FISCAL PERFORMANCE IMPROVEMENT PLAN

The Children's Trust

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Fiscal Performance Improvement Plan

What is a Fiscal Performance Improvement Plan?

A Fiscal Performance Improvement Plan (PIP) represents a partnership between The Trust and its service providing organizations. It's a mutually developed plan, with some Trust imposed requirements, that can be used to remedy either a breach of contract offense or assist a provider with financial stresses that can threaten the continuity of a program. Many service providing organizations that were once placed on the plan, opportunistically used the experience to enhance their financial operations.

Why do we use Fiscal Performance Improvement Plans?

The intent of a Fiscal PIP is to identify fiscal areas in need of improvement and implement a plan of action to address these concerns in a meaningful way that is likely to achieve the desired results. These plans offer providers technical assistance and capacity building in current challenge areas. The plan allows contract managers & accountants to provide focused and strategic support to their providers and enables the provider to broaden their perspective of the specific fiscal challenge.

When is it implemented?

Providers will be placed on Fiscal PIP when their overall fiscal health score is generated and is equivalent to a STRUGGLING assessment. A STRUGGLING fiscal assessment is influenced with any of the Qualifying fiscal concerns disclosed in the section below. Fiscal health scores are generally reviewed annually, upon receipt of the financial statement and program-specific audit, to determine contract renewal recommendations. Additionally, if a material finding or event is discovered by The Trust during the contract that compromises the provider's fiscal integrity, The Trust reserves the right to adjust the fiscal rating before receipt of the annual audit reports. A Fiscal PIP stays in effect until the conditions of the plan are met, and the qualifying fiscal concerns are addressed.

What are qualifying fiscal concerns?

A Fiscal Performance Improvement Plan will be triggered if there are fiscal concerns which arise from a review of the provider's audited financial statements, program-specific audit, or any significant findings or concerns discovered by either Trust staff or external parties during the contract term. Qualifying events include, but are not limited to:

<u>Disclosures in annual financial statements or supplemental documents</u>

- less than optimal financial ratios indicating poor liquidity, few reserves or inability to pay debts

- audit opinions other than unmodified
- payroll tax concerns
- open and threatening litigation
- numerous significant deficiencies
- material weaknesses
- numerous management letter comments
- alleged fraudulent activity

Instances of fiscal non-compliance during the contractual term

- reoccurring instances of overbilling
- reoccurring invoice discrepancies such as missing supporting documentation or it does not agree with amounts invoiced
- reoccurring instances of missing payroll information, such as payroll taxes and program staff remuneration
- providing supporting documentation that is fraudulent or tampered

Qualifying events can generate a STRUGGLING fiscal health score either by volume or severity. The provider will receive a formal letter describing these concerns and a meeting scheduled to create a formal plan.

What is the Rating Scale?

The fiscal health score is assessed using financial ratio and disclosure analysis. The financial ratios evaluated are current ratio, net asset ratio and debt ratio. The scoring of these ratios represents about 60% of the fiscal health score. The other 40% is based on disclosures in financial statements, management letter, other supporting documents, any significant deficiencies and material weaknesses. This rating scale holds true unless there are going concern (unlikely operational continuity) and/or alleged fraudulent discoveries. If such instances occur, the score is assessed as STRUGGLING. For more information regarding The Trusts' overall program metrics evaluation processes and methodology, see:

https://www.thechildrenstrust.org/content/program-metrics

What do plans entail?

Plans should be specific, measurable and attainable. The Plan includes identification of qualifying fiscal concerns, institutes additional reporting requirements, offers technical assistance and support and achievement deadlines, establishes expectations and benchmarks to achieve the plan's requirements and completion. All Fiscal PIP providers will be required to submit 100% back-up supporting documentation alongside each monthly reimbursement, as well as monthly financial statement reports within 30 days of each monthly term, this will allow Trust and provider staff to cohesively remedy the qualifying fiscal concerns derived from invoicing. For providers displaying inadequate cash flows or reserves to maintain the continuity of the program, Trust and provider staff will analyze the project cash flow forecast during the contract year, to better determine how The Trust can assist with their cash flow needs during high intensity periods of the program. This additional insight will allow both parties to proactively design a responsible action plan that will address the provider's fiscal soundness.

When is a provider removed from Fiscal PIP?

The Trust will remove a provider from Fiscal PIP once all concerns addressed in the plan have be addressed and the provider's most current audited financial statement disclose none or few instances of noncompliance or concerns. Once plans are met, providers are given a formal letter releasing them from Fiscal PIP.