

STATE OF NEW JERSEY
DEPARTMENT OF HUMAN SERVICES

SUBJECT: Department and Provider Agency Monitoring of Level of Service Delivery

EFFECTIVE: This policy circular shall become effective on July 1, 1988 and shall be implemented immediately.

PROMULGATED: July 1, 1988

SUPERSEDES: Policy Circular P9.02, promulgated November 5, 1986.

The purpose of this circular is to advise Department personnel and Provider Agencies of policies and procedures for monitoring contracted level of service delivery.

I. SCOPE

This policy circular applies to all Cost-Related and Non-Cost-Related Contracts, with the exception of those Contracts with no contractually agreed-upon upper payment limit.

II. POLICIES AND PROCEDURES

A. Cost-Related Contracts

1. Establishment of Budgeted Units of Service

a. In a Cost-Related Contract, an accurate projection of the Contract's Budgeted Units of Service is essential because:

- (1) it allows comparison of the cost of similar services (through computation of the Unit Cost);
- (2) it represents the Provider Agency's contractual commitment against which actual performance will be measured; and
- (3) in Contracts paid by means of a rate, the rate is calculated based on the Budgeted Units of Service.

Therefore, in negotiating the Contract, consideration should be given to anticipated

changes and any other factors which may impact on the program's Budgeted Units of Service.

- b. For renewal Contracts, in establishing the Budgeted Units of Service, consideration should be given to, among other factors, historical data collected during the previous Contract term.
- c. For new Contracts, the Budgeted Units of Service may be based on Department experience with Contracts in the locality, which provides comparable services under comparable circumstances.

2. Department Monitoring Responsibilities

- a. It is the responsibility of the Department to monitor the Contract level of service delivery on a regular basis through on-site review and desk monitoring of appropriate reports.
- b. It is the responsibility of the Department to conduct at least a quarterly analysis of Contract performance, making a comparison of:
 - (1) actual versus Budgeted Units of Service;
 - (2) actual versus projected expenditures; and
 - (3) actual versus budgeted Unit Cost.

The purpose of this analysis is to ascertain if services are being delivered in the quantity and for the Unit Cost negotiated and agreed to in the Contract.

- c. If based on the quarterly analysis it is determined that the actual performance level differs from the Budgeted Units of Service - whether higher or lower - the Department may require a Contract Modification to revise the Budgeted Units of Service and, as appropriate, make corresponding adjustments in the Contract Budget and/or Payment Rate. For further information refer to Policy Circular P1.10, Contract Modification.
- d. If the Actual Units of Service are lower than the Budgeted Units of Service, the Provider

Agency will be in default of the Contract, and the Department may choose to pursue default proceedings other than requiring a Contract Modification. For further information on default policies and procedures, refer to Policy Circular P9.05, Contract Default.

- e. When Contract payment is based on a rate per Unit of Service delivered, any change in the Payment Rate, which results from a Contract Modification, may be effective up to three months prior to the execution of the Modification. Failure to execute a Contract Modification when Actual Units of Service differ from Budgeted Units of Service may result in:
 - (1) an overpayment by the Department if the Actual Units of Service are higher than the Budgeted Units of Service or;
 - (2) unreimbursed costs to the Provider Agency if Actual Units of Service are lower than Budgeted Units of Service (since a Payment Rate may not be adjusted upward based on a final report of expenditures).

3. Provider Agency Monitoring Responsibilities

- a. Provider Agencies should closely monitor their level of service delivery during the Contract term. It may take three months of effective monitoring to obtain a meaningful indication of the true performance in relation to the Budgeted Units of Service.
- b. At such time as it is determined that actual performance differs from the Budgeted Units of Service (whether higher or lower), the Provider Agency should submit a request for a Contract Modification to reflect more appropriate Budgeted Units of Service. In addition, corresponding revisions should be requested in budgeted costs since a number of expenditure items are dependent upon the level of service delivery.
- c. If Contract payment is based on a rate, any change in the Payment Rate which results from the Contract Modification may be effective up to three months prior to the date of the

Provider Agency's submission of the Modification request.

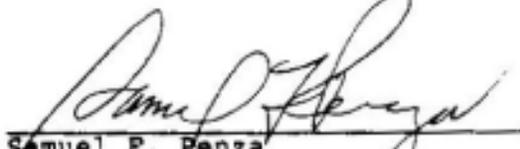
B. Non-Cost-Related Contracts

The policies and procedures for monitoring the level of service delivery in Non-Cost-Related Contracts are essentially the same as those established above for Cost-Related Contracts. However, since budgets and expenditure reports are not submitted for Non-Cost-Related Contracts, monitoring is based on a comparison between the Actual Units of Service delivered and the level agreed to in the Contract programmatic Annex. In most cases, a Contract Modification should result when a discrepancy exists between the two levels. (An exception would occur when the actual level of service is low and the Department chooses to pursue default options other than Contract Modification.)

Provider Agencies with a Non-Cost-Related Contract receive reimbursement based on a fixed payment rate times the number of billable (eligible) Units of Service. In only very rare circumstances will the rate itself change as a result of a Contract Modification. In most instances, a Contract Modification generated for level of service reasons will result in a change in the contracted level of service delivery and a corresponding change in the Contract upper payment limit.

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