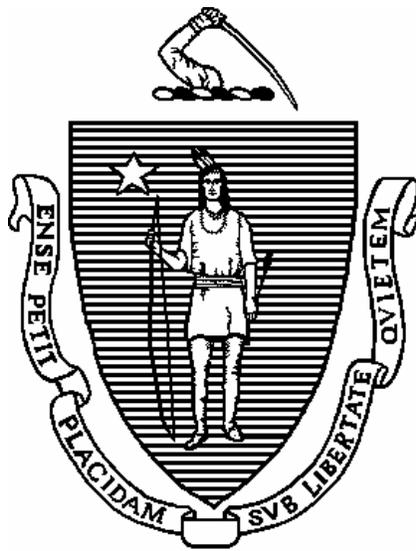


**EOHHS
PURCHASE OF SERVICE
CONTRACTING QUALIFICATION REVIEW INSTRUCTIONS
FOR
POTENTIAL NEW PROVIDERS**



Revised July 2007

**COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES**

**DEVAL L. PATRICK
GOVERNOR**

**JUDYANN BIGBY, M.D.
SECRETARY**

These instructions are available in alternative formats for accessibility purposes.

CONTRACTING QUALIFICATION REVIEW FOR POTENTIAL NEW PROVIDERS

(NEW PROVIDER SUBMISSIONS ARE DUE BY THE RFR PROPOSAL SUBMISSION DEADLINE UNLESS OTHERWISE SPECIFIED BY THE RFR.)

These instructions are for use with the Contracting Qualification Form which is accessible by the Potential New Provider from the EOHHS website noted below or may be distributed by the purchasing agency to bidders that are new to the EOHHS Purchase of Service (POS) contracting system. The purchasing agency will, as part of the RFR process, establish a mechanism for identifying bidders who are not already in the system. Usually, the potential new provider will be directed to [download the MS Word Contracting Documentation from Internet site and complete it in accordance with these instructions.](#)

Overview

While the Request For Response (RFR) process evaluates the programmatic capabilities of bidders proposing to provide contracted human services to one or more of the agencies under the Executive Office of Health and Human Services (EOHHS) secretariat umbrella, there are also numerous federal and state administrative requirements surrounding the expenditure of public funds with which EOHHS agencies and their contracted and subcontracted service provider organizations must comply. This "qualification" review is used to evaluate the bidder's administrative and financial capabilities to assume these responsibilities and to ensure that various contracting administrative preconditions are fulfilled. Qualification instructions are distributed to potential new providers as part of the Request for Response (RFR) bid solicitation process and technical assistance is provided by the purchasing agency as needed to assist these organizations in completing the submission process. When a potential new provider participates in its first human services bid process with an EOHHS purchasing agency, that agency becomes the "Principal Purchasing Agency" (PPA) and is responsible for processing the bidder's qualification submission prior to any contracting award determination. Ordinarily, the bidder's qualification submission is due no later than the submission deadline for the bid response submission.

The contracting qualification review for potential new providers is performed to:

1. Ensure the financial and program integrity of the Purchase of Service (POS) System;
2. Minimize financial and administrative risk to the Commonwealth and the people served through the POS system; and
3. Maintain current, accurate information on Purchase of Service organizations, including addresses, contact names, and other information critical to the effective and efficient management for the POS System.

If the organization is awarded a contract and becomes a POS provider, an annual qualification process is conducted by the PPA and serves to update organizational and risk assessment status information and provides a means for resolving any identified audit issues. Failure to meet qualification requirements may preclude contract finalization for qualification periods or result in early termination of any existing multi-year contracts. If the organization eventually enters into contracts with other EOHHS agencies, there is no need to duplicate the review since the original purchasing agency, as the assigned PPA, conducts the process on behalf of all other EOHHS agencies.

New providers are advised to promptly visit OSD web site at their [Procurement Information Center](#) to familiarize themselves with the State's procurement process. Each major component of the procurement process is presented as a link from this page. The major topics are listed along with associated policy and expanded guidance. Also, Regulations (801 CMR 21.00, Procurement of Commodities and Services, Including Human and Social Services and 808 CMR 1.00 Compliance, Reporting and Auditing for Human and Social Services) can be accessed through the Regulations link on this page. To familiarize themselves with the State financial reporting requirements, new providers should visit the OSD web site at [Information and Resources on the Uniform Financial Reports](#) or contact OSD at (617)-720-3300.

