



Local Partnership Operations Manual

9. Contracting

9-A. Introduction

There are four basic contractual relationships that you will enter into, besides your annual grant agreement with SC First Steps:

- Between Local Partnerships and vendors who can use a **Purchase Order** to provide **Goods** whose total costs are equal to or less than \$2,500.
- Between Local Partnerships and the contractors who provide **Goods** above \$2,500.
- Between Local Partnerships and the contractors who provide **Services**: programmatic, other. This contract may include goods to be purchased in complicated situations.
- Between Local Partnerships and other organizations in **Collaborative Agreements** where money does not change hands.

The goal in establishing legally binding and professional contracts is to establish clear roles and responsibilities of the contractor and the Local Partnership. Differences in interpretation can result in the need for legal consultation or arbitration, both of which can be costly and time consuming. Establishing clear, comprehensive and professionally worded contracts will help avoid potential problems.

The focus of this chapter is to discuss the contracts the Local Partnerships may execute. Included in this chapter, are 4 templates that can be used and adapted as needed. It also includes a section discussing contract monitoring as well as a brief discussion on contract amendments.

General Contract Guidance:

While developing a contract, it is important to consider that the structure of a contract can have an impact on outcomes. While it may be obvious, efforts must be made to ensure that all parties understand the contract. No work should begin prior to the contract being signed. Also please be mindful that all questions should be resolved before the contract is signed. OFS requires that you have a legal contract in place with all contractors. This can be as simple as a Purchase Order, or as comprehensive as the Service or Goods Contract templates. It is also important as collaborative efforts are established between multiple organizations, that a written agreement describes each party's agreement and understanding. This will help communications and build stronger partnerships.

Annual Local Partnership Grant Agreement:

This agreement will be entered into between the Local Partnership board and the OFS each year when the state Board of Trustees (BOT) approves your funding formula grant application. This agreement outlines information regarding the Local Partnership award and the responsibilities of OFS and the Local Partnership. If you have questions about this contract, please contact your Program Officer.

Goods Contract Options:

There are two types of Goods Contracts that you can use. They include goods purchases that are equal to or less than \$2,500, which would be a **Purchase Order**, or above \$2,500, which would be a **Goods Contract**.



Goods Contracts:

The Goods Contract template can be used if the Local Partnership needs to purchase goods for amounts greater than \$2,500. It is comprehensive and describes the responsibilities of both parties. This is a template and can be modified as needed. It includes an addendum that can be used to spell out details of the goods. This contract can be used in conjunction with the Purchasing guidelines to meet your needs for any items.

Purchase Order

The Purchase Order can be used for any goods that are being purchased for \$2,500 or less. It is a simple contract that can be executed very quickly and contains simple standard legal guidance that should help protect the Local Partnership. The PO can be used for one-time services as well, such as a plumbing repair or computer repair. This can be used anytime the vendor and Local Partnership deem necessary as long as it does not exceed the total cost limitations.

Each Purchase order will be given a number. The numbering convention will be as follows:

FY	County Number	Document # (Consecutive Order for FY)
20	- 26	- 101 =20-26-101

Service Contracts:

The Service Contract Agreement should be used only for services to the Local Partnership. This could include a wide range of services. While standard fee-for-service contracts are most common, there are a variety of contracting options available. Fee-for-service contracts are clear; a vendor is paid for providing a specific service and payment is tied to providing the tasks required. For example, you might contract with a local school district to provide parenting education for children before school entry in your community. Very likely, you will pay the school for a specified number of children which would allow an underserved child to participate in the Parents as Teachers program. You will pay the school as they provide documentation showing services are rendered and they provide services for children and families for the duration of the contract.

Another option is the performance-based contract. In this model, a vendor is paid for outcomes/results rather than inputs. For example, a contract is developed indicating specific outcomes required and the vendor is paid if the result occurs. This model can be challenging in human service agencies since it is often long-term results that are desired. However, this model does have some applicability for OFS. For example, the Local Partnership may choose to contract with a vendor to provide adult literacy classes. In a performance-based contract, the Local Partnership pays the vendor a set amount for each adult in the class who achieves reading at a certain grade level at the end of the program. Subsequently, the vendor's primary responsibility is to ensure that this outcome is achieved. If the outcome is not achieved, they are not paid. The risk is left entirely with the contractor.

Service Contract Agreements should be based on an annual agreement. OFS guidelines allow up to 4 renewals (5 years) without rebidding for contracts above \$10,000. Language should be included in your contracts spelling out any renewal options. Remember, you should follow the purchasing guidelines established for the Local Partnerships when using contracts. Even with the renewal clause in the agreement, a new agreement should be signed each year.

