

MEMORANDUM

TO: Commissioner Leo Arnone, Department of Corrections
Commissioner Roderick L. Bremby, Department of Social Services
Commissioner Joette Katz, Department of Children and Families
Commissioner Terrence W. Macy, Department of Developmental Disabilities
Commissioner Jewell Mullen, Department of Public Health
Commissioner Patricia Behmer, Department of Mental Health and Addiction Services

FROM: Benjamin Barnes, Secretary 

SUBJECT: New Health and Human Services Purchase of Services (POS) Policies and Procedures

DATE: July 18, 2011

Section 4-70b(d) of the Connecticut General Statutes indicates that the Secretary of the Office of Policy and Management shall establish uniform policies and procedures for State Purchase of Service (POS) agencies to obtain, manage and evaluate the quality and cost effectiveness of health and human services purchased from a private provider organization. According to this section, the Secretary shall require all state agencies which purchase direct health and human services to comply with such policies and procedures.

Through a memorandum sent to you on February 1, 2011, I established a multi-agency work group to review existing policies and procedures related to POS contracting in order to consider reforms and methods of streamlining our existing processes. The group was chaired by Deb Heinrich Non-Profit Liaison to the Governor, and Bob Dakers, and included agency representatives designated by each of you.

The work group submitted recommendations to me, including those related to providing additional flexibility and standardization regarding program budget variances and revisions sought by non-profit providers and budget and financial reporting requirements. Based on these recommendations, I am hereby promulgating two new policies and procedures to be followed by your agencies, which are attached to this memorandum. As indicated, the first of these involves the issue of Program Budget Variances and Revisions and the second involves the issue of Expenditure Reporting Dates.

The attached policies and procedures are effective immediately. If you or your staff members have any questions in this regard, please contact Susan Simmat at susan.simmat@ct.gov or at (860) 418-6392. Thank you for your cooperation in this regard.

Attachments

Cc: Deb Heinrich, Non-Profit Liaison the Governor
Robert S. Dakers, Executive Finance Officer, OPM
Susan Simmat, OPM

Category: Budget Flexibility

Issue: Program Budget Variances & Revisions

Definitions:

budget (or program budget) – an approved spending plan for expenses covered by the contract

budget revision request – a form submitted by a provider to amend the funding amount for a cost category or line item in a previously approved budget

budget variance – a discrepancy between (1) the approved funding amount for a cost category or line item and (2) the actual expenditure for that cost category or line item, as reported by a provider

disallowed expenditure – funds expended by a provider that the SCA deems unallowable, unreasonable, or unnecessary due to noncompliance with (1) the standard policy for program budget variances and revisions, as stated herein, (2) the purposes specified or authorized by the contract, (3) the stated objectives of the funded program, or (4) OPM’s Cost Standards

SCA – acronym for “State contracting agency”

Finding:

Pursuant to the POS contract, a provider agrees to expend funds in accordance with the approved program budget. That said, projected and actual expenses may sometimes vary during the term of the contract. In such situations, a provider may find it necessary (1) to report expenditures that vary from the approved budget or (2) to request a revision of the approved budget.

The SCAs have established differing business rules and procedures for handling such budget variances and revisions. Whereas these business rules and procedures are not stipulated by law or regulation, the SCAs see an opportunity to standardize them and give providers more fiscal flexibility at the same time. The intent is to reduce the amount of time-consuming paperwork and, thereby, achieve administrative cost savings for both providers and State contracting agencies.

Standard Policy: 1. Budget Variances Less Than Or Equal To 20%

A provider may incur expenses that vary up to twenty percent (20%) for any program budget’s cost category or line item without requesting prior approval. All approved budget amounts and corresponding expenditures must be accurately reflected on all required expenditure reports submitted to the SCA. Upon review, any budget variance that the SCA disallows must be reimbursed or reconciled in accordance with the SCA’s policy.

2. Budget Variances Greater Than 20%

If a provider incurs expenses that vary more than twenty percent (20%) for any program budget’s cost category or line item, a written justification must be submitted to the SCA with the required expenditure report. Upon review, any budget variance that the SCA disallows must be reimbursed or reconciled in accordance with the SCA’s policy.