Technical assistance is also available from PPA staffs to help minimize the misunderstandings and managerial complications that occasionally arise while new providers learn the intricacies of governmental human services contracting. For example, organizations that previously engaged CPA firms for routine financial audits under the provisions of the AICPA Audit and Accounting Guide for Not-For-Profit Organizations (ANPO) may find that their audits will also be required to be conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS, a.k.a. GAS) if the procurement exceeds exemption/exception thresholds established by OSD.

Note that while completion of the provider qualification process by new providers is required in conjunction with the RFR response submission, it is a distinct process and PPA staffs are available to provide any necessary one-on-one qualification technical assistance to new bidders. If these instructions fail to answer all your questions, please do not hesitate to contact your PPA representative identified in the RFR instructions. [A PPA/Departmental contact listing can be found here.](#)

CONTRACTING QUALIFICATION FORM INSTRUCTIONS

The following instructions have been structured to be read on a step-by-step basis while completing the MS Word Contracting Qualification Form. If necessary, please feel free to contact the PPA representative identified in the RFR and request their assistance.

SCOPE OF SUBMISSION

EOHHS purchasing agencies utilize a contracting qualification process that groups the evaluation of commonly controlled, affiliated or related organizations under a single consolidated review using a series of contracting codes for tracking purposes. Financial statement and other submissions must encompass all affiliated/commonly controlled organizations and all related party and significant contracted management or direct service arrangements, regardless of whether or not the other organizations directly provide contracted human services to the Commonwealth. (Certain exceptions to this rule have been established for "YM/WCA" organizations and similar entities that are essentially independent of national umbrella organizations for financial, administrative and governance purposes.) If you have any questions about this requirement, please contact your PPA. **If the potential new provider is in any way associated with an existing organization holding human service contracts with any EOHHS agency, please make sure that you complete the Supplement to the Contracting Qualification Form for each affiliated organization, since it may be necessary to consolidate qualification reviews, adjust PPA assignments or execute revised documents for the Office of the State Comptroller rather than conduct the usual freestanding qualification process for a new provider.**

I. INFORMATION FOR PRIMARY ORGANIZATION

Primary Organization Name: Enter the name of the primary organization using the legal name rather than a DBA name. Where the primary organization is a "non-contracting parent" entity (e.g., a corporation whose child/affiliate organization will be the actual contractor), please enter an **X** at the beginning of the next line.

FEIN/TIN: Federal Employer Identification Number – a.k.a. "Tax Identification Number".

Organization Type: Select the applicable category from Non-profit, For-profit, or Governmental entity.

Organization's Corporate Address: Please complete all fields (using 2 letter state codes and 5 digit zip codes).

Chief Executive Officer (CEO), Contracting Qualification Contact Person: These fields should be self-explanatory. Please complete each field as though it were freestanding. Do not enter "same" where a single individual occupies multiple roles.

II. SUBMISSION MATERIALS

1. Financial/Audit Information

FY End: Please enter the fiscal year end date for the covered reporting period.

Submission Type: Use the Submission Type field to identify the type of submission (Compilation Report, Audited Financial Report, Review Report, etc.). The appropriate option to select should be clear once you have read the remainder of this section. A copy of the organization's OSD/UFR filing must be submitted to the PPA by potential new providers that are already subject to UFR reporting requirements (e.g., certain organizations such as private Special Education schools already filing the UFR due to procurement by towns and other non-EOHHS governmental purchasing agencies). However most new providers are not yet subject to UFR filing requirements and are therefore subject to alternative submission requirements.

New providers typically fall into one of two categories: Newly formed organizations without a financial history and pre-existing organizations with a financial history.

Newly formed organizations with no financial history may fulfill the financial/audit information requirement in the following manner.

- A letter or line of credit in the name of the organization or other evidence of the organization's ability to sufficiently fund at least two months of program operations (in lieu of the "satisfactory financial condition" standards included in this package) may be submitted.

