



INFORMATION MEMORANDUM

DATE: November 18, 2010

TO: State Public Assistance Agencies, State Information Executives, and Other Interested Parties

SUBJECT: FEDERAL/STATE INFORMATION TECHNOLOGY POLICY – Revision to the methodology for allocating costs to programs participating in an information system (IS) project

RELATED REFERENCES: 7 CFR 3015 & 3016; 7 CFR Part 277.18; 45 CFR PART 95, SUBPART F; OMB Circular A-87; HHS State Systems APD Guide, September 1996; FNS Handbook 901; Cost Allocation Methodology Toolkit

PURPOSE:

This Information Memorandum (IM) provides guidance on a revision to the methodology for allocating costs to programs participating in an IS development project. The cost allocation that is approved for program operations/administration should not be used for these projects.

This revision to the methodology is effective immediately. An update will be forth coming to the Cost Allocation Methodology (CAM) Toolkit which will reflect this change.

BACKGROUND:

The Administration for Children and Families (ACF), Centers for Medicare and Medicaid Services (CMS) and Food and Nutrition Service (FNS) are charged with oversight responsibility for information technology projects that result in automated information systems supporting the programs administered by these federal agencies.

DISCUSSION:

IS projects that exceed specified dollar thresholds require an allocation of costs to each program benefiting from the project which are unique to that project. The basic concept for cost allocating IS projects is to break the project down into its functional component parts and to charge a share of the cost of each component to only those programs that will directly benefit. If the component only benefits one program then the total cost of that component will be direct charged to that program. For programs that are defined as "small" their share of each component is based on their percentage of the total benefiting program caseload (or recipients). The large benefiting programs share evenly the costs left after being reduced by the share(s) of the small program(s). Until now only programs with less than 1000 cases (or recipients) were defined as small.

REVISED POLICY:

The concept of allocating costs to benefiting programs is not changing, however the basis for differentiating large programs which share the costs equally, and small programs which are charged a smaller pro rata share, is being revised. A small program is now defined as any program that has less than 5 percent of the total of the **duplicated recipient count** for all programs involved in the project.

Example: A project includes the following programs:

Program	Recipient Count	Percentage of Total
TANF	4,680	4.68%
Child Welfare	2,470	2.47%
Child Support	15,250	15.25%
Medicaid	42,350	42.35%
SNAP	35,250	35.25%
Total	100,000	100%

In this example all programs except Child Support benefit from Component A. The level of effort (cost) to build the component is \$100,000.00. Based on duplicated recipient counts, there are two small programs for which a pro rata share of the cost is calculated:

TANF – 4.68% or \$4,680

Child Welfare– 2.47% or \$2,470

Subtotal – 7.15% = \$7,150

The two benefiting large programs split the remainder of the cost. (Child Support does not benefit from this component at all, so it does not pay a share.)

$100\% - 7.15\% = 92.85\%/2 = 46.425\%$ or \$46,425 each

The SA will need to go through this process for each component and build the blended allocation percentage, which will translate into cost.

If a project involves a program(s) that does not have recipients in the traditional sense, then the State agency may propose for Federal consideration alternative allocation methods as long as they produce an equitable result that is repeatable and based on valid recorded data.

INQUIRIES:

HHS – Director, ACF/ACYF/CB/DSS

HHS – Director, ACF/OCSE/OAPO/DSTS

USDA – Director, FNS State Systems Office

USDA – FNS Regional Administrators

CMS – Director, Division of State Systems

/s/

Richard H. Friedman
Director, Division of State Systems
Centers for Medicare and Medicaid Services

/s/

David Jenkins, CISO
Director, Division of Information Resources Management and Security
Office of Information Services

/s/

Thomas O'Conner
Associate Administrator for Program Service and Support
Food and Nutrition Service

Addressees: State Agency Officials