



EFFECTIVE DATE:	October 1, 2018
REVISION DATE:	October 11, 2018
SUBJECT:	DISALLOWANCES AND REDUCED PAYMENTS

Overview

- 1) This directive applies to all Department of Human Services (DHS) Delegate Agency Contracts (this policy can be applied to Professional Service Contracts, Operating Agreements, Funding Agreements, Interlocal Agreements, Use of Funds Agreement, and Lease Agreements as stated by the Division Administrator/Manager). This list of type of agreements that his policy may be applied to is not all inclusive.
- 2) This directive identifies the structure for reduction of payments and the process for withholding and/or reducing payments for failure to comply with the provisions of an agency's contract.
- 3) This directive also details the timing of notifications to a Delegate Agency regarding the withholding and/or reduction of payments and the amount of reductions relating to performance measure scorecards and the agency's compliance with contract provisions and terms.
- 4) Through this directive, DHS outlines performance measure goal requirements for contractors and actions that may be taken by DHS in the event a contractor fails to comply with the terms and provisions of the contract and/or the contractor does not meet performance measures as required by the contract.

A. Purpose

The purpose of this Department Directive is to define the actions that will be taken by DHS should a contractor not meet requirements outlined in a delegate agency or other contractual agreements, as identified, regardless of the funding source.

B. Definitions

- 1) **Contract Monitor:** The individual vested with the responsibility of ensuring that all contract requirements are met. Ensures all invoices are properly reviewed when submitted and expenditures are allowable, necessary, and reasonable and are within the budgeted line item amounts. Responsible for maintaining a monitoring file that includes a completed Contract Administration Plan, Program Performance Review Tool, and End of Contract report.
- 2) **Contract Monitoring Report (CMR):** Quarterly performance measuring tool submitted by the Contractor that includes planned and actual measures, and budget and expenditures, along with associated back-up documentation to support reported information.
- 3) **Contractor:** An organization selected through the City's Consolidated Funding Process (or other procurement process) and under contract with DHS to provide goods or services to eligible clients; also referred to as a "Delegate Agency".



- 4) Performance Measure(s): Measurable outcomes and results as identified on the Scorecard.
- 5) Scorecard: Identifies the performance measures that are part of the contract. These measures are monitored through the quarterly performance reports submitted by Delegate Agencies.

C. Performance Measure Goals

Contractors are required to perform the contract work in accordance with the Scope of Work, terms and provisions of the contract. Contractors are held to a goal of meeting all performance measures at 100%. Contractors meeting performance measures at 90% - 100% will not be placed on a Corrective Action Plan or subject to payment reductions or disallowances.

Contractors meeting less than 90% of their performance measures for unduplicated participants will be deemed non-compliant and will be placed on a Corrective Action Plan and are subject to payment reductions as outlined in this Department Directive. Continued non-compliance with performance measures will result in DHS delaying, suspending, limiting, or canceling funds.

D. Stages of Non-Compliance

Contractors who do not meet at least 90% of their performance measures will be placed on a corrective action plan (1st Quarter only). Continued failure to meet performance measures beyond the 1st Quarter of the Fiscal Year, will be subject to continued corrective actions with failure to meet unduplicated participant counts will result in a reduction in payment. Contractors who do not meet this goal are considered to be out of compliance with their performance measures. Disallowances and reductions will be assessed quarterly based on the results of the Contractor’s Quarterly CMR. Actions that will be taken by DHS as a result of non-compliance are outlined in the table below.

Stage	Corrective Actions	Reduction Amount / Disallowance
Stage 1 (First Quarter ONLY)	<ul style="list-style-type: none"> • Agency will be placed on a Corrective Action Plan (CAP). • A Letter of Non-Compliance will be sent to the CEO/Executive Director with Carbon Copy to program staff. 	None
Stage 2	<ul style="list-style-type: none"> • Agency will remain on the Corrective Action Plan. • Should underperformance relate to unduplicated participants served, a payment reduction will be enforced. • A Letter of Non-Compliance will be sent to the CEO/Executive Director with Carbon Copy to program staff. 	Payment Reduction will be applied proportionate to the underperformance for the total amount invoiced during the 1 st 6 months of the contract term
Stage 3	<ul style="list-style-type: none"> • Agency will remain on the Corrective Action Plan. • A Letter of Non-Compliance will be sent 	Payment Reduction will be applied proportionate to the underperformance for the total



