REQUEST FOR QUOTATION (RFQ)

RFQ #DAS09003

DATE AVAILABLE FOR DISTRIBUTION: August 1, 2008

The Department of Administrative Services (DAS), Office of Information Technology (OIT) is issuing this Request for Quote (RFQ) to obtain a Contractor to evaluate and recommend DAS/OIT rates, rate performance and rate methodology to improve business support for IT modernization.

This RFQ is for State Term Schedule and Non-State Term Schedule offerors.

PROPOSAL DUE DATE AND TIME:	***August 15, 2008 @11:00 a.m. EST***
SEND PROPOSALS TO:	**Ohio Office of Information Technology** **30 East Broad Street, 39th Floor** **Columbus, Ohio 43215** **ATTENTION: Jackie Flemmings**
INQUIRY PERIOD BEGINS:	**August 1, 2008 @ 8:00 a.m. EST**
INQUIRY PERIOD ENDS:	**August 12, 2008 @ 12:00 noon EST**

Department of Administrative Services
Office of Information Technology

REQUEST FOR QUOTATION (RFQ)

August 1, 2008

Introduction

The Department of Administrative Services (DAS), Office of Information Technology (OIT) is issuing this Request for Quote (RFQ) to obtain a Contractor to evaluate and recommend DAS/OIT rates, rate performance and rate methodology to improve business support for IT modernization.

This RFQ is for State Term Schedule and Non-State Term Schedule offerors. If the offeror has a state term schedule the terms and conditions apply. If a non-state term schedule holder is awarded this contract as a result of this RFQ, a personal services contract will be executed, as well as seeking; Controlling Board approval.

DAS is seeking resources to provide deliverables described within this document for both Ohio Information Technology (OIT) and Finance Administration by December 5, 2008. This project will include information gathering, a report of current state and a final report and presentation. All recommendations on best practices must be compliant with OMB Circular No. A-87, Attachment 1 dated September 13, 2007, and the State Wide Cost Allocation Plan (SWCAP) requirements of the cognizant agency, the U.S. Department of Health and Human Services.

DAS is asking interested offerors to submit proposals to provide professional services in the team roles as identified in this RFQ. DAS will evaluate these proposals to identify a set of pre-qualified offerors who may be asked to provide a presentation during the evaluation process.

Background

In January, 2007, a Rapid Benchmark Report was undertaken by the Hackett Group. A more focused assessment of the DAS OIT Investment and Governance Division by Accenture was completed earlier this year. These reports indicated that economies of scale are not maximized because agencies do not take full advantage of DAS services and equipment; that the level of complexity of the rate calculation prohibits a clear understanding for both internal staff and external customers; that rates for DAS services have not been reviewed for some time; that the billing process is cumbersome and sometimes inaccurate; and that customers complain that rates are too high and they are not satisfied with their billing information.

The purpose of this project is to evaluate DAS rates and rate performance to improve business support for IT modernization; recommend new strategies to the Office of Information Technology and the Office of Finance Administration to maximize resources, gain efficiencies, and improve customer satisfaction. Outcomes are to be accomplished in three phases:

Phase I: This phase will document the "current state" rates and services analysis. State staff will research and document services, inputs, and outputs that are directly associated to the rate setting methodology, billing, collection and deposit. Upon award of a Phase II Contractor, a draft of the information gathered in Phase I will be available to the Contractor for formal reports that are required in Phase II.

As part of research and planning the Contractor is responsible for assembling a document that contains:

- Description of services provided,
- Describing customer usage for each service,
- Description of the methodology used to determine rates,
- Description of the processes for billing and collecting payment, and
- Definition of ratios percentage of direct, indirect and overhead.

Phase II: The Contractor will provide deliverables as described within this document by December 5, 2008. Scope of Work is defined to recommend improvements to the Office of Information Technology rate calculation and methodology and to make recommendations for process changes to the OIT and Office of Finance Administration.

Phase III: Implement an agile and dynamic solution to analyze and recalculate rates on a frequent basis to support the IT business delivery modernization. Phase III is not included in this RFQ.

