit labeled by some a necessary evil, it is necessary nonetheless. And there is clearly room for improvement, but let us recognize and be thankful that we maintain those securities of sorts.

Mr. TOM DAVIS OF VIRGINIA. Thank you.

Mr. Stauffer, I have one question for you. I'm wondering if you could try to give me your opinion on the issue of a State's inability to purchase proprietary systems with Federal dollars. Are there unintended consequences that arise because of that prohibition?

Mr. STAUFFER. I believe there are unintended consequences. I think, for example, history will—I guess, to back in time. I've been in this business a long time. Both at the Federal level and now in the private sector, there were initiatives around transferring technology from one State to another. And there was a sense that we had to keep the technology and software in the public domain so we could move it from one State to another. And there's, you know, those varying degrees of success in that whole effort. And, in fact, some successes that were of note would be, say, the Commonwealth of Virginia being able to transfer a child welfare system from Oklahoma without using a contractor. So they were able to get the code from one State to another.

When you start using proprietary software—and I believe we should be using it a lot more effectively, and I think what we are doing now is holding back some of the innovation. You mentioned SAP, the ERP, CRM; those kinds of applications have to be at least considered now to—as part of the solution. And in fact—and there is a State that we just recently bid on—and I won't mention the State or the company—that we actually bid a proprietary-type software package that, you know, would be approved by the Federal Government under a new way of looking at that kind of technology.

So I guess the long and the short answer is, it's time to look at using this type of software, and keep our head—take our head out of the sand that we have been doing, you know, as a result of the past.

Mr. TOM DAVIS OF VIRGINIA. Before we close, I want to just take a moment to thank everyone for attending this important hearing. I think it's very useful to me and the other Members. And for the record, I want to thank Representative Turner and the other Members for participating. I also want to thank my staff for organizing it. I think it has been very productive.

If you have any additional thoughts, particularly on language that would give you more flexibility, we would be happy to put that in the record or keep it out. But if you could get that to us in the next 10 days, that could be very, very helpful to us. We would solicit that from any of you, OK?

Hearing nothing else, the hearing is adjourned.

[Whereupon, at 11:44 p.m., the subcommittee was adjourned.]