

**State of New Jersey
Department of Human Services
Division of Mental Health Services**

SUBJECT: *Operational Incentives Pilot*

EFFECTIVE: This policy circular shall become effective retroactively for Division of Mental Health Services (DMHS) contracts to July 1, 2005 and shall be implemented as new contracts commence or existing contracts are renewed thereafter.

PROMULGATED: January 24, 2006

SUPERCEDES: *This policy circular supercedes the DMHS Revenue Incentive policy memoranda dated 2/11/91, 8/16/93, 10/24/95, 5/22/96, and 6/26/96.*

PURPOSE:

The purpose of this policy circular is to establish guidelines for the DMHS pilot program of Operational Incentives. Often, DMHS non-profit contracted providers do not have sufficient reserves or fund balances to pay for infrastructure upgrades and replacements, or cover short-term liabilities with operating funds or reserves, and therefore must rely on the availability of one-time awards from DMHS, or their own ability to raise funds or borrow funds. A policy for Operational Incentives, made available with certain limitations, would enable providers to build a fund balance, from which emergency expenditures can be made; equipment can be replaced; properties can be repaired; savings can be accrued; and the provider's financial viability improved. Contracted DMHS providers can receive incentives that result from efficient and effective management and that promote improved services to DMHS clients.

I. SCOPE

This policy applies to all Division of Mental Health Services (DMHS) non-profit, non-hospital and non-governmental agencies with cost-reimbursement contracts that have Annex B and B-1 budgets. Fixed price and fixed rate contracts are not affected by this policy. Also contracts with hospital-based organizations, and governmental organizations, are not affected by this policy. This is a pilot program for the Division of Mental Health Services only.

II. DEFINITIONS

The following definition only pertains to this policy circular:

Operational Incentives: the net dollar savings realized from contracting efficiencies, after performing the required level of service and satisfying the fiscal obligations. The Operational Incentives amount is to be used as a saving reserve for cash flow needs (working capital) and for expenditures consistent with the mission of the contracted provider agency.

III. POLICY

A. EARNED INCENTIVE:

A DMHS Operational Incentives fund shall be earned by the contract provider when approved by DMHS as part of the contract settlement process, in recognition of the following:

- The provider's final contract expenditure report indicates a net contract surplus exists, defined as contract expenses less revenues;

Note: Final expenditure reports are always subject to DHS contract audit and/or DMHS contract closeout reviews.

- The amount of the net contract surplus is equal to or less than the maximum amounts allowed per this policy (refer to section B below);
- Contract surplus funds that are otherwise restricted by DHS, such as federal funds which must be returned or reissued for program services, cannot be included in the Operational Incentive Reserve;
- The DMHS contract provider has settled all outstanding debts, if any, owed to DMHS;
- The contract provider has not been placed in "contract default" status by any DHS Departmental Component in the past three years; and
- All major contract performance commitments for the recently concluded contract have been satisfactorily addressed, as evaluated by DMHS.

B. ANNUAL CAP

Providers will be allowed to retain 100% of the current contract's net savings (accruals) identified from contract efficiencies (identified as contract expenses less revenues) and approved by DMHS during the DMHS contract settlement process for the Operational Incentive reserve. The maximum amount of funds approved as an Operational Incentives reserve for any single contract period is limited to three and a third percent (3.33%) of the total contracted operating budget, up to the maximum of \$400,000 per contract year up to three years and shall not exceed \$1,200,000 in total.

C. SEPARATE AUDITED ACCOUNT

The accumulated incentive funds shall be retained in a restricted reserve account, known as “DMHS Operational Incentives Reserve”, and listed clearly and separately on the Provider’s audited financial statements.

D. UTILIZATION

The DMHS Operations Incentive Reserve is intended to be a savings reserve, available to meet cash-flow needs as working capital, and for assisting the provider agency in meeting its mission. The Operational Incentives Reserve as permitted by this policy is a time limited opportunity, and prudent management would require that some amount of Operations Incentives Reserve funds be retained for future needs.

Provider agencies are prohibited from utilizing Operations Incentive Reserve funds to expand programming which requires ongoing funding, thereby creating obligations for future budget cycles. Provider agencies are also prohibited from utilizing Operations Incentive funds for Executive Management staff bonuses. However, direct care and administrative/support services staff may be granted a bonus.

Provider agencies that reach the maximum Operational Incentives Reserve of \$1.2 million may spend these funds in the current contract period, and also add to the Reserve at the end of the contract period, but cannot exceed the maximum amount of the Reserve at the end of the contract period.

E. DHS RECOUPMENT

Upon termination of the contractual relationship with the DMHS Departmental Component, or upon dissolution of the original provider’s corporation or related corporation, the contract provider shall refund to the DMHS all remaining dollars in the DMHS Operational Incentives Reserve account as of the date of contract termination corporation dissolution.

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