<u>Scope of Work</u>

The Contractor must provide the following:

1. Determine actual cost of services compared to billed amounts to evaluate rate performance,
2. Compare rates to other states and private industry standards,
3. Define components and terminology used for rate structure,
4. Develop rate methodology models,
5. Develop a transparent rate structure that can be easily explained and supported,
6. Provide recommendations for:
    a. improving rate setting analysis,
    b. a solution for rate calculation,
    c. a methodology that allows for “what if” analysis and ad hoc changes to rates as required by change of services,
    d. improving billing procedure and content,
    e. a method to monitor and evaluate rate performance,
7. Define business procedures consistent with the recommendations in item 6, above for:
    a. rate setting,
        i. existing services,
        ii. new services,
        iii. modification to services,
    b. monitoring rates,
    c. transmitting data,
    d. billing,
    e. billing adjustments,
    f. receipts/deposits and
    g. any other process determined by the Contractor and State Project Manager to be an integral part of implementing the recommendations in item 6, above.
8. Provide an implementation plan for Phase III and estimated cost for each recommendation and full implementation,
9. Detail procedures independent of the full implementation that can be taken to gain short term efficiencies.

Project Deliverables

1. **Revise Work Plan and Schedule**. Review the existing research and documentation of the “as is” rate setting and billing processes. Upon reviewing and understanding of documentation, the Contractor will identify and correct any errors or omissions and produce a formal report that documents the current state (“as is”) and submit an updated work plan and update schedule. The changes will be reviewed by State Project Manager and Sponsors and if a change is needed a Change Order will be processed.

2. **Project Reporting**: Participate in weekly status meetings with Project Manager and Sponsors, provide a written weekly progress report, and provide a draft of the final report. A deliverable submission statement must be included confirming the compliance with the OMB Circular No. A-87.

3. **Draft Final Report**: The final report must include the following:

    - Determine actual cost of services compared to billed amounts to evaluate rate performance,
    - Compare rates to other states and private industry standards,
    - Define components and terminology used for rate structure,
    - Develop rate methodology models
    - Develop a transparent rate structure that can be easily explained and supported,
    - Provide recommendations for:
        - improving rate setting analysis,
        - a solution for rate calculation,
        - a methodology that allows for “what if” analysis and ad hoc changes to rates as required by change of services,
        - improving billing procedure and content,
        - a method to monitor and evaluate rate performance,
    - Define business procedures consistent with the recommendations in item 6, above for:
        - rate setting,
            - existing services,
            - new services,
            - modification to services,
        - monitoring rates,
        - transmitting data,
        - billing,
        - billing adjustments,
        - receipts/deposits and
        - any other process determined by the Contractor and State Project Manager to be an integral part of implementing the recommendations, above.
    - Provide an implementation plan for Phase III and estimated costs for each recommendation and full implementation,
    - Detail procedures independent of the full implementation that can be taken to gain short term efficiencies.

4. **Draft Presentation**: Prepare and deliver a draft presentation for DAS senior management. The PowerPoint presentation will summarize findings, recommendations, and project results and next steps.

5. **Project Completed and Final Reports**: The completion of Phase II and the final project reports are due on or prior to December 5, 2008.

Deliverable Schedule

The final report must be completed by December 5, 2008. The final report must include but not be limited to the following:

Deliverable	Target End Date
Deliverable #1 Revised Work Plan and Schedule	Weekly - Ongoing
Deliverable # 2 Project Reporting	Weekly – Ongoing
Deliverable # 3 Draft Final Report, scheduled review, and acceptance will be agreed to by the Contractor and the State Project Manager based on the revised work plan submitted the first week of the contract award.	TBD
Deliverable # 4 Draft Presentation	Week of November 24
Deliverable #5 Project Completed and Final Reports are due	December 5, 2008

Deliverable Acceptance

All deliverables will be delivered in **three copies of printed format and two CDs with one electronic copy of deliverables on each of the two CDs**. All deliverables provided electronically and any associated electronic data storage media provided containing the deliverables must be free from known malicious code. The State Project Manager or Project Lead is responsible for communicating acceptance or rejection of project deliverables to the Contractor's Project Manager or Project Team Lead. Deliverables and interim work products will only be accepted after thorough review.

If deliverables include documents or presentations, the Contractor must provide interim drafts for review. When providing interim and final drafts of deliverables, the Contractor must allow sufficient time for review and for changes to be made before the final deliverable is submitted for approval.

Interim drafts should be free of basic typographical and grammatical errors and should meet the requirements for over all format and intended purpose. Final documents and presentations must be free of typographical and grammatical errors and must be provided in the format(s) specified.