Note: It is important to clearly identify if a service contract is the correct way to handle a service need that requires personnel. The IRS has identified 20 criteria to evaluate whether a person should be a contractor or an employee. This can be a complicated evaluation as there are 20 different criteria that need to be used. Generally, it is far less risky to hire someone as an employee if the Local Partnership is uncertain. Generally, if the contractor does the same work for many organizations, or has a business license, and

separate tax ids for that business, there should be much less risk associated with hiring them to do work as a contractor. If the Local Partnership is using a social security number for the person as the tax id for a contractor, paying them an hourly rate, or based on hours of work, completion of a time-card, etc., there is greater risk in hiring them as a contractor. These items would indicate the individual is an employee. The risk of having a contractor that should be an employee to the Local Partnership can be significant if there should be an audit and they are found to be incorrectly treated as a contractor. We would encourage the partnership to seek guidance from Tax Professionals if they are uncertain. For more information, refer to the IRS guidance on identification of a contractor versus an employee.

Collaborative Agreements:

This contract does not include any transfer of funding. The agreement details what each partner is going to do in a Collaborative arrangement that is beneficial to all partners. This document can help document sharing of confidential information, spell out responsibilities, document communications, etc. It makes these efforts official and helps clarify roles.

9-B. Contract with Vendors

First Steps legislation requires each Local Partnership to conduct a competitive bid process whenever purchased goods or services are equal to or greater than \$10,000. Establishing good contracts in these situations will help ensure that your missions are fulfilled and that the county partnership and OFS funding is protected. Please refer to the Purchasing Chapter to get more information on specific requirements.

All contracts or collaborative agreements, (contractual agreements) must be signed by the Local Partnership board chair or its designee. The Local Partnership board must approve signature authorizations for contractual agreements.

To assist you in this area, the OFS has provided 4 sample contract templates you should utilize for all vendor agreements.

The contract templates found on the following pages include the standard items that will ensure each contract the Local Partnership executes complies with legal requirements and includes a standard attachment that can be used to describe the scope of services and activities. The Local Partnership must ensure that contractors' charges are in-line with services and activities described in the scope of work. Therefore, you probably want to include a few additional items that will help you manage and ensure timely and effective service provision. For example, you may wish to add language that:

- Uses an addendum to fully describe the services and activities the contract covers: (*Exhibit A* in the sample contract) to fully develop the scope of work.
- Spells out reporting requirements and report due dates; refer to required program specific data collection information to determine what is needed to fulfill these requirements.
- Tells the contractor when invoices are expected and in what format you would like to see costs itemized; remember to request detailed invoices to ensure that you are only paying for services outlined in the scope of work.
- Explains any financial penalties that you may wish to put in place for poor performance.
- Includes budgetary information that is required as part of the agreement.

A contract is only as good as the monitoring in place. Please refer to the section below for recommendations



in this area. Remember, it is the responsibility of the Local Partnership to monitor expenditures made by contractors and to confirm that they relate directly to services that the contractor agreed to provide.

9-C. Contract Monitoring

Once vendors are in place and contracts are finalized, the Local Partnership has the responsibility to monitor contractors, to ensure that contractors are adequately carrying out the scope of work described in the contract and achieving the outcomes desired by the Local Partnership. Ultimately you will be held responsible if a contractor does not fulfill its role.

Contractors are responsible for execution of the agreed-upon tasks specified in their contract and for making available accurate budgetary and programmatic data to the Local Partnership Executive Director upon request. One way the Local Partnership will be able to monitor your contractor is through regular reports and invoices.

There are three main points to remember, no matter which method you choose for contract monitoring:

1. Establish a clear contract document using one of the templates provided in the addendums.
2. Require regular reports showing the work accomplished by the contractor is meeting the requirements per the contractual agreement.
3. Review invoices as they relate to the vendor's established services.

Invoices

Once services have been provided, the contractor will submit an invoice to the Local Partnership. Invoices should be generally submitted on a monthly basis and within 15 days of the end of a calendar month through the appropriate process through the financial management system. A different submission schedule can be considered, but remember, your financial management system will be less current if you go with a period that is less frequent. Maintaining aggressive time frames helps the OFS maintain an up-to-date accounting record. Local Partnership staff must work with contractors to ensure that invoices are accurate and submitted in a timely manner. Remember after the fiscal year ends on June 30th, all vendors have one month to submit all invoices. If they are not submitted by the end of July, the invoice will be paid with the subsequent FY funds which could cause a delayed time frame for payment.

As the Local Partnership Executive Director, you should ensure that when an invoice is received, it should be checked against your Budget Spending Plan (BSP) and review it for accuracy and reasonableness. All invoices should be checked against the aforementioned service activities to ensure each service is in agreement with what is stated in the provider's contract.

For example, you may receive an invoice for a parent education program. The invoice might include costs for items such as personnel, supplies, books, or snacks and the cost of a new copy machine. It might seem odd that you would be invoiced for a copy machine since the contract is for PAT enrollment and associated home visits for children and families. Consequently, it may be necessary to seek clarification regarding this particular expenditure. If the vendor cannot show how this expense was included in the contract, the county partnership can remove the cost of that expense from the invoice.

must have two signatures to ensure fiscal accountability. The Finance Manager has been instructed that they are not to pay any invoice that does not have two signatures. For amounts less than \$2,500, these two signatures can be any two of the three categories of Local Partnership employees or board members, Category 1, Staff, Category 2, Executive Director, or Category 3, an appropriate Board Member. Your Local Partnership should develop this approval process that meets your needs. For amounts over \$2,500, these two signatures must be the Executive Director and an appropriate board member. The board member should be the Local Partnership board chair, the vice-chair, or the chair of your finance committee (or your Treasurer, whichever is applicable to your county). While only one additional signature (other than the Executive Director) is required, the Local Partnership should give all three of these board members signature authority as outlined below to ensure that there will be another person available to sign.

