

Compliance 201: Fiscal Responsiveness and Accountability – Practical Strategies for the Application of Cost Principles in 45 CFR 75, Subpart E- 12983

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Compliance 201: Practical Strategies for the Application of Cost Principles in 45 CFR 75, Subpart E

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Health Resources and Services Administration (HRSA) Overview

- Supports more than 90 programs that provide health care to people who are geographically isolated, economically or medically vulnerable through grants and cooperative agreements to more than 3,000 awardees, including community and faith-based organizations, colleges and universities, hospitals, state, local, and tribal governments, and private entities
- Every year, HRSA programs serve tens of millions of people, including people living with HIV/AIDS, pregnant women, mothers and their families, and those otherwise unable to access quality health care



HRSA's HIV/AIDS Bureau (HAB)

Vision

Optimal HIV/AIDS care and treatment for all.

Mission

Provide leadership and resources to assure access to and retention in high quality, integrated care, and treatment services for vulnerable people living with HIV/AIDS and their families.



HRSA's Ryan White HIV/AIDS Program (RWHAP)

- Provides comprehensive system of HIV primary medical care, medications, and essential support services for low-income people living with HIV
 - More than half of people living with diagnosed HIV in the United States – more than 550,000 people – receive care through the Ryan White HIV/AIDS Program (RWHAP)
- Funds grants to states, cities/counties, and local community based organizations
 - Recipients determine service delivery and funding priorities based on local needs and planning process
- Payor of last resort statutory provision: RWHAP funds may not be used for services if another state or federal payer is available
- 84.9% of Ryan White HIV/AIDS Program clients were virally suppressed in 2016, exceeding national average of 59.8%



Source: HRSA. Ryan White HIV/AIDS Program Annual Client-Level Data Report 2016; CDC. HIV Surveillance Supplemental Report 2016;21(No. 4)



Learning Objectives

At the conclusion of this activity, the participant will be able to:

1. Identify the regulatory requirements that clarify and standardize federal grant cost allowability.
2. Describe how to test for compliance of Uniform Guidance cost principle requirements for federal grant awards and cooperative agreements.
3. Describe corrective actions to address cost principle non-compliance of federal grant awards and cooperative agreements.



Fiscal Compliance

- Cost Principles 45 CFR 75 Subpart B
 - Definition
 - Testing for Cost Principles
 - Identify Cost Requirements
 - Corrective Actions



Definition



Cost Principles

- **Definition:** Federal Cost Principles as stated in 45 CFR 75 Subpart E govern the costs (expenses) that may be charged to the federal award either directly or indirectly.
- **Goal:** All transactions charged to a federal grants are allowable, allocable and reasonable.
- **Reason for Compliance:** Federal Financial transactions will be evaluated against these principles when auditors determine disallowed costs.



Requirements



Cost Principles

- **Cost Principles**

- **Allowability**
- **Allocability**
- **Reasonableness**
- **Direct and indirect costs**
- **The function of the selected items of cost section found in each set of cost principles**

Total Cost of a Grant

The total cost of a federal award is the sum of the:

- allowable direct
- allocable indirect
- less any applicable credits



Factors Affecting Allowability

1. It is necessary and reasonable for the performance of the award.
2. Conforms to any limitation or exclusion noted in the cost principles, legislation or program requirements.
3. It is consistent with policies and procedures.
4. Accords consistent treatment. A cost may not be assigned as a direct cost for one grant if any other cost for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Determines according to Generally Acceptable Accounting Principles (GAAP).
6. It is not used to meet cost sharing or matching requirements of any other federal award.
7. It is adequately documented.



Factors Affecting Allocable Cost

1. Cost must be chargeable or assignable to the federal award
2. Incurred specifically for the federal award
3. Can only distribute with a reasonable allocated methodology
4. Necessary to the overall operation and assignable in part to a federal award
5. Avoid using one federal fund to supplant another or to overcome fund deficiencies
6. The direct cost allocation principles must be applied
7. When distributing cost to different sources the methodology needs to be documented, determined without undue effort, and allocated based on proportional benefit to the service provided



Testing for Cost Principles

Principles for the proper allocation of indirect costs

- The portion of direct *and indirect* facilities expenses related to core medical and support services provided to RWHAP clients would not count toward the 10% limit.
- All indirect cost would count toward the 10% limit.

Principles for the Proper Allocation of Administrative Costs

– Effort Reporting

Confirms that the budget estimates used to charge labor cost to the different funding sources or program categories is allowable.

When allocating salaries between administration and program categories the recipient or subrecipient must have a system of internal controls over the records which:

- Justifies the cost of salaries
- Is reasonable over the long term
- Ensures timely entries
- Is Consistent
- Is Auditable

Principles for the Proper Allocation of Administrative Cost – Allocations

Permits expenses to be appropriately charged to cost centers, object classes, funding sources and multiple sites.

For allocations to be valid there should be written methodology that can be replicated and auditable.