Work Conditions and Hours

The Contractor will primarily be located at State Office Tower (SOT) 30 East Broad Street, Columbus, Ohio 43215. The State will provide space at this site. Project status meetings and other project related meetings with State employees will be conducted at the SOT. However, the Contractor may be required to attend meetings or conduct business at other State sites.

The Contractor must provide their personnel the appropriate desktops, laptops, or other equipment as needed to complete the project. Any non-State computing or telecommunications devices used to fulfill State contracts must be free from known malicious code.

Project related meetings or interviews should take place Monday through Friday, excluding State holidays, starting no earlier than 8:00 am and ending no later than 5:00 pm. Exceptions will be based on availability of State employees who need to participate in project related meetings.

The State will provide contact information and access to DAS/OIT and Office of Finance Administration Subject Matter Experts (SMEs) upon request by the Contractor.

Reimbursable Expenses- None

Project Schedule

Following is the proposed schedule for this project. All dates are estimates.

RFQ Issued:	August 1, 2008
RFQ Inquiries Until:	August 12, 2008 at 11:00 a.m.
Proposals Due:	August 15, 2008 at 11:00 a.m.
Offeror Presentations:	August 25 and 26 at 9:00 a.m.
Estimated Project Start:	September 2, 2008
Estimated Project End:	December 5, 2008

Attachments

Attachment 1	Guidance Documents
Attachment 2	Cost Summary

PART TWO: RFQ INQUIRIES AND PROPOSAL FORMAT

Inquiries
Offerors may make inquiries regarding this RFQ anytime during the inquiry period listed in the Calendar of Events. To make an inquiry, offerors must use the following process:

- Access the State Procurement Website at http://procure.ohio.gov/;
- From the Navigation Bar on the left, select "Find It Fast";
- Select "Doc/Bid/Schedule #" as the Type;
- Enter the RFQ number found on the first page of this RFQ (the RFQ number begins with zero followed by the letter "A");
- Click the "Find It Fast" button;
- On the document information page, click the "Submit Inquiry" button;
- On the document inquiry page, complete the required "Personal Information" section by providing:
    - First and last name of the prospective offeror's representative who is responsible for the inquiry,
    - Name of the prospective offeror,
    - Representative's business phone number, and
    - Representative's email address;
- Type the inquiry in the space provided including:
    - A reference to the relevant part of this RFQ,
    - The heading for the provision under question, and
    - The page number of the RFQ where the provision can be found; and
- Click the "Submit" button.

An offeror submitting an inquiry will receive an immediate acknowledgement that the State has received the inquiry as well as an email acknowledging receipt. The offeror will not receive a personalized response to the question nor notification when the State has answered the question.

Offerors may view inquiries and responses on the State's Procurement Website by using the "Find It Fast" feature described above and by clicking the "View Q & A" button on the document information page.

The State usually responds to all inquiries within three business days of receipt, excluding weekends and State holidays. However, the State will not respond to any inquiries received after 8:00 a.m. on the inquiry end date.

The State does not consider questions asked during the inquiry period through the inquiry process as exceptions to the terms and conditions of this RFQ.

Proposal Format

Each proposal must be organized in the same format as described below. Any material deviation from the format outlined below may result in a rejection of the non-conforming proposal. Each proposal must contain an identifiable tab sheet preceding each section of the proposal.

Cover Letter
Certification
Location of Services
Offeror Profile
Project References/Descriptions
Candidate Profiles
Proposed Team Experience Requirements

Staffing Plan
Work Plan
Time Commitment
Recommendations
Change Order
Cost Summary

The State will not be liable for any costs incurred by any offeror in responding to this RFQ, even if the State does not select a Contractor through this process. The State may decide not to select a Contractor for the work. It may also cancel this RFQ and procure the work through some other process or by issuing another RFQ.

Cover Letter

The cover letter must provide the following and be signed by an individual authorized to legally bind the offeror.

a. A statement regarding the offeror's legal structure (e.g., an Ohio corporation), Federal tax identification number, and principal place of business;
b. The name, address, phone number, and fax number of a contact person who has authority to answer questions regarding the proposal.
c. If applicable, the offeror's valid State Term Schedule (STS) number and expiration date;
d. A statement that the offeror will not substitute, at project start-up, personnel for those evaluated by the State, except when a candidate's unavailability is not the fault of the offeror (e.g. Candidate is not longer employed by the Contractor, is deceased, etc.); and
e. A statement that the offeror is not now, and will not become subject to an "unresolved" finding for recovery under Ohio Revised Code Section 9.24, prior to the award of a contract arising out of this RFQ, without notifying DAS of such finding.