3. Salary And Wage Variances

A provider may vary an individual salary or wage without prior approval if the variance is less than or equal to 15%. If the variance is greater than 15%, a provider must request prior approval from the SCA. *Providers with DDS contracts are exempt from the prior approval requirement for individual wage or salary variances.*

4. Budget Revisions

If a provider anticipates a significant variance from the approved budget, the SCAs strongly recommend that the provider submit a budget revision request. Significant variances include, but are not limited to, (1) anticipation of over-expenditures greatly exceeding the twenty percent threshold, (2) addition of a cost category or line item not currently included in the approved budget, or (3) a material change related to the performance of services under the contract, such as subcontracting services that the contract specifies shall be performed by the provider. The purpose of a budget revision request is to realign contract requirements for expenditures going forward and to assure a provider that any anticipated over-expenditures will be allowable. Upon approval, the amounts of the cost categories or line items will be adjusted in a revised program budget.

Budget revision requests must be submitted not later than 45 calendar days prior to the end of the applicable fiscal year or funding period. Requests submitted after the deadline will not be accepted. A provider shall not implement any significant variance prior to receiving a revised program budget from the SCA. Should a provider not adhere to this process, any variances above the 20% threshold that the SCA deems unacceptable, unnecessary or unallowable will be subject to reimbursement or reconciliation in accordance with the SCA's policy.

Applicability: Cost categories¹ or line items² *within* a program budget, as defined by the SCA:

¹ Developmental Services (DDS), Mental Health & Addiction Services

² Children and Families, Correction, Public Health, Social Services

Notes: A provider wishing to transfer funds *between* programs funded by a SCA must request prior approval.

Contract award amounts can be changed only through a formal contract amendment. Therefore, all variances and revisions must be budget neutral and have no impact on the contract's total cost or value.

Override: If any federal or State law or regulation prescribes a policy or requirement that differs from the one established herein, such policy or requirement shall control and govern.

Effective Date: This policy shall be effective on or before July 31, 2011 for all POS contracts.

Category: Budget & Financial Reporting

Issue: Expenditure Reporting Dates

Definitions: *expenditure report* – a written accounting of a provider’s actual use of program funds, as compared to the approved budget for the contract

Finding: Pursuant to the POS contract, a provider agrees to provide the State contracting agency (SCA) with financial information necessary to monitor and evaluate compliance with the contract budget. Over time, the SCAs have established slightly differing requirements as to when such financial reports are submitted by providers. In an effort to standardize these requirements, the SCAs have come to agreement on the total number of reports that providers must submit. In addition, the SCAs agreed to adopt a standard reporting schedule – one for contracts based on the State Fiscal Year, and another for contracts based on the Federal Fiscal Year. For any special contract (e.g., short-term contract for a specific task) that falls outside the standard State or Federal schedule, the SCA shall develop an appropriate reporting schedule.

In all cases, the SCA shall determine which reporting schedule applies and include the required schedule in the contract.

Standard Policy: A provider shall submit the financial reports required by the SCA according to the contract’s start date. The SCA will determine whether the 4-Month Interim Report is Optional or Required.

| Start Date | Reporting Period | Due Date | Type |
|------------|------------------------|---------------|----------|
| July 1 | 4-Month Interim Report | November 30 | TBD |
| | 8-Month Interim Report | March 31 | Required |
| | 12-Month Final Report | September 30* | Required |

* Final Reports submitted to DDS are due October 15

| Start Date | Reporting Period | Due Date | Type |
|------------|------------------------|-------------|----------|
| October 1 | 4-Month Interim Report | February 28 | TBD |
| | 8-Month Interim Report | June 30 | Required |
| | 12-Month Final Report | December 31 | Required |

| Start Date | Reporting Period | Due Date | Type |
|------------|------------------------|--------------|----------|
| January 1 | 4-Month Interim Report | May 31 | TBD |
| | 8-Month Interim Report | September 30 | Required |
| | 12-Month Final Report | March 31 | Required |

| Start Date | Reporting Period | Due Date | Type |
|------------|------------------------|-------------|----------|
| April 1 | 4-Month Interim Report | August 31 | TBD |
| | 8-Month Interim Report | December 31 | Required |
| | 12-Month Final Report | June 30 | Required |

Notes: Interim financial reports are required only from providers paid in accordance with an approved contract budget. Providers paid on a "fee for service" or "per diem" basis are not required to submit interim reports.

The 4-Month Report covers all expenditures for the preceding four months.
The 8-Month Report covers all expenditures for the preceding eight months.
The 12-Month Final Report covers all expenditures for the preceding twelve months.

The SCAs retain the right to establish alternative reporting schedules for special contracts with other funding sources when the standard schedules are unsuitable.

Override: If any federal or State law or regulation prescribes a policy or requirement that differs from the one established herein, such policy or requirement shall control and govern.

Effective Date: This policy shall be effective on or before July 31, 2011 for all POS contracts.