Most common methodology:

- ❖ Payroll direct or time and effort
- ❖ Facility direct or square footage
- ❖ Occupancy direct or program/cost center
- ❖ Administration direct or total dollar
- ❖ Communication program/cost center

Summary – Properly Allocate and Report Costs

Grant Recipient

Up to 10% of the award may be used for routine grant administration and monitoring, and planning council/body activities

Portion of direct and indirect costs of facilities utilized to provide RWHAP services are no longer subject to the 10% admin limit—charge to relevant service category

Supervisor's time devoted to providing professional oversight and direction regarding RWHAP-funded core medical or support service activities

Fiduciary agent—all admin costs, exclusive of subawards, count toward the recipient's 10% admin limit

Subrecipient

Up to 10% of the aggregate amount allocated for all subrecipients may be used for administrative activities including overhead, **indirect costs**, management oversight of RWHAP, and other types of program support

Includes all indirect costs

Tips

- Know where to find the information
- Start with the legislation
- Don't be afraid to ask questions
- Use your knowledge to figure out what can be done with limitations
- Data definitions may not be the same as service category definitions in all cases
- **Recipients** and **planning council/bodies** service definitions cannot be more inclusive than the RWHAP service definition

Principles for the proper allocation of administration vs. program costs

To be allowable, a cost must be authorized by statute and must meet the federal criteria of being necessary, reasonable allocable and awarded under consistent treatment.

Which Costs are Allowable?

- Rent
- Utilities
- Nurse practitioner
- Medical case management supervisor
- Postage
- Cash payment to clients
- Office supplies
- Part A program manager
- Syringe Service Program
- Copier
- Printing
- Purchase of vehicles
- Lobbying activities

Principles for the proper allocation administration vs. program costs

Direct cost—A cost that can be accurately traced to a program/service activity with little effort.

Indirect (F&A) cost— A cost that is not directly traceable to a program/service activity

Indirect cost rate – Is a device/methodology for determining fairly and conveniently how much of the common (hard to trace) cost each program should bear

	Easy /Hard to trace	Direct or Indirect
Rent	Hard	Indirect
Utilities	Hard	Indirect
Nurse practitioner	Easy	Direct
Postage	Hard	Indirect
Office supplies	Hard	Indirect
Program Manager	Easy	Direct
Copier	Hard	Indirect
Printing	Easy	Direct
Audit	Easy	Direct
File clerk	Easy	Direct
Receptionist	Easy	Direct
Internet	Hard	Indirect
MCM supervisor	Easy	Direct

Most Common Findings and Corrective Action Plans

What will be the Recommendation?

Finding: Neither the recipient, the third party administrator or the sub-recipient know the actual costs associated with the provision of Outpatient/Ambulatory Health Services, Dental and Mental Health care. There is no cost reconciliation for the negotiated fees. All payments made to subrecipients are at risk of being unallowable. *Cost principles.* 45 CFR 75 Subpart E; 45 CFR 75.404.

Recommendation: Payments made for RWHAP Part A core and support services need to be reasonable, not exceeding costs that would be incurred by a prudent person under the circumstances at the time the decision was made to incur the costs. The recipient must have systems in place to assure that the reimbursable fee must:

- Not exceed the actual cost of providing the service;
- Include only expenses that are allowable under RWHAP requirements;
- Use a formula for the calculation of unit cost and the reconciliation of that projected cost to actual annually;
- Include financial data that relates to performance data (actual cost divided by actual unit of service);
- Identify any administrative expenses included in the fee and add the cost to the sub-recipient aggregate cost.

Is this a Cost Principle Finding or a 10% Administration Problem?

Finding: The recipient administration cost is over the 10% limitation (17%). The administrative costs for contracted third party administrator and fiduciary are allocated to the subrecipient aggregate administrative costs rather than to recipient's administrative costs. In addition, a review of the recipient FY 2017 budget reveals the improper allocation of such administrative activities as statistics evaluation, monitoring, data collection, quality assurance, data management for quality purposes.

Recommendation: The recipient must allocate the costs of fiscal intermediary or third party administrator contracts and the quality assurance activities to administration; decisions must be made to lower the administrative costs to 10%.

Finding and Recommendation – Reasonableness, Allowability, Allocability of Costs

Cost principles Subpart E 45 CFR 75 403 Factors affecting allowability of costs. 303 (g) Be adequately documented; 45 CFR 75 404 Reasonable costs; 45 CFR 405 Allocable costs.

The recipient is not compliant with cost principles; therefore the recipient cannot ensure that allocation of cost to the grant is allowable. In addition, the recipient does not require the subrecipient to provide documentation with monthly invoices. Thus, the recipient cannot ensure that the payment of subrecipient invoices are allowable, allocable, and reasonable. For example: unit cost is not used to document the reasonableness of the service.

Recommendation: The recipient as well as the Health Department staff must develop procedures that address the methodologies to be used when allocating expenses to RWHAP to test for the reasonableness of a payment or an expense and to test for the allowability of the charge or payment.

Takeaways





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