United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

OCT 09 2007

Subject: ADP Costs Incurred by State Agencies Other Than Social Services Agencies

To: Regional Administrator
All Regions

FNS has become aware of a growing trend in States to consolidate or centralize some or all of the State's IT services across departmental lines. Because these organizational changes can have unintended consequences for our Food Stamp and WIC State agencies, we think it prudent to remind States of FNS requirements regarding such arrangements. Attached to this memorandum is a sample letter addressed to all State Directors providing guidance in situations where a State is consolidating or centralizing its IT services. In the event that a Program agency is receiving or losing equipment or services from or to a central facility or another State agency, a service agreement must be executed in accordance with FNS requirements. The memo identifies some of the issues that need to be considered as part of the agreement. It also clarifies when an Advance Planning Document (APD) is needed.

Please distribute the attached letter to all State directors within your Region and any additional State offices which you believe would need to be aware of the requirements. If you need any further information, please contact Lizbeth Silbermann, Chief of the State Systems Branch, at (609) 259-5116.

Thomas O'Connor
Acting Chairperson
APD Oversight Committee

Attachment

cc: Regional FM Directors
Regional FSP Directors
Regional WIC Directors
Charlie Okal, GMD

The contents of this guidance document do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies.

Dear FSP or WIC State Agency--

I am writing you regarding a growing trend toward Information Technology (IT) data center consolidations. As State governments look to economize and be more efficient, a number of States are consolidating or centralizing some or all of the State's IT services across departmental lines or as agency-wide endeavors. These efforts can vary in scope, ranging from simply having all IT employees reporting to a central office, to more complicated initiatives including centralized data processing and equipment ownership.

We support these initiatives that increase the efficiency of your organization. However, be aware that the State program office and the Food and Nutrition Service (FNS) have a vested interest in how these changes are accomplished. The State agency must execute a service agreement or equivalent Memorandum of Understanding when services are to be provided by a central facility or another State or local agency. The agreement must include a description of services to be provided, a schedule of charges by service, accounting methods to be used to derive the charges, a tracking system to ensure services will be provided timely and satisfactorily, and include assurances that data will be secured in accordance with FNS requirements as well as the State's, in accordance with 7CFR 277.18(f).

Below is a list of issues that need to be considered as part of such agreement:

1) Adherence to Program Regulations—The State agency must comply with all program requirements, including those related to system performance, timeliness standards, and other technical requirements; this is particularly critical for centralized data processing services. Contracts/Memorandum of Understanding or other State agreements between the program office and service provider must have provisions in place to enforce these requirements.

2) Priority of Service –The agreement must ensure that IT-related changes that affect benefit levels or benefit issuance are given a higher priority than other maintenance services.

3) Equipment Disposition and Property Management Requirements-
   - IT equipment may have un-depreciated value remaining. Any equipment valued over $5,000 at the time of disposition must be disposed of according to Federal requirements (7 CFR 3016.32).
   - Equipment procured with FNS funds must comply with property management standards and must be physically inventoried every two years. If equipment is transferred to a new organization and has been expensed, that equipment cannot be charged to the former agency on a usage basis.

4) Administrative Fee Structure-
   - Costs included in the administrative fee must be allowable under provisions of Attachment A, sections A and G of OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.
   - The administrative fee must be "reasonable, necessary, allowable and allocable" per OMB Circular A-87. For example, costs associated with centralization should not be significantly greater than current costs.
   - A uniform fee for all agencies could unfairly penalize any federal program that funded a greater proportion of the equipment that is ultimately centralized.

- Specific billing algorithms need to be spelled out in any memo of understanding or other service agreement. Costs which will be billed to the program operated by FNS grantees must be based on written cost measurements.
- Costs to FNS cannot be double charged through direct and indirect payment structures.

5) Staffing Changes—For employees who were formerly assigned to a program 100% of the time and are now assigned to multiple programs, a method of tracking the time spent on each program must be implemented and costs allocated accordingly. Program offices should be careful to ensure that this change does not result in a degradation of service.

Please keep in mind that if 50% or more of the cost of central services procurement (equipment or processing services) is charged to FNS, prior Federal approval is required.

These are just some of the issues that have surfaced as a result of IT organizational changes. I recommend you contact the FNS regional office if IT centralization or consolidation is happening, or has occurred in your State, so that we can work closely with you to address all of the issues. We will be working with the Division of Cost Allocation, DHHS, to establish guidelines for acceptable cost allocation methodologies for the new organization.

Sincerely,

Cc: State Commissioners