

## Service Unit Calculation

For the purpose of these principles, service unit cost is defined as the cost of the most basic unit or units of service defined in the contract. If the most basic unit of service is not clearly defined in the contract, then it must be defined by the contracting department as part of this calculation process. As noted before, not all contract objectives are able to be quantified in this manner, but wherever possible a cost per service unit is to be calculated. Every contract, including those that do not lend themselves to the calculation of service unit cost, must maintain a description of its measurable objectives as discussed in **New Contract**.

The following below is a method for calculating service unit cost:

Name of Basic Unit of Service \_\_\_\_\_

1. Total Allowable Expenditures for Basic Service Units
2. Estimated Number of Basic Service Units
3. Estimated Cost per Service Unit (a divided by b)

An example of how to calculate the Basic Service Unit Cost is as follows:

Basic Unit of Service: (1) Brochure Produced

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|---------------------------------------|-------------|
| 1. Total Allowable Expenditures:      | \$50,000.00 |
| 2. Estimated Number of Service Units: | 200,000.00  |
| 3. Estimated Cost Per Service Unit:   | \$.25       |

If the contract entails more than one service objective, the service unit cost must be calculated proportionately for each objective. The contracting department must determine what portion of the total contract budget is allotted for each service being performed. If, for example, a department enters into a \$500,000 contract for residential and outpatient drug and alcohol treatment, it must first determine the allocation of the \$500,000 between the two service components, residential and outpatient treatment, before the service unit cost can be calculated. The calculation is as follows:

Basic Unit of Service: (1) Day of Residential Treatment

1. Total Allowable Expenditures: \$400,000
2. Estimated Number of Service Units: 2,000
3. Estimated Cost Per Service Unit: \$200

Basic Unit of Service: (1) Session of Outpatient Counseling

1. Total Allowable Expenditures: \$100,000
2. Estimated Number of Service Units: 2,000
3. Estimated Cost Per Service Unit: \$50

Departments are not required to use the above methods for service unit cost calculation, but any method used must be explained and the basic unit of service must be clearly identified.

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# Payment Procedures

## Documentation required for payments pursuant to all types of contracts

Invoices for reimbursement shall be submitted in sufficient detail for proper pre-audit and post audit review. Supporting documentation as referenced in Section II on allowable costs is to be maintained by the contractor on site unless the contracting department requires that it be submitted with the invoice. Departments may require additional documentation as deemed necessary to justify expenditures. Invoices against a program budget contract must be submitted in the same format as the contract budget and should show contract status as measured against program benchmarks. Per diem contracts and contracts based on deliverables must specify percentage of completion, outcomes, day of care or other service elements which indicate services rendered.

The contract shall establish payment terms and shall specify that payments to the contractor are contingent upon satisfactory performance under the terms of the contract and as determined solely by the City.

## Timing and Method Payment

Payments to the contractor are contingent upon satisfactory performance under the terms of the contract and as determined solely by the City, subject to the availability of funds and cash reserves. Reimbursement payment schedules involve payment of allowable costs after they have been expended by the contracting party and verified by the contracting department. Timely payment is contingent upon timely receipt of proper invoices from the contractor.

Advance payments will be permitted only if approved by the City and included in the contract terms and will be approved only for non-profit organizations for new program start-up costs, or if a non-City funding source mandates that such payments be made. Recovery of these payments must be made prior to the end of the contract period. The method of recovery of advance must be stipulated in the terms of the contract, and portions of the advance may be deducted from submitted invoices on a monthly or quarterly basis.

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## **Prohibition Against Use of Tax Delinquent Contractors**

No contract shall be entered into or renewed with nor shall invoices be paid to, a contractor known by the City to be indebted to it, for or on account of any delinquent taxes (including, but not limited to, taxes collected by the City on behalf of the School District of Philadelphia), liens, judgment, fees or other debts, unless the contractor has reached a negotiated agreement with the Revenue Department to eliminate the outstanding delinquencies. Each contract shall include a certification of non-delinquency from the contractor, or in cases of delinquency, a certification that a payment agreement has been made with the City. In these cases, the certification will also include language that failure on the part of the contractor to maintain the payment schedule will result in the withholding of payments for services rendered in performance of the contract.