Pre-existing organizations with a financial history for which UFR submissions are not yet required shall be evaluated on the basis of non-UFR format audited financial statements or alternative information that is already required to be submitted to other governmental agencies (e.g., IRS Tax Form 990, Office of the Attorney General - Division of Public Charities Form PC, or other filings (e.g., "review" statements where audited statements are not already required by other governmental agencies and do not exist). Simply send a copy of the existing documentation to the PPA with your New Provider qualification submission.

As set forth in the Scope of Submission section of these instructions, commonly controlled/affiliated organizations must submit financial information covering all involved entities, not just those contracting with the Commonwealth or filing the UFR with OSD. If you are in any doubt regarding financial information submission requirements, contact your PPA representative. If submitting a UFR copy as your financial documentation, please be sure to submit an entire copy of the document, including all supplemental schedules and attachments (e.g., "management letter"). UFR audit submissions that have been deemed deficient by OSD cannot be accepted for qualification purposes. If corrections or resubmissions are required by OSD, please notify your Principal Purchasing Agency (PPA) Provider Qualification Liaison when your organization has corrected or resubmitted the UFR to OSD.

OSD/UFR filing requirements usually begin once the provider has completed a full twelve months of contracting with the Commonwealth. After the New Provider completes the first year of contracting with the Commonwealth, OSD requires that providers electronically submit a copy of their UFR (usually within the 15th day of the fifth month following the provider's fiscal year end date) to them. The PPA will download the provider UFR submissions from the OSD e-file webpage for analysis and provider qualification purposes. There is no need for the provider to forward a copy of the annual UFR, if applicable, to their PPA. During the first year of contracting with the state, new providers typically will be subject to alternative financial submission requirements during the annual qualification process. Once OSD/UFR requirements apply, alternative financial information submissions will no longer be accepted for annual qualification purposes.

Corrective Action Plan

Potential new providers are usually not required to develop a Corrective Action Plan (CAP) since they are usually not yet subject to GAS audits which might generate internal control or compliance audit findings requiring resolution. If your organization is already subject to audit requirements (e.g., A-133) that have resulted in findings requiring resolution, please include a copy of the Corrective Action Plan in your submission to the PPA for informational purposes. Although Corrective Action Plans may also be required to address serious financial issues, that situation is unlikely to arise for new providers since, barring unusual circumstances, purchasing agencies are unlikely to qualify and make contract awards to organizations with serious financial condition deficiencies. Please review the Satisfactory Financial Condition Criteria in this package in conjunction with the Summary Financial/Audit Information just to be sure that a corrective action plan is not required and, for informational purposes, to familiarize yourself with requirements which will apply to your organization once it becomes an ongoing provider. If necessary, the PPA will contact you after completion of its review of your financial submissions to discuss the need for a CAP or other corrective measures.

2. Additional Submission Requirements

a) Federal Employer Identification Number (FEIN) Documentation / W-9

Please enclose documentation of the organization's FEIN (e.g., IRS notification letter) along with the **MA Comptroller's Substitute W-9** Form (obtainable from your PPA or from the Comm-PASS Internet site) if it has not already been included in the RFR submission. This documentation is required for vendor file set-up purposes. Depending on the circumstances, the PPA may also require the submission of additional forms required by the Office of the State Comptroller (OSC, a.k.a. "CTR") such as signature authorization forms or electronic funds transfer forms. Contact the PPA representative if submission requirements have not been specified in the RFR or if you have any questions.

b) Terms & Conditions for Human and Social Services Contracting

New providers must execute and submit the Commonwealth's Terms and Conditions for Human and Social Services (TCHSS) as a precondition for contracting if one is not already on file with the Commonwealth. This document is distributed in conjunction with each RFR through the Commonwealth's Procurement Web Site at [Bringing buyers and vendors together](#). Potential new EOHHS providers should either confirm in the annual qualification submission that a current TCHSS has already been filed (e.g., where the organization is already a POS provider for another Secretariat) or submit the TCHSS form as part of the qualification or RFR response submission as instructed by the purchasing agency. The document will then be on file with the Commonwealth as long as it remains valid and will not have to be resubmitted for future RFRs. Where qualification submissions cover more than one organization with a single Federal Employer Identification Number (FEIN - a.k.a. Taxpayer Identification Number or "TIN") , a valid TCHSS must be on file for each distinct FEIN used for contracting with the Commonwealth. If you are not sure whether or not TCHSS submission or resubmission is required, please contact your PPA representative for guidance.

