

Introduction

In 2005, the Florida Coalition for Children developed and distributed the *Community Based Care (CBC) Subcontracting Guidelines*, which was incorporated into the Department's contracts with CBC Lead Agencies by reference. These guidelines are being revised by the Department to bring these guidelines up to date with the current contract requirements or practices.

- A new section is added to the framework highlighting the responsibilities of CBC Lead Agencies as entities that pass state and federal funding through to subrecipients.
- Cost Analysis was edited to reflect that the Department's contracts with CBC Lead Agencies contain negotiated thresholds for subcontracts, above which detailed cost analyses are required.
- The Expense Category definition is revised to express the Department's expectation for lower indirect costs.
- The references are updated, now include the Florida Single Audit Act, and an additional reference section is created for potential sources of best practices.

Current Status

The Department's contracts with CBC Lead Agencies, along with the state and federal laws, rules and regulations referenced therein, provide requirements for subcontracting by CBC Lead Agencies. At the time of publication of this document, the CBC Subcontracting Guidelines dated 9/12/05 were incorporated into the CBC contracts by reference. This document will be incorporated into current or future CBC contracts by reference, to replace the 9/12/05 version.

Most CBC Lead Agencies have been in place since 2005 and have developed robust systems for subcontracting to address these requirements. CBC Lead Agencies have established a workgroup of subcontracting professionals that meet and discuss best practices. However, since new organizations have been awarded contracts as Lead Agencies and with the potential for this to occur again in the future, each entity would then need to develop such systems. It is also possible that significant developments within an existing Lead Agency could cause that agency to re-evaluate its current practices for subcontracting.

CBC Subcontracting Framework

1. Procurement

Each CBC Lead Agency developed, in conjunction with DCF, a plan to procure subcontracts and services, as part of the readiness assessment. Procurement solicitations should include a well defined need for services to be delivered. The timeline and parameters for procurement must be reviewed, and updated if necessary, and followed. As those procurement procedures change, they should be updated and submitted to the State.

2. Cost Analysis

Prior to initiating a subcontract, the CBC Lead Agency must analyze the costs proposed in the services to be provided. This analysis is designed to ensure the appropriate costs in the proposal/budget, but also to validate that those costs are allowable, reasonable and necessary. This accountability will include the method of payment, as well as provisions for service delivery such as staffing patterns, service activities, hours and so on. Each CBC Lead Agency must

determine a dollar threshold for conducting a cost analysis, which must at least comply with the minimum dollar threshold established in the Department's contract with the Lead Agency. Additional consideration should be given by CBCs to perform detailed cost analysis in cases of non-competitive procurements in order to determine if the amount of the subcontract is fair value for the services being procured.

The subcontract cost analysis will include, at a minimum:

- Review of each major expense category: Salaries, Benefits, Operating, and Indirect
- Review of the ratios/percentage of the budget/cost dedicated to each category
- Review of the costs as reasonable and necessary
- Review of the costs as allowable
- Compatibility of expenses to fund source(s) to be utilized
- Review of previous costs (prior year or current year) for similar services (where possible)
- Review of market conditions for similar services (where possible)

This cost analysis will be conducted prior to the execution of a new subcontract and/or when a subcontract substantially changes. The nature of the analysis may differ depending on the nature of the services to be delivered and/or fund source(s) to be used.

3. Contract Requirements – Method of Payment/Staffing Requirements

a. Method of Payment

The establishment of a method of payment for a subcontract will take into account the mechanism that best ensures the delivery of services, promotes efficiencies and effectiveness and provides value. Methods that promote creativity and performance are encouraged, as long as fiduciary responsibility is maintained. Conditions outlined in the Cost Analysis and the market influence the appropriate method of payment for a prospective subcontract. Attention should always be paid to ensure a connection between expenditures and activities to the payment.

b. Scope of Work/Deliverables

Prior to execution, a clear delineation of the services and expectations will be determined. The scope of work, service delivery expectations and measurement of performance will be defined in each CBC Lead Agency subcontract. The expected volume and type of services to be delivered will be outlined in the subcontract. Minimum thresholds for services to be delivered, clients to be served, and so on, will be determined in subcontracts. The scope of work should be well defined to ensure that service delivery directly relates to payment(s).

c. Staffing Levels and Qualifications

The CBC Lead Agency will establish standards for subcontract maintenance of adequate administrative organizational structure and support staff sufficient to its contractual responsibilities and in compliance with all applicable administrative rules and statutes.

The CBC Lead Agency standards should ensure that all subcontractor's staff meet applicable state and federal licensing or certification requirements, as well as the level two background screening requirements established in section 435.04, Florida Statutes. Staffing levels may be established in subcontract language, including provisions for variations from these established levels.

d. Staffing Changes

The CBC Lead Agency subcontract language may include provisions for any requirements to notify the Lead Agency contract manager in writing of staff changes or excessive vacancies that have an impact on the performance of the subcontract. Impact should increase with an increased percentage of vacant positions.

