

## States Seek More Flexibility to Spend Federal Funds

Brian Heaton | April 12, 2011



On Feb. 28, public CIOs were greeted with some positive news from the Barack Obama administration, as the White House issued a memo urging top officials to identify regulatory and administrative burdens that if removed could potentially help state, local and tribal governments overcome budget shortfalls.

Those in the IT field are keeping a close eye on the matter, particularly as it relates to Circular A-87. The document, from the U.S. Office of Management and Budget (OMB), provides guidelines on the allocation of federal funding, but is considered outdated and burdensome by many CIOs looking to implement the latest technologies.

Although interpretation of Circular A-87 varies, the prevailing thought is that equipment bought with money from a federal program must be wholly dedicated to the specific program it was intended to serve. The problem, according to experts, is that this siloed approach doesn't operate efficiently with today's technology infrastructure.

If a server was bought to service "Federal Program A," for example, it can only be used for functions that directly relate to Federal Program A — even if the server is being used well below capacity. Although that server could also handle the data needs of an entire office's staff, a new server must be purchased — using another revenue stream — to accommodate the rest of the office's workload.

Further, if federal money is allocated specifically for hardware purchases, that funding can't be used for service costs. And for a state like Tennessee, which heavily

emphasizes centralization and shared services, this could be frustrating. Either the money gets spent, or it falls by the wayside.

Many consider this to be a model of inefficiency.

For several years, NASCIO has advocated on the issue, pushing for increased flexibility so that technology investments can be deployed more efficiently.

NASCIO applauded the president's charge to the OMB to examine what federal program requirements are onerous, stating that CIOs' efforts to apply strategies such as consolidation, virtualization, shared services and cloud computing solutions could be helped by allowing more effective use of federal funds.

The memo's release was timely for NASCIO, considering its top two advocacy priorities in 2011 are reforming barriers and improving coordination of IT directives, according to Pam Walker, NASCIO's director of government affairs.

Because of CIOs' direct involvement with IT services and federal cost allocation, this is a crucial issue for them, said NASCIO President Kyle Schafer, who also is the CTO of West Virginia.

"I think a lot of these restrictions and guidelines were put in place ... when we had a single mainframe type of environment and there was very little ability to do data sharing from state to state," Schafer said. "Machines are becoming more powerful, so we can virtualize and put more applications on fewer processors and save ... [federal and state] money."

Also knee-deep in this issue is North Carolina CIO Jerry Fralick. A former federal CIO for the U.S. Department of Justice Office of Justice Programs, Fralick was the first chairperson for the OMB's Grants Executive Board, which oversaw activities for the 26 federal grant-making agencies.

When he retired from federal service and arrived in North Carolina, he was shocked at the number of duplicative systems in use. His staff explained that ironically the rules Fralick and his team had put in place regarding funding usage led to many of the challenges that North Carolina faces today.

"When federal money comes in, [state] agencies look at it as, 'It's federal money, we've got these restrictions, we've got to do certain things, and you can't tell us we can't do otherwise,'" Fralick explained. "That's the problem."

## **Breaking Down Silos**

United States CIO Vivek Kundra has often touted the benefits of shared services, and at the World Economic Forum Cloud Computing Workshop on Nov. 3, 2010, he called cloud computing "a tremendous opportunity to both improve service delivery to citizens as well as lower the cost of government operations."

Although the federal government and state agencies appear to be on the same page when it comes to recognizing the upside of virtualization, Mark Bengel, CIO of Tennessee, stressed again that the OMB's Circular A-87 isn't keeping up with what's

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Aware of state concerns, the OMB stressed that its objective with regard to the Feb. 28 White House memo is to investigate how it can best support state, local and tribal governments.

"Because there is often confusion about what is allowable in the use of information technology, this review will provide clarification [and] identify ways to break down the silos that prevent the effective use of new technologies," said OMB spokeswoman Meg Reilly.