Certification

Each proposal must include the following certification on company letterhead signed by an individual authorized to legally bind the offeror.

(Insert Company name) affirms they are the prime Contractor

(Insert offeror's name) affirms that it will not and will not allow others to perform work for the State of Ohio outside of any geographic restrictions in the RFQ or at any location not disclosed in its proposal without express written authorization from the Project Representative. (Insert Company name) affirms it shall not and shall not allow others to perform work or take data outside the United States without express written authorization from the Agency Project Representative.

(Insert Company name) affirms that all personnel provided for the project, who are not United States citizens, will have executed a valid I-9 form and presented valid employment authorization documents.

(Insert Company name) affirms that any small business program participants will provide necessary data to ensure program reporting and compliance.

Location of Services

The offeror must disclose the following:

1. The location(s) where all services will be performed;

2. The location(s) where any State data applicable to the contract will be maintained or made available; and
3. The principal location of business for the Contractor and all subcontractors.

The Contractor shall not, during the performance of this contract, change the location(s) of the country where the services are performed or change the location(s) of the country where the data is maintained or made available without prior written approval of the State.

Offeror Profile

Each proposal must include a profile of the offeror's relevant experience working on projects similar to this work. The profile must also include the offeror's legal name, address, and telephone number; home office location; date established; ownership (such as public firm, partnership, or subsidiary); firm leadership (such as corporate officers or partners); number of employees; number of employees engaged in tasks directly related to the work; and any other background information that will help the DAS gauge the ability of the offeror to fulfill the obligations of the contract.

Project References/Description

The offeror must include a minimum of three (3) project references/description where it has demonstrated successful completion of a similar project with the following information:

- Name of the organization;
- Project details; and
- Contact/Project Manager including name, phone number and e-mail address.

Each reference must be willing to discuss the offeror's performance with DAS staff. Similar projects are defined as similar based on size and scope.

Document experience in managing same or similar projects. To the extent possible, the offeror must fulfill this requirement by providing a minimum of three (3) references for these same or similar projects. Same or similar projects are defined as same or similar based on size and scope.

Candidate Profiles

Offerors must provide resumes for candidates that will work on the project and will be available for the project.

The offeror's candidate(s) must include three (3) project references where successful completion of a similar project is demonstrated; references must include the following information:

- Name of the organization;
- Project details; and
- Contact/Project Manager including name, phone number and e-mail address.

Each reference must be willing to discuss the candidate's performance with DAS staff.

All candidates may be required to pass a background check.

Proposed Team Experience Requirements

The offeror's proposed team must provide project references that clearly demonstrate experience in specific areas related to this project (e.g. to evaluate DAS rates and rate performance to improve business support for professional services in the team roles for the Office of Information Technology and the Office of Finance Administration to maximize resources, gain efficiencies and improve customer satisfaction). **It is vital to the success of this project that the team has experience with OMB Circular No. A-87 compliant best practices as well as State Wide Cost Allocation Plan (SWCAP) requirements of the cognizant agency, the U.S. Department of Health and Human Services.**

One of the criteria on which the State may base the award of the contract is the quality of the offeror's project team. Replacing personnel after the award will not be accepted without due consideration. Failure to receive approval from DAS prior to replacing project personnel will be grounds for contract termination. The offeror's proposed candidate(s) must remain available to take the position in this RFQ. At its sole discretion, DAS may consider extreme circumstances beyond the offeror's control (such as death or extended illness) that result in a proposed candidate being unavailable within the timeframe described above. DAS will notify the offeror that their proposal has been selected.

If during the course of the project and due to circumstances beyond the selected Contractor's control, the Contractor must replace personnel assigned to the project, a process similar to that described above will be used to allow DAS to review and approve the substitution. Whenever possible, the Contractor must make personnel substitutions in a manner that will not adversely impact the project schedule. Note that a personnel substitution usually requires filing a non-disclosure agreement and performing a background check on the new resource.