4. Expenditure Analysis

Review of expenditures associated with service(s) is needed as part of ongoing subcontract management. Various reviews of expenditures are used for various specific purposes, all designed to: identify expenses as reasonable, necessary and allowable, develop spending projections for under/over expenditures, develop/validate market conditions for current and future year(s) and monitor subcontract requirements. Various expenditure reviews should be employed, based on the type and amount of a respective subcontract. Typical reviews could include (from least to most restrictive):

- Review of the Independent and/or Single Audit, typically used for subcontractor financial condition review and review of connection between financial statements and audit
- Un-Audited Year End Financial Statements, typically used to ensure appropriate expenditure of funds, and future subcontract commitments
- 9 Month Expenditure Report, typically used to plan future year subcontract amounts, and end of year planning
- Quarterly Expenditure Report, typically used for tracking of subcontract and fund progress, and mid-year subcontract adjustments
- Expenditure Report as Necessary, typically requested for specific purposes

Expenditure analysis should, at a minimum, review agency/program expenses as reasonable and necessary, as allowable under the subcontract conditions, compare with budget/cost analysis and compare to total subcontract expenditures. Expenditures should be made in accordance with applicable State and Federal Rules and Laws and be directly related to the subcontract. Expenditure reviews may cause a CBC Lead Agency to increase/decrease a subcontract amount in current or future contract year(s). Expenditure reviews should take the timing and intent of the review into account, with variances handled appropriately. Variances may result in current and/or future year contract changes, up to and including financial and service adjustments.

5. Pass-Through Entity Responsibilities

Organizations that pass federal and state funding to other organizations are subject to requirements found in federal and state laws, rules, and regulations. The OMB Circular A-133 and the Florida State Single Audit Act particularly address audit requirements. Policies and procedures should address these requirements for activities including:

- Making the subrecipient-vendor determination.
- Communicating audit requirements to subrecipients.
- Ensuring required audits are received.
- Reviewing audits for concerns or deficiencies.
- Taking action when concerns or deficiencies are identified.

Some best practices that may be considered are:

- Written policy for subrecipient audits and review of audits.
- Use of standardized checklists for review of audits.
- Use of standardized audit attachments.
- Requesting certification from subrecipients if they do not meet audit thresholds.
- Requesting certification from subrecipients that audits have been submitted as required to state and/or federal entities.

Definitions:

Expense Category – The major expense categories for a typical service contract include salaries, benefits, operating, and indirect. Each of these categories should be identified in a budget or expense report.

- Salary information should clearly indicate the number and level of positions included, as well as, in a budget, the individual salaries associated with each position level or type.
- Benefit expense should be a reasonable percentage of the total salary cost.
- Operating expenses should outline, at a minimum, major expense categories such as rent, travel, insurance, phone, computer and/or communications, supplies, equipment, recruitment and training. Operating expenses should be a reasonable percentage or total costs, for the services proposed.
- Indirect costs should not exceed 10% of the total costs, and include a detailed analysis when higher than 10%. Typical indirect costs include (but are not limited to) general administration, salary and expenses of executives or accounting, human resources, quality assurance/improvement, and information and technology.

Reasonable and Necessary Costs – A cost is considered reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision is/was made to incur the costs (OMB Circular No. A-122). In determining reasonableness of a budgeted or expended cost a CBC Lead Agency should consider if the cost is ordinary and/or necessary for the organization's operation, are/were restraints and prudence followed, and are/were there deviations from normal and/or established practices followed.

Allowable Costs – A cost is allowable if it is in accordance to the benefit received, treated consistently with other costs proposed/incurred for the same purpose if: it is incurred for the associated award and is a benefits the award, and/or is necessary to the overall operation of the organization (OMB Circular No. A-122). The CBC Lead Agency should take great care in the review of budgets/expenditures to align costs to the allowability of the specific fund source.

References

CBC Subcontracting document direct references:

- Florida Single Audit Act, section 215.97, Florida Statutes
- OMB Circular No. A-87
- OMB Circular No. A-110
- OMB Circular No. A-122
- OMB Circular No. A-133

At the time of publication of this document, information about the Florida Single Audit Act was available at the following website:

<https://apps.fldfs.com/fsaaa/>.

At the time of publication of this document, information about the Office of Management and Budget (OMB) circulars was available at the following website:

http://www.whitehouse.gov/omb/circulars_default.

Other potential sources of best practices include information from the Florida Department of Financial Services, Division of Accounting and Auditing, including:

- *State of Florida Contract and Grant User Guide*
- Comptroller/Chief Financial Officer Memoranda