Schafer emphasized a pressing need for improved efficiency and consolidation via multistate initiatives. Currently, he said, West Virginia, Utah, Oregon, Minnesota and Illinois are discussing a possible common management information system for their Medicaid programs.

"Instead of the federal government paying the same money 50 times for 50 different Medicaid systems, can we come up with a regional, multistate, or even a national model, where we can all share and spend that money one time?" Schafer asked. "The federal cost allocation guidelines don't really give us the flexibility to do that now."

## **A Consolidated Perspective**

Indiana had a different take on the issue. The Hoosier State consolidated its IT services in 2008, and while concerns still exist over how federal dollars are allocated, grant funding typically isn't used to buy hardware like computers, or basic e-mail and file servers. That equipment is instead purchased by the state and charged back to agencies under a services-support umbrella.

State agencies then pay a monthly services-support fee to the state. Federally funded agencies are charged exactly the same as non-federally funded agencies, with all services and prices being clearly documented in a portfolio of IT services that the state offers.

"As long as we are charging the same price to both of them, the feds seem to be fine with our model and how we're doing it," said Indiana CIO Brian Arrowood. "Agencies are comfortable that they are getting a fair price, and I think from a concern standpoint, they are saving so much money compared to what they were doing for themselves before, it hasn't been much of an issue."

Arrowood said he understands the challenges his fellow CIOs are having, but Indiana simply hasn't had many issues since it finished consolidating in 2008.

"It is a difficult process to get an agency onto a services-support structure when they have a whole pile of pretty new and up-to-date federally funded hardware lying around,"

Arrowood said. “But we worked through that. [It’s] a bit of a culture difference once you go through consolidation.”

Still, from time to time, grants will require specific hardware purchases, which must be handled differently. For example, the Indiana State Department of Health may need an item such as a server to track immunizations. The server might be purchased with grant money, and at the end of its useful life, it would need to be treated differently than other equipment.

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## **Realistic Expectations**

Despite the hope for relaxed federal restrictions, CIOs aren’t blind to the practical reasons behind the current guidelines. With technology rapidly changing, the risk of federal government funding being used to support things it wasn’t meant for is still very real.

If the White House memo led to the modification of OMB A-87 to provide increased flexibility on how federal funding can be used, states would more than ever need to provide the necessary transparency to make a system with shared technology assets work.

“I think the states do have an obligation to show [their] allocation methods, so that if an application is running in a shared environment, the federal government is only paying its fair share and not subsidizing another service on that particular platform,” Schafer said.

“Technology is going to continue to change; we need the flexibility to adopt those technologies,” he added. “That’s in the best interest of both the state and federal government.”

Bengel agreed and stressed that states aren’t asking for carte blanche freedom, but rather a seat at the table in order to address everyone’s concerns.

“Obviously one federal agency doesn’t want their federal dollars being used for something that’s not related to their mission, and you can’t blame them for that — and I couldn’t even say that it would never happen,” he said. “But I think that if we have the opportunity to sit down and have an open dialog ... we could probably come up with some workable solutions.”

Reilly said the OMB is committed to having such a dialog so that inefficiencies in the current system could be identified and potentially changed to allow for more flexibility.

“Over the next weeks and months, we will be working with the agency leads to solicit meaningful input across levels of government, including the critical input of state information technology offices,” she said.

NASCIO's Walker said she looks forward to working with the OMB on issues affecting CIOs, but warned that it could be a long ride before any significant progress is made. "There's no magic bullet," she said. "Once you identify these issues, you have to evaluate each one of them to see if you can change it. It's not going to be a cut-and-dry process."

Tennessee's Bengel was enthusiastic about how funding allocation for technology purposes could be done differently, but like Walker, he remained a bit skeptical on just how quickly something meaningful could happen.

"Nothing changes quickly in government, so I'm a bit pessimistic, especially with something that is so entrenched in long-term processes," Bengel said. "But if we could start a serious dialog, it would be a terrific first step."

<http://www.govtech.com/pcio/States-Seek-More-Flexibility-to-Spend-Federal-Funds.html>