

# **Unit Cost Institute 201 – Is it Allowable, Allocable, and Reasonable?**

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# Health Resources and Services Administration (HRSA) Overview

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- 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



# HIV/AIDS Bureau Vision and Mission

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## 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.**



# Ryan White HIV/AIDS Program

- **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

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

- 1. Identify uses of unit cost**
- 2. Determine how to calculate the cost of a unit of service**
- 3. Describe how to document the actual cost of a unit of service**

# Stewardship of Grant Funds

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- **Allowable, proper, authorized, reasonable and necessary costs**
- **Ensuring that funds are used for Ryan White HIV/AIDS Program purposes**
- **Verification of payor of last resort**
- **Monitoring of cost caps**
- **Adequate documentation**
- **No supplanting**



# Federal Requirement

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**Payments made for service costs, whether the reimbursement method is by unit or by effort/budget category, must be necessary, reasonable, conform to federal limitation or exclusions, apply uniformly to both federal-financed and non-federal finance activities, and must be accorded consistent treatment except where otherwise authorized by statute.**





# Cost Principles

- **Federal cost principles are designed to provide that federal awards recipients bear their fair share of cost recognized under these principles except where restricted or prohibited by statute.**
  - **Allocable Cost:** Cost is incurred specifically for the federal award. *45 CFR 406*
  - **Allowable Cost:** The costs is necessary and relevant to the delivery of a particular service. *45 CFR 405*
  - **Reasonable Cost:** When the cost, in its nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. *45 CFR 404*



# Cost Principles

## Cost principles applicable to federal grants

Term	Definition
Reasonable	Goods or services acquired and amount involved reflect an action a prudent person would have taken.
Allocable	Benefits the project or award that was charged.
Allowable	Items not restricted by federal regulations or the <u>specific</u> grant/contract.
Treated Consistently	Like costs in similar circumstances need to be charged directly or indirectly at the institution.

# Legislative Uses of Funds

- **Ryan White HIV/AIDS Program (RWHAP) Allowable Uses of Funds**

- **RWHAP Part A**

- **2604 (a)(2)1 SEC. 2604.(a) (2)**

(2) funds provided under section 2601 will be expended only for--

(A) core medical services described in subsection (c);

(B) support services described in subsection (d); and

(C) administrative expenses described in subsection (h);

(3) the use of such funds will comply with the requirements of this section.

- **Core medical services, support services, and administrative activities are listed and are allowable activities as defined on PCN 16-02**



# Allowable Uses

- Outpatient and Ambulatory Health Services
- AIDS Drug Assistance Program Treatments
- AIDS Pharmaceutical Assistance
- Oral Health
- Early Intervention Services (EIS)
- Health Insurance Premium and Cost Sharing Assistance for Low-Income Individuals
- Home and Community-Based Health Services
- Home Health Care Hospice Services Housing
- Medical Case Management, including Treatment Adherence Services
- Medical Nutrition Therapy
- Hospice
- Mental Health
- Substance Abuse Outpatient Care Substance Abuse Services (residential)
- Child Care Services
- Emergency Financial Assistance
- Food Bank/Home Delivered Meals
- Health Education/Risk Reduction
- Housing
- Other Professional Services
- Linguistic
- Medical Transportation
- Non-medical Case Management Services
- Outreach Services
- Psychosocial Support Services
- Referral for Health Care and Support Services
- Rehabilitation Services
- Respite Care
- Substance Abuse Outpatient Care Substance Abuse Services (residential)



# RWHAP Definition of Administration

*ADMINISTRATIVE ACTIVITIES – For the purposes of this subsection, subcontractor administrative activities include--*

*(A) usual and recognized overhead activities, including established indirect rates for agencies;*

*(B) management oversight of specific programs funded under this title; and*

*(C) other types of program support such as quality assurance, quality control, and related activities.*

***RWHAP Part A 2604 (h) (A)-(C)***



# Limitations on Administrative Costs

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- **Administration versus Indirect Costs**
- **Direct Program Costs**
- **Costs must be tied to the delivery of services.**
- **Hidden Administrative Costs – insurance, etc.**
- **Limitation 10% A B C D F (dental)**
- **Limitation 10% in the aggregate for RWHAP Part A and B subrecipients**



# Payor of Last Resort

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- Allocation of expenses among funding