	to the Board Chair with Carbon Copy to the CEO/Executive Director and program staff.	amount invoiced during the 1 st 9 months of the contract term
Stage 4	<ul style="list-style-type: none"> • Agency will remain on the Corrective Action Plan. • A Letter of Non-Compliance will be sent to the Board Chair with Carbon Copy to the CEO/Executive Director and program staff. 	Payment Reduction will be applied proportionate to the underperformance for the total amount invoiced during the entire contract term

Stage 1 Non-Compliance: Contractors demonstrating non-compliance in the first quarter will fall under Stage 1 corrective actions as outlined in the above table. Stage 1 of non-compliance requires the contractor to be placed on a Corrective Action Plan (CAP). A letter will be sent directly to the CEO/Executive Director of the contracted agency with a carbon copy to program staff alerting the agency of the non-compliance with performance measures. The contractor is expected to obtain compliance as a result of implementing the approved CAP. Contractors that fall in the Stage 1 category of non-compliance will not be subjected to payment reductions during the first quarter of the contract term.

Contractors demonstrating non-compliance during a quarter but have shown compliance in the prior quarter(s) will enter Stage 1 Non-Compliance and be placed on a CAP. A letter will be sent to the CEO/Executive Director with a carbon copy to the program staff alerting the agency of the non-compliance with performance measures.

Stage 2 Non-Compliance: Contractors demonstrating non-compliance for a second quarter in a row will enter Stage 2 Non-Compliance. Contractors in Stage 2 non-compliance will be required to remain on a CAP. A letter will be sent directly to the contractor’s CEO/Executive Director with a carbon copy to program staff alerting the agency of the continued non-compliance with performance measures. In addition to the letter, a payment reduction will be applied proportionate to the underperformance to the amount invoiced by the contractor over the course of the first 6-months of the contract term. The contractor is expected to continue working with DHS on the implementation of the CAP to ensure compliance is obtained as quickly as possible.

Stage 3 Non-Compliance: Contractors demonstrating non-compliance for a third quarter in a row will enter Stage 3 Non-Compliance and continue to remain on a CAP. A letter will be sent directly to the contractor’s Board Chair with a carbon copy to the CEO/Executive Director and program staff alerting the agency of the continued non-compliance with performance measures. In addition to the letter, a payment reduction will be applied proportionate to the underperformance to the amount invoiced by the contractor over the course of the first nine (9) months of the contract term. The contractor is expected to continue working with DHS on the implementation of the CAP to ensure compliance is obtained as quickly as possible.

Stage 4 Non-Compliance: Contractors demonstrating non-compliance for the full four (4) quarters of the contract term will enter Stage 4 Non-Compliance. A letter will be sent directly to the contractor’s Board Chair with a carbon copy to the CEO/Executive Director and program staff alerting the agency of the continued non-compliance with performance measures. In

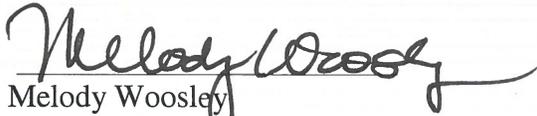


addition to the letter, a payment reduction will be applied proportionate to the underperformance to all invoices submitted by the contractor over the entire contract term.

Contractors maintaining compliance for the duration of a quarter will not be subject to payment reductions. Contractors who show compliance in any given quarter immediately following a quarter of non-compliance will be deemed in compliance with the contract terms and provisions. The contractor will not be subject to payment reductions or disallowances during this quarter. Additionally, contractors meeting compliance will have the opportunity to invoice DHS for any previous reductions or disallowances assessed for non-compliance relating to performance measures during previous quarters of non-compliance. A close out compliance letter will be sent to the contractor.

E. Reduction Timeline

Quarterly CMR reports are due by the 15th day following the end of the quarter. CMRs will be reviewed by the Contract Monitor within 30 calendar days of report submission. Contractors can expect to receive a letter of non-compliance and notification of payment reductions within 40 calendar days of submitting the quarterly CMR report.


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