c) Articles of Organization/Corporate Bylaws

Please submit copies of these documents. The services and activities of the provider must be within the scope allowed by governance documents. Where organizational activities are governed by additional legal restrictions such as those set forth in affiliation or pending merger agreements, those documents must be submitted as well.

d) Board/Principals Information

Please submit a copy of the most recent Secretary of State, Corporations Division, Annual Report. Note that, unless exempt (e.g., religious organizations and Special Education Chapter 766 schools), annual reports must be filed with the Secretary of State by November 1st of each year for non-profits and within two and a half months of the fiscal year end for for-profits and out-of-state "foreign corporations" doing business in the Commonwealth. **Failure to file as required can result in involuntary suspension by the Secretary of State of the organization's charter to do business in the Commonwealth.** *New providers should also familiarize themselves with the governance standards appearing in the Terms & Conditions for Human and Social Services (TCHSS) referenced in item d, below.* If your organization is exempt from the Secretary of State's reporting requirement, membership changes have occurred since the most recent annual report, or if other disclosures are required (e.g., if the board is temporarily out of compliance with the TCHSS independent governance provisions), please submit the information using an alternative format. Contact the PPA representative for guidance if necessary. Resumes are also required for principals (e.g., Chief Executive Officer, Chief Fiscal/Administrative Officer, Chief Program Officer) of the organization (and, if applicable, any commonly controlled/affiliated entities). Note that this submission requirement is distinct from any requirements for staff resumes that may appear in the RFR.

e) Organizational Chart

Potential new providers must submit an organizational chart displaying the overall structure of the organization. (The information must cover any commonly controlled/affiliate organization, related party, significant subcontract, management service and assignment relationships for all involved entities, not just those entities directly providing contracted services to the Commonwealth.) Note that this requirement is distinct from any RFR requirements that may call for submission of programmatic organizational structure information as part of the RFR response.

3. Exemption

Governmental/Public Entities

If your organization is a Governmental entity (a.k.a. "public entity"), it is exempt from item 2 c/d/e submission requirements and will be **Qualified as Exempt** for contracting purposes with EOHHS agencies unless POS related audit or other issues have been identified. In instances where the governmental entity also has a non-governmental entity contracting affiliate organization, financial and other submissions are required.

Even if your organization is otherwise eligible for this exemption, it may be subject to federal A-133 audit requirements if its expenditures of federal funding (received from Commonwealth, federal, and/or non-Commonwealth pass-through entities) exceeded the \$500,000 A-133 audit threshold. If so, this exemption cannot be claimed. Similarly, the need to resolve outstanding audit findings (e.g., from audits conducted by the Office of the State Auditor) may preclude exemption where the audit findings pertain to issues that are relevant to the delivery of contracted human services.

III. RELATED PARTY DISCLOSURE CERTIFICATION

OSD regulations (808 CMR 1.04(4)) and state law require prior notification to OSD and purchasing agencies of related party arrangements. *OSD Related Party regulations follow FASB 57 standards, which very broadly define "control" to include indirect control, and situations where inter-organizational transactions may be absent. The regulatory definition of "related parties" is substantially broader than the approach commonly used by organizations for IRS tax purposes and failure to comply with prior disclosure requirements may result in payment penalties or other action.* Guidance materials appear in the OSD/UFR package, which may be obtained, along with the regulations, from the OSD web site at [Information and Resources on the Uniform Financial Report](#). Contact your PPA or OSD if clarification is needed. Annual qualification disclosure fulfills this requirement in most instances. However, if your organization plans to enter into new related party arrangements prior to the next qualification submission, prior notice must be given as required by law.

IV. FEDERAL DISCLOSURE, TAX AND OTHER COMPLIANCE CERTIFICATION

The representative formally authorized by the Board of Directors to execute contracts with the Commonwealth must complete this certification by signing in the Authorized Signature field. If you have any question regarding the certification requirement, please contact the PPA representative. Note that purchasing agencies are barred by statute from contracting with entities that are out of compliance with tax filing and payment requirements. If your organization falls out of compliance with tax filing and payment requirements while it is contracting with the Commonwealth, purchasing agencies may have no legal alternative to immediate contract termination.

