



DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center  
Financial Management Service  
Division of Cost Allocation

December 20, 2006

Cohen Building-Room 1067  
330 Independence Avenue, S.W.  
Washington, DC 20201  
PHONE: (202)-401-2806  
FAX: (202)-619-3379

Lemuel C. Stewart, Jr.  
Chief Information Officer  
Virginia Information Technologies Agency  
Richmond Plaza Building, 3<sup>rd</sup> floor  
110 South 7<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Mr. Stewart:

The purpose of this letter is to advise you of our position concerning your procurement and provision of data processing to State agencies. We have held several discussions with Virginia Information Technologies Agency (VITA) representatives and State officials regarding this massive project, along with requesting additional support documentation, and we appreciate the opportunity to provide input. In fact it is so large that it is impossible in the time that has been available to identify all of the possible ramifications of your actions. However, we do want to clarify our position on this project as best we can at this time.

The changes which became effective July 1, 2006 have many potential areas that may conflict with 2 CFR Part 225-Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) that it is infeasible to identify all of the possibilities and their financial impact. While we have had some opportunity to review your plans, the schedule for making the transition precludes adequate time for us to jointly resolve many of the possible issues prior to your implementation. However, in the best interest of all parties we are willing to provide guidance to VITA and its staff on a continual basis during the implementation of this project.

The objective of A-87 is to provide specific and consistent principles for determining allowable costs of Federal awards carried out by governmental units. The basic assumption is the existence of adequate accountability of the claimed cost and efficient and effective administration of Federal awards.

As the State agency with the responsibility for providing data processing goods and services to all State agencies, you bear the responsibility for ensuring that the costs charged to federally funded State agencies and ultimately to federally funded programs fully comply with the requirements of A-87. This is true whether you provide the services yourself, contract with a vendor to provide them, or a combination of the two. The final determination of the allowable costs will be part of the Statewide Cost Allocation Plan review and the State's actual claims will not be considered final and are subject to adjustment based on the results of that review.

In addition, since this is an enormous project that will ultimately have an impact on federal programs, we will request the assistance of the Virginia Auditor of Public Accounts to perform a review of this project as a part of their A-133 Single Audit Report. We must emphasize that our intentions are to identify during the review of Fiscal Year (FY) 2007, those areas which could result in additional changes in your system, cost adjustments to Federal programs, and/or cash refunds to the Federal Government.

In the mean time, we will advise other Federal agencies, as always with any Section II billed service to use their discretion when reimbursing the cost for services. If it is determined where a cost is later found to be unallowable under A-87, the Federal government shall be reimbursed for its fair share of the costs.

We would like to thank you and your staff for your efforts, and if you should have questions or need advice on any other matter you may call either me or Christian Poole at (202) 401-2808.

Sincerely,



Darryl W. Mayes  
Director  
Mid-Atlantic Field Office

cc: James T. Roberts  
Director, Finance and Administration