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## **Business Privilege License Requirements**

No contract shall be entered into or renewed with a contractor who does not have a City Business Privilege License (BPL). As stipulated in the Philadelphia Code, Section 19-2602, Subsection 1, a BPL is required of any person or corporation engaged in any business within the city limits of Philadelphia whether or not such person or corporation maintains a place of business within Philadelphia. The license is issued for a one-time fee of \$200. Before applying for a BPL, a City tax account number must be obtained from the Philadelphia Department of Revenue, located in the Public Service Concourse of the Municipal Services Building, 1401 JFK Boulevard, where application forms are available. Application forms for the BPL are available from the Department of Licenses and Inspections, License Issuance Unit, located in the Public Service Concourse of the Municipal Services Building, 1401 JFK Boulevard.

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## Monitoring and Reporting Requirements

The contracting department has the right at any time, with no prior notification, to evaluate compliance with the contract provisions. The contracting department shall have access to all contractor records necessary to evaluate compliance, such as time sheets and case records, and shall have the right to interview all of the contractor's staff and its clients in instances where the contractor provides services to third parties.

The contractor must submit progress reports to the contracting department within the first 90 days after the contract begins and at least every three months thereafter for the duration of the contract. It is preferable, however, to require monthly reporting by a contractor on its progress in achieving the timetable for deliverables and/or service level goals.

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# Audit Requirements

In order to permit the City to monitor effectively compliance with its professional services contract cost principles, the City will require certain audit standards of its contractors. Each contractor who is providing services under a Cost Reimbursement Contract or a Per Diem Contract where the rate is based on cost reimbursement must agree to make available to the City of Philadelphia upon request its books and records for inspection by representatives of the Office of the Director of Finance, the City Controller and the department to which it is under contract concerning charges, fees and costs for the individual contract. Contractors providing services under other types of contracts such as Fixed Fee and Contingency Fee contracts must agree to make available for inspection any records and financial documents related to the City contract.

In addition, contractors who are determined to be sub-recipients according to the provisions of the City of Philadelphia Sub-recipient Audit Guide and who receive \$25,000 or more from the City during the contract year or contractor's fiscal year must submit audited financial statements. The audit report is due within 120 days after the close of the sub-recipient's fiscal year in the case of single audits and within 120 days after the end of the contract award period in the case of program audits (non-single audits). These statements are to be prepared by an Independent Public Accountant who is qualified under the provisions of Government Auditing Standards (Yellow Book -1994 Revision). The IPA is to be engaged in accordance with the procurement provisions of OMB Circular A-110 entitled "Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations". The Philadelphia City Controller's Office will assess auditor qualifications in accordance with section 103.10 of the Audit Guide. **For further details on sub-recipient audit requirements, refer to the City's Sub-recipient Audit Guide, which is issued by the Office of the Director of Finance.**

Audit requirement may be placed on contractors who are not sub-recipients either when required by a federal or state funding source or at the discretion of the department to which it is under contract. Such audit requirements must be included in the contract.

For contracts in which payment is made on a reimbursement method, the contractor must maintain, and be prepared to provide upon request, adequate documentation including invoices, receiving reports, packing slips, delivery tickets, time records, personnel files and any other internal records which may be required to verify all costs actually incurred. If during the course of a review or audit, discrepancies are discovered or there is insufficient documentation to substantiate some costs, the City will reserve the right to retain a portion of any future contract amounts or to recover any payments made in excess of services delivered until such discrepancies are resolved or the required documentation is provided.

For contracts which call for delivery of a final report or completion of a designated task, a portion of the amount due the contractor will be retained until the final report has been received and accepted by the department and, if deemed necessary, the Office of the Director of Finance and/or the City Controller.

Contracts calling for completion of a set task will be subject to review by inspectors of the City or by its consultants. A portion of any balance due may be retained if the inspection uncovers discrepancies or incomplete work.

If the contract is partially or fully funded by federal or state grants, or if there are federal or state regulations which govern implementation and completion of a contract, and these grants or regulations require that certain reports or inspections be completed or performed, these reports will be required in addition to the reports required by the City.