The offeror must submit a team to do the work on the project that collectively meets all the team requirements. However, the experience of multiple candidates may not be combined to meet a single requirement. Each candidate proposed for the project team must meet at least one of the requirements. A candidate may use a single project reference more than once to demonstrate their experience meeting Team Experience Requirements. If the offeror believes that a single person can perform the work, then the offeror's candidate should demonstrate that they meet the requirements.

<u>Staffing Plan</u>

The offeror must provide a staffing plan that identifies all the personnel by position that the offeror proposes and that are required to do the project. The staffing plan must show each individual's responsibilities on the project. The State also requires a staffing plan that matches the proposed Project personnel and qualifications to the activities and tasks that will be completed on the project. In addition, the plan must have the following information:

- A matrix matching each proposed team member to the Team Experience Requirements in this RFQ; if the offeror believes that multiple team members meet a single team requirement, each team member possessing the experience should be included in the matrix.
- A contingency plan that shows the ability to add more staff if needed to ensure meeting the project's due date(s); and
- The number of offeror staff onsite at the State location at any given time to allow the State to plan for the appropriate workspace.

Specify and describe the knowledge, skills, qualifications and abilities of the staff proposed to perform the tasks for this project. The offeror will specify a project manager or project lead for this project, and will submit the resume of the proposed project manager or project lead for consideration. The proposed project manager's or project lead's resume must clearly demonstrate his/her qualifications to successfully manage this project on the offeror's behalf. The proposed project manager or project lead will be the single point of contact for this project, and as such, will have complete responsibility for the Contractor’s performance during the project.

Work Plan

The offeror must submit a work plan that identifies how the work will be completed. The work plan must include the scope of work items, listed in order of priority. Additionally, the work plan must show the progress of each task that is to be completed. Thereafter, the offeror must update the Work Plan and provide the updated Work Plan as part of its weekly reporting requirements during the Project. The Work Plan must allow adequate time for the State to review, comment on, and approve all Deliverables. The State will determine the number of business days it needs for such reviews and provide that information to the Contractor after award and early in the refinement of the Work Plan. Should the State reject a Deliverable for any reason, the Contractor must correct all deficiencies and resubmit it for the State’s review and approval until the State accepts the Deliverable. All deliverables must be accompanied by a sign off sheet that certifies all items are compliant with the OMB Circular No. A-87 and the SWACP requirements.

Time Commitment

The offeror must submit a statement and a chart that clearly indicate the time commitment of the offeror’s proposed team members for this project. The offeror also must include a statement indicating to what extent, if any, the proposed project team members may work on other projects during the term of the contract. The State may reject any proposal that commits any proposed key project personnel to other projects during the term of the project, if the State believes that any such commitment may be detrimental to the offeror’s performance. Additionally, offerors must identify any current projects that the offeror or proposed candidates are working on for DAS. Offerors or candidates working on projects that may result in a conflict of interest may not be permitted to participate in the project.

Recommendations

The offeror must provide its recommendations, including proposed work deliverables, and project schedule (including a work breakdown structure, dates, resources and cost), for performing the scope of work. This section of the offeror’s response must also include a detailed description of any tasks proposed to be performed by the offeror or proposed deliverables that are in addition to the tasks and deliverables specified in this RFQ.

Change Order

The State may make reasonable changes within the general scope of the Project. The State will do so by issuing a written order under this Contract describing the nature of the change (“Change Order”). Additionally, if the State provides directions or makes requests of the Contractor without a change order, and the Contractor reasonably believes the directions or requests are outside the specifications for the Project, the Contractor may request a Change Order from the State. The parties will handle such changes as follows: The Contractor will provide pricing to the State. The State will execute a Change Order once it and the Contractor have agreed on the description of and specifications for the change, as well as any equitable adjustments that need to be made in the Contractor's Fee or the performance schedule for the work. Then within five business days after receiving the Change Order, the Contractor must sign it to signify agreement with it.

If a change causes an increase in the cost of, or the time required for, the performance of the Project, the Contractor must notify the State in writing and request an equitable adjustment in its Fee, the delivery schedule, or both before the Contractor signs the Change Order. The changes in fee must align with the Contractor’s hourly fees provided in the proposal.