The Federal Disclosure incorporated into the certification statement is a mandated federal prerequisite to RFR participation and contract award and must be completed before an RFR response can be accepted for federally funded procurements. [A list of federally excluded parties may be found here.](#) In addition, as part of the bid or contract execution process, organizations may be required to execute supplemental certifications, this may be mandated by applicable procurement laws (e.g., state Northern Ireland statutes). If you have any question regarding certification requirements, please contact your PPA representative.

SUPPLEMENT TO CONTRACTING QUALIFICATION FORM

This Form is used to record information for any child/affiliate POS contracting organizations (e.g., subsidiaries) included in the qualification review. See **Section I. Information for Primary Organization** for completion guidance.

The authorized representative for each organization contracting with the Commonwealth must, under penalties of perjury, sign the certification line provided for that organizational Federal Employer Identification Number (FEIN) as required by the preceding instructions for sections III and IV. The MS Word worksheet has been formatted to display a signature field whenever an affiliated entity listing utilizes a new FEIN.

Please forward the signed printed form(s), accompanied by all other additional submission requirements, to your PPA representative at the address noted in the [EOHHS Provider Qualification Contact Listing](#). Thank You.

OTHER INFORMATION

PPA Review and Assignment of Status

The PPA will review the submission for financial condition, audit and other risk factor issues and assign one of the following statuses:

- **Limited Qualification** (the organization, including affiliates, receives less than \$100,000 in M03 and MM3 POS funding from the EOHHS oversight agencies and is not subject to an OMB A-133 audit filing);
- **Unconditional Qualification** (in satisfactory financial condition and no audit or other corrective action requirements or procurement restrictions apply);
- **Qualification with Corrective Action Plan** (providing for the correction of audit findings and/or significant issues warranting use of a formal Corrective Action Plan);
- **Conditional Qualification** (where serious issues exist and the organization is, as a result, deemed not qualified to do business with the Commonwealth without significant restrictions on contract awards and/or service expansion);
- **Provisional Qualification** (where the best interests of the Commonwealth warrant restricted temporary procurement with a not yet qualified organization pending fulfillment of qualification submission requirements);
- **Exempt Qualification** (where the organization is a governmental entity and is not subject to federal OMB A-133 audit requirements or outstanding audit findings, conducted by the Office of the State Auditor, that may be relevant to the delivery of contracted human services); or
- **Rejected Qualification** (qualification requirements have not been met.)

Upon completion of the review, the PPA will enter a status into the Provider Data Management (PDM) system where the provider will be able to access their annual qualification status. (The provider will be required to apply for a User ID and Password from the Virtual Gateway Help Desk at 1-800-421-0938 in order to access their qualification status and other financial and administrative information). Once the qualification status is recorded into the PDM database, the status will be used by purchasing and other oversight agencies for the purpose of determining eligibility for contract awards and to engage in human services contracting for the upcoming fiscal year.

Late/Incomplete Submissions

Potential new providers that fail to submit all required information by the deadline established by the purchasing agency may be declared ineligible for a contract award, although contracting qualification submission deadline extensions may be made, at the sole discretion of the PPA, for good cause in exceptional situations. If your organization is unable to meet the filing deadline and believes that exceptional circumstances warrant a brief extension (e.g., FEIN notification has not yet been received from the IRS for a newly incorporated organization or a Corrective Action Plan appears to be required and board approval can not be arranged prior to the submission deadline), please seek approval from your PPA as soon as possible. Providers may be rejected if they fail to meet minimum standards or fail to submit all required information before contracting decisions have to be made. In the alternative, where it has not been possible to complete the review due to failure by the provider to complete one or more submission

requirements and the PPA has determined that the interests of the Commonwealth justify continued procurement, the provider may be **Provisionally Qualified** for a period not to exceed three months, during which the provider must come into full compliance or contracts shall terminate at the end of the provisional qualification period. *Barring exceptional circumstances justifying a submission due date extension, payment delay and/or other penalties will be imposed pending completion of the requirements and the provider will not be eligible for participation in the Office of the State Comptroller's Ready Payment system. Additional penalties initiated by OSD pursuant to OSD regulations covering UFR filing requirements may also be imposed where applicable.*

What happens if information changes after the provider has been qualified?