All signatures for this process should be done electronically through the Blackbaud financial management system. If the financial management system cannot be used, then a back-up process has been established. That process would include emailing the invoice, or an electronic version with signatures, to the Finance Manager for payment. If there is an emergency and a board member's signature is not possible, with OFS approval, the Finance Manager may process a payment, as long as the signatures are provided at the first available opportunity.

The First Steps legislation requires, "Disbursements may be made only on the written authorization of the individual designated by the Local Partnership board, and only for the purposes specified." Therefore, to implement this policy, we are asking that the Local Partnerships do the following:

- The Local Partnership board must approve persons with invoice signature authority. OFS suggests those persons be the Executive Director and the three board members discussed above. The meeting minutes must reflect who those persons are and that they have been designated with signature authority by the Local Partnership board.
- Fill out the attached signature authority form. Make one copy for your files, send one copy to your Finance Manager, and send one copy, with a copy of the minutes discussed above immediately to OFS.
- Any time you need to change your persons with signature authority, be sure to follow the procedures above.

Invoices must be coded based on the OFS accounting structure. When processing contractors' invoices, proper coding is essential and required while submitting the invoices through the financial management system. Any questions you have in this area should be discussed with your Finance Manager or Finance Staff at the OFS.

Effective January 1, 2020, Executive Directors must ensure that all signed contracts are submitted to the Finance Manager through an attachment in the financial management system, and to the OFS Program Officer. It is important to note that the Finance Manager will not pay any invoices without a signed contract on file. The Finance Manager will load each contract into the financial management system as a commitment. These committed amounts will appear on monthly financial reports. As payments are disbursed, contract committed amounts will be reduced.

Contract Numbering



All contracts must be numbered. The contract number should be a maximum of 20 characters. The format is as follows: Fiscal Year/County #/Contract Sequence #/Contractor Name. The contract number should be positioned as a footer on all pages. No one contract should have the same contract number. For example, Horry County First Steps Partnership Board has contracted with the Horry County School District for a particular service(s), the contract number may read as follows: 20-26-01- HCSD. Horry County First Steps has a second contract with the Horry County School District for Local Partnership staff payroll, that contract number may read: 20-26-02-HCSD

Breach of Contract

In rare instances, you may have serious difficulty with a contractor and a breach, or a violation, of the contract may occur. If the Local Partnership does encounter this situation, please contact the OFS immediately for assistance in handling the matter.

Anything that hinders delivery of the best possible service or products can adversely impact your success. Disputes with contractors can be costly. Using properly prepared written contracts can protect you from disputes, which will make your partnership more successful. Should you have any questions or concerns regarding contracts, please contact your OFS Program Officer.

Vendor Site Visits

Site visits may be announced or unannounced. It is recommended that you notify the contractor at least one week in advance. The purpose of site visit is to review operations, records, policies and documentation for contracted services. Please notify the contractor of specific items to be reviewed during this process to ensure that your visit will be most effective. You may wish to observe daily operations, interview staff, program recipients, and read the contractor's policies to ensure they are being carried out. You may also wish to review financial records at this time. The site visit can be an effective contract-monitoring method especially if the contractor is given the opportunity to address your findings. This should be a mutually beneficial time for Local Partnership staff and the contractor to discuss service provision and expectations.

Special Consideration for Advance Payment

A contractor may request advance payment for services not yet rendered. In this situation, the contractor must provide the Local Partnership with a written request to include the amount and the justification for advance payment. The Local Partnership board must approve the contractor's request for advance payment.

The Local Partnership and the contractor may then file a special consideration request with the purpose of agreeing that the Local Partnership release funds in advance to a contractor. The special consideration request shall include an effective date, effective time period, monetary amount, and the justification for this request; each shall be subject to the authorization of the OFS. The special consideration request shall be an attachment to the contract.

9-D. Contract Amendments

Occasionally, in working with your contractors you may encounter a situation in which a contract needs to be amended. An amendment should be completed when the following contract items, but is not limited to these, need to be changed: 1. the scope of services is modified, 2. the time period changes, or 3. the amount of funds changes. **The total contract amount cannot be increased by more than 10% per year.** For



example, you may find that an adequate amount of referrals cannot be obtained for a service and expenditures are less than expected. You find that you have additional funds and decide that another sub-contractor can expend funds within the current fiscal year. In this situation you may wish to develop a contract amendment. A template has been provided for you.

If you find yourself in this situation, contact your Program Officer for assistance if needed.

Attachments to this Chapter

1. LP Contract for Purchase of Goods 2020
2. LP Purchase Order 2020
3. LP Contract for Purchase of Services 2020
4. LP Contract Amendment
5. LP Collaboration Agreement 2020