Where an equitable adjustment to the Contractor's Fee is appropriate, the State and the Contractor may agree upon such an adjustment. If the State and the Contractor are unable to agree, either party may submit the dispute to the senior management of the Contractor and the Project Sponsors for resolution. If within 30 calendar days following referral to senior management, the claim or dispute has not been resolved, the Contractor must submit its actual costs for materials needed for the change (or estimated amount if the precise amount of materials cannot be determined) and an estimate of the hours of labor required to do the work under the Change Order. The Contractor must break down the hours of labor by employee position, and provide the actual hourly pay rate for each employee involved in the change. The total amount of the equitable adjustment for the Change Order then will be made based on the actual cost of materials (or estimated materials) and actual rate for each person doing the labor (based on the estimated hours of work required to do the change).

Cost Summary

Offeror must provide its Cost on company letterhead as described in Attachment 2. Offeror must provide the total cost estimate for completing the scope of work and deliverables described in the RFQ. Costs must include the proposed candidate's name, position title, proposed hours for this project and the hourly rate per candidate.

PART THREE: PROPOSAL SUBMITTAL AND EVALUATION

Proposal Submission

Each offeror must submit eight (8) complete, sealed, and signed copies of its proposal, and each proposal must be clearly marked “ISD Billing Rate – RFQ" on the outside of its envelope. Proposals must be sent to the State by the proposal due date and time listed in this RFQ.

Send proposals to:

Jackie Flemmings
Ohio Office of Information Technology
30 East Broad Street, 39th Floor
Columbus, Ohio 43215

Included in the sealed package, the offeror must also submit a copy of the proposals on CD-ROM in Microsoft Word, Microsoft Excel, Microsoft Project, and PDF format as appropriate. In the event there is a discrepancy between the hard copy and the electronic copy, the hard copy will be the official proposal.

All proposals and other material submitted will become the property of the State and may be returned only at the State's option.

Ohio Revised Code (ORC) Section 9.24 prohibits the State from awarding a contract to any offeror(s) against whom the Auditor of State has issued a finding for recovery if the finding for recovery is “unresolved” at the time of award. By submitting a proposal, the offeror warrants that it is not now, and will not become subject to an “unresolved” finding for recovery under ORC 9.24, prior to the award of a contract arising out of this RFQ, without notifying DAS of such finding.

Rejection of Proposals

The State may reject any proposal that is not in the required format, does not address all the requirements of this RFQ, or that the State believes is excessive in price or otherwise not in its interest to consider or to accept. In addition, the State may cancel this RFQ, reject all the proposals, and seek to do the work through a new RFQ or other means.

The State may reject late proposals regardless of the cause for the delay.

Proposal Evaluation

In the proposal evaluation phase, the State will rate the proposals submitted in response to this RFQ based on the Scope of Work sections of the response. The offeror that provides the best value to the State will be selected. Best value will be determined by reviewing the offeror’s qualifications, candidate experience and previous work performance; the proposed plan for completing the work; and the cost. Additionally, there will be offeror presentations from the highest rated best value proposals, the quality of the presentation will be rated and used in selecting a vendor. Offerors must be prepared to present on Monday, August 25th and/or Tuesday, August 26th at 9 a.m. at 30 East Broad Street, Columbus, Ohio 43215.

Attachment 1
Guidance Documents

OMB Circular No. A-87 Guidelines

Department of Heath and Human Services,
Addressee List
Guidance for Data Center Consolidation and
Outsourcing
Guidance for Software Projects

DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center
Financial Management Service
Division of Cost Allocation

Cohen Building-Room 1067
330 Independence Avenue, S.W.
Washington, DC 20201
PHONE: (202)-401-2808
FAX: (202)-619-3379

SEP 13 2007

(See Attachment 3, Addressee List):

The U.S. Dept. of Health & Human Services, Division of Cost Allocation (DCA) is the cognizant Federal agency for the cost negotiation of the Statewide Cost Allocation Plans (SWCAPs), including allocated and billed central service costs. During recent SWCAP reviews, we have observed that many state governments are currently engaging in large information technology (IT) projects and reorganizations, such as data center consolidations, outsourcing of data centers, and large software projects. These IT initiatives are often very costly and may result in significant billed or allocated costs being charged to Federal programs. Unfortunately, we are finding that some state governments are not adequately considering Federal regulations prior to charging Federal programs for these costs. This can result in Federal billings being disallowed or the state government being required to make a significant refund to the Federal government for prior unallowable charges. We want to alert state governments to the requirements that should be complied with prior to allocating or billing these types of costs to Federal programs, either as direct or indirect costs.