A qualification status remains valid until the following year's qualification process is completed, unless changes are warranted at an earlier date. Significant changes which are material to a provider's status must be reported at the time of change and may be considered by the PPA in determining whether a provider's status should be changed or whether an existing Corrective Action Plan should be modified. Examples that require reporting at the time of change rather than at the next scheduled contracting qualification cycle include, but are not limited to: UFR filings or refilings with due dates other than November 15th, changes in debarment or tax and other compliance status, related party changes, merger or other corporate restructuring, significant change in financial position, or issuance of contract monitoring or audit findings (e.g., by the Office of the State Auditor) subsequent to the information relied upon in the most recent qualification determination.

Prompt reporting of any merger or other corporate restructuring arrangements is required both for the purpose of reassessing the qualification status of the changed entity and in order to ensure adherence with Commonwealth requirements for rebidding services and updating Terms and Conditions as well as other contracting documents. **Providers should not assume that contracts will automatically be transferred to restructured entities and are urged to discuss proposed restructuring arrangements with the PPA and other purchasing agencies prior to implementation.**

Subcontracting?

If your organization will be engaged in subcontracting, as defined by 808 CMR 1.00, for EOHHS Human and Social Services, please contact the purchasing agency regarding audit and other requirements applicable to subcontracted services. Please note that the 808 CMR 1.00 definition excludes relief agency and other services that do not constitute an actual program of service.

Need Further Assistance?

Please contact your PPA representative identified in the [Contact Listing](#).

This criteria worksheet is intended as an aid to the provider in identifying issues that will be covered by the qualification review conducted by the PPA and to assist in the identification of situations where a Corrective Action Plan (CAP) will automatically be required. It does not cover every conceivable issue and may not determine the final qualification status of the provider. ***This worksheet does not have to be submitted to the PPA.***

CONTRACTING QUALIFICATION CRITERIA WORKSHEET

Partial Submission Exemption/Exception Categories

- 1. LIMITED QUALIFICATION REQUESTED (Check below if applicable)
 - \$100K Limit, including affiliates, and not subject to audit findings or an OMB A-133 audit filing;
- 2. GOVERNMENTAL/PUBLIC ENTITY WITHOUT an OMB A-133 AUDIT REQUIREMENT; and
- 3. NEWLY FORMED ORGANIZATION WITH NO FINANCIAL HISTORY

(SKIP TO ITEM 17 IF ITEMS 1, 2 OR 3 APPLY.)

Criteria to Pass (See Satisfactory Financial Condition Criteria page for further details regarding financial items.)

UFR/Financial Condition Issues:

- * 4. UFR Audit Format used where required.
- * 5. GAGAS/A-133 Audit submitted if required, *including all attachments/Management Letters.*
- * 6. There is no unsatisfactory Audit Opinion (i.e., No Going Concern, Adverse, Disclaimer or Qualified opinion).
- * 7. There are no Internal Control or Compliance Audit Findings or Reportable Conditions (excluding non-reportable management letter issues or other items expressly exempted from resolution by the OSD Audit Resolution Policy).
- * 8. There is a positive Net Assets position (a.k.a. Net Worth/Fund Balance) and a positive Operating Fund balance.
- * 9. There has not been an Operating Loss > 5% and any loss, if continued, would not result in a fund deficit within 24 months.
- 10. If there has been an Operating Loss, it has not been preceded by a significant Operating Loss in either of the two prior years.
- 11. There has been no sharp decline in the Operating/Current Unrestricted Fund.
- 12. Current Assets exceed Current Liabilities (Current Ratio > 1.0) and there are no serious cash flow problems.
- 13. There has been no sharp decline in Working Capital and Working Capital is not marginal.
- 14. There has been no excessive accumulation of Accounts Receivable, Bad Debt or Free Care.
- 15. Any growth has been reasonable and consistent with available financial and administrative resources (e.g., growth has not been in excess of what can be supported by the organization's Return on Assets).
- 16. There are no Contingent Liabilities significant enough to jeopardize the organization's financial stability.

Contractual Compliance Issues:

- ** 17. Bankruptcy/Receivership action is not pending or ongoing.
- ** 18. There are no Tax or Insurance/Benefit Liabilities beyond those permitted by law.
- ** 19. OSD or HCFP sanctions have not been proposed or implemented.
- ** 20. All Related Party Disclosure/Compliance requirements have been met.
- ** 21. The provider has adhered to all Reimbursable Operating Cost restrictions.
- ** 22. No qualification of the Federal Disclosure, Tax and Other Compliance Certification is required.
- ** 23. No significant Licensure or required Accreditation/Certification deficiencies exist.
- ** 24. All Board Governance, Management Compensation and other applicable Organizational Requirements (e.g., AG/Public Charities & Sec. of State Corporate filings) have been met.
- * 25. All Office of the State Auditor findings or other governmental procurement audit/review reports have been fully resolved to the satisfaction of the Commonwealth.
- * 26. All prior Corrective Action requirements have been met.

If all criteria items can be checked as passed, submission of a Corrective Action Plan (CAP) is not required unless requested by the PPA.

If not all items can be checked as passed, all identified deficiencies/issues should be discussed with the PPA to determine whether or not a formal CAP must be executed and submitted to the PPA. Unless the qualification is being rejected, a formal document is automatically required for all deficiencies involving items marked with an asterisk * and is generally required for all items marked with a double asterisk ** since these items involve fundamental contractual compliance requirements. PPAs, at their discretion, may require formal Corrective Action Plans for other deficiencies/issues or may require informal or alternative corrective action/monitoring arrangements. (Please see the accompanying Corrective Action Plan Information Sheet for completion instructions.)

SATISFACTORY FINANCIAL CONDITION CRITERIA

Satisfactory Financial Condition shall be defined as the organization's meeting the following minimum conditions:

1. The auditor has rendered an unqualified opinion on the basis of applicable auditing standards and the report does not include a "Going Concern" financial statement note (in lieu of a Going Concern opinion).
2. The organization has a positive net assets position (a.k.a. net worth or fund balance) and a positive operating fund (UFR Current Unrestricted Fund) balance.
3. Single year operating losses do not exceed five percent of annual operating expenses and, if continued, would not result in a fund deficit position within the following 24 months.
4. If an operating loss has occurred, it has not been preceded by a significant operating loss in either of the two prior years.
5. There has not been a sharp decline in the operating/current unrestricted fund. (Threshold subject to PPA professional judgment – e.g., a 15% decline as part of a downsizing/spin-off initiative by an organization with a substantial operating fund balance might not warrant concern while a smaller decline for an expanding organization with a modest operating fund balance could.)
6. Current assets are greater than current liabilities and there is no evidence of serious cash flow problems (e.g., missed/delayed payrolls, tax liens, cancelled/overdrawn Lines of Credit, excessive accumulation of accounts payable, requests for accelerated purchasing agency invoice processing).
7. There has not been a sharp decline in working capital and working capital is not so marginal as to create a risk of financial instability in the event of a moderate loss (e.g. 3-5%) for a single year. (While individual organizational situations and working capital requirements may vary, the PPA would usually regard anything less than 10 calendar days of working capital as unsatisfactory.)
8. There has not been excessive accumulation of accounts receivable, bad debt, or free care. Secretariat-wide thresholds have not been established due to reasonable variances that exist for specific sub-industries (e.g., mental health centers or other Medicaid/third party billers). The PPA is responsible for the application of thresholds that are appropriate to the characteristics of their provider groups. Normally, more than 90 days in accounts receivable are considered excessive.
9. There has been no pattern of excessive growth beyond rates reasonable and consistent with available financial and administrative resources of the organization (e.g., in most instances organizations should generate a rate of return on assets sufficient to cover inflation and planned growth).
10. There are no contingent liabilities (e.g., pending litigation, property liens) significant enough to jeopardize the organization's financial stability.
11. There is no pending or ongoing Bankruptcy or Receivership action involving the provider.
12. There are no tax or insurance/benefit liabilities beyond those permitted by law.

(Note: Items 11 and 12 are key contractual compliance requirements as well as satisfactory financial condition criteria.)

If the financial statements or other evidence indicate that these conditions have not been met, or where other deficiencies related to financial condition, audit issues, management or other situations relevant to the level of risk posed for the Commonwealth and its consumers have been identified by the PPA (e.g., failure to comply with Secretary of State or Public Charities filing requirements, issues cited in contract monitoring reports, etc.), corrective measures may be required and, if approved, the provider may be categorized as Conditionally Qualified. As noted, the execution and submission of a formal Corrective Action Plan is automatically required for audit and certain other deficiencies. Other issues may be addressed more informally at the discretion of the PPA without execution of a formal Corrective Action Plan.