All SWCAPs must comply with Title 2 of the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 - Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) (hereinafter referred to as "the Circular") and the implementation guide entitled, "A Guide for State, Local and Indian Tribal Governments" (ASMB C-10). State governments should submit the planned allocation or billing methodologies for significant new central services, including information technology projects and data centers, well in advance of implementing the new methodologies. This advance notification will allow the Federal government to evaluate the state's plans and identify obvious potentially unallowable costs or unallowable allocation methodologies prior to implementation.

We have attached two guidance documents to this letter. Attachment 1 discusses data center consolidations and outsourcing, and Attachment 2 discusses software projects. Each document discusses the requirements that the state should comply with, if Federal programs are going to be billed for these services.

ATTACHMENT 1
GUIDANCE FOR DATA CENTER CONSOLIDATIONS AND OUTSOURCING

1. Data Center Consolidations

A number of states are consolidating their multiple state data centers. However, some states are not adequately considering the Federal requirements before billing the costs of the newly consolidated data center to Federal programs. In addition, not all of the affected states are providing advance notice to or coordinating with their cognizant agency prior to the consolidations. States should comply with the following requirements for consolidated data centers:

a. Billing Rates/Allocation Methodologies

The Circular, Appendix A, Section C.3 states "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Therefore, the consolidated state data center should have separate billing rates or allocation methodologies for each individual service it provides. In addition, the state must ensure that systems are in place to measure usage by state department or program, as applicable. This is necessary to ensure that charges to Federal programs are based upon their actual usage or benefit received for each individual data center service.

The Circular, Appendix C, Section G.4 states "Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs." Therefore, for billed services, each billing rate must be based upon the budgeted costs for each service with subsequent adjustments to actual costs. A lump sum billing based upon budgetary needs for the entire data center is not an acceptable method for charging Federal programs.

In addition, services for public assistance programs must be accounted for and billed in accordance with the applicable requirements of the various Federal public assistance programs and the approved Public Assistance Cost Allocation Plan. Prior to the consolidation, the state data center should fully coordinate with the state agencies that have primary responsibility for public assistance programs to ensure that the Federal requirements will be met.

ATTACHMENT 2
GUIDANCE FOR SOFTWARE PROJECTS

Many states are initiating large software projects, including new Enterprise Resource Planning systems and Human Resources Management Systems. The large expenses associated with these projects usually result in significant allocations or billings to Federal programs. However, these projects can be high-risk, since we have observed instances of state software project failures and terminations even after significant funds were expended.

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. However, even prior to implementation of the new GASB statement, the general principles contained therein should be complied with for charging Federal programs. Intangible assets were previously referred to in the description of capital assets in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The GASB Statement No. 51 sets forth detailed guidance for capitalization of computer software projects.

It is not acceptable to expense all of the costs of significant software projects and charge Federal programs based upon budgetary needs to finance the projects or as costs are incurred. For the costs that should be capitalized, Federal programs in the current period do not benefit from those expenditures. These projects are clearly intended to produce systems that will be used longer than the year(s) in which the costs are expended, and, similar to equipment and other capital expenditures, should be amortized over their estimated useful lives. Federal programs only benefit and should only be charged for amortization of the capitalized costs once the software programs are implemented and in use by Federal programs.

States that have initiated or are planning software projects that will be allocated or billed to Federal programs, whether as a direct or an indirect cost, should submit their planned accounting and billing or allocation methodology to their cognizant DCA Regional Office for review.

Attachment 2
Cost Summary

Offeror must provide its Cost on company letterhead in the following format. Offeror must provide the total cost estimate for completing the scope of work and deliverables described in the Scope of Work. Costs must include the proposed candidate's name, position title, proposed hours for this project and the hourly rate per candidate.

Proposed Candidates:

Proposed Candidate Name	Position Title	Proposed Hours	Hourly Rate

Project Deliverables

Deliverable	Estimated Hours to Complete	X	Total Cost Per Deliverable
Deliverable #1 Revised Work Plan and Schedule			
Deliverable #2 Project Reporting			
Deliverable #3 Draft Final Report, scheduled review, and acceptance will be agreed to by the Contractor and the Project Manager based on the revised work plan submitted the first week of the contract award.			
Deliverable #4 Draft Presentation			
Deliverable #5 Project Completed and Final Reports are due			