CORRECTIVE ACTION PLAN INFORMATION SHEET

PLEASE REVIEW THE ACCOMPANYING SATISFACTORY FINANCIAL CONDITION CRITERIA AND THE CONTRACTING QUALIFICATION CRITERIA WORKSHEET TO DETERMINE WHETHER OR NOT A DRAFT CORRECTIVE ACTION PLAN SHOULD BE INCLUDED IN YOUR ORGANIZATION'S SUBMISSION. If all criteria worksheet items have been passed or if problems have been identified only for items not marked with a single asterisk, a Corrective Action Plan does not have to be submitted unless the PPA has requested one. The PPA will contact you if necessary to discuss informal corrective measures.

If a Corrective Action Plan (CAP) is required.....

A Corrective Action Plan (required to address audit findings or other inadequate financial ratio issues) is a plan developed by the contracting provider for the correction of deficiencies that are incorporated into an administrative agreement as a result of negotiation between the provider and the PPA representative. A formal agreement, executed by both the provider and the PPA, must be developed for each provider where audit resolution issues or other items marked by a single asterisk on the enclosed Qualification Criteria Worksheet apply. At the discretion of the PPA, either a formal CAP or informal/alternative corrective action or monitoring arrangements may be required where the provider has been determined to be in less than satisfactory financial condition, or where contractual compliance, managerial/organizational or other identified issues have been identified. Note that informal approaches may not be used to resolve audit findings since execution of a formal Corrective Action Plan (CAP) is required by the Operational Services Division Audit Resolution Policy. The Qualification Criteria Worksheet accompanying this package has been enclosed for your convenience in determining whether or not a draft plan should be included in your organization's submission. If a formal Corrective Action Plan is required, it must include:

A statement identifying the financial, managerial, programmatic, compliance or audit issues;

The corrective action measures being taken to address the cited deficiencies;

A timetable for resolution of the deficiencies;

The criteria and evaluation process for determining whether the corrective measures have achieved the desired result;

The status of corrective action on prior audit findings and licensing or other deficiencies, if applicable;

The name and title of the person responsible for overseeing the corrective measures; and

A statement that it has been approved by the Board of Directors as well as signatures of the provider's Authorized Signatory and the PPA representative. (Since CAP submissions are treated as "draft" until finalized and executed by the PPA, providers should be prepared to secure formal Board of Directors approval on short notice where draft provisions are being modified.)

A-133 Audit and Office of the State Auditor audit findings must be clearly labeled as "A-133" or "OSA" in freestanding Corrective Action Plans, which cover each audit finding on a point-by-point basis. See the OSD Audit Resolution Policy or contact your PPA for detailed audit resolution guidance. Each Corrective Action Plan must be signed by both the PPA and provider since these documents are filed with OSD and, where applicable, Federal authorities. Governmental Auditing Standards and OMB Circular A-133 provisions require that the resolution status of prior audit findings also be reported. Normally, this status is reported by the current auditor in the body of the audit report, however the separate reporting of supplemental resolution status information may be required in some instances by the PPA or by OSD. As required by OMB Circular A-133 and applicable OSD and Secretariat policy requirements, Corrective Action Plans and the audit resolution must be completed within six months of the receipt of the audit report except in situations involving extraordinary circumstances such as litigation.

Please note that the Excel application used for the contracting qualification process includes a template that was designed to promote compliance with the above specifications. The PPA may waive use of the template where special circumstances such as the execution of consent decrees or other legal filings require a modified approach. Regardless of format, the above specifications must be adhered to and Corrective Action Plans must be executed as freestanding documents.

Governmental Entities Note: Corrective Action Plans with the PPA are required only for POS related findings. Seek clarification from OSD and your PPA if you believe this to be your situation.

Note: The PPA, at its discretion, may require independent documentation by auditors or others confirming the completion of corrective measures in a timely manner. *Failure to fulfill Secretariat annual qualification and corrective action requirements shall be grounds for contract termination, payment delays or other penalties pursuant to 808 CMR 1.04 (3) and the Commonwealth Terms and Conditions for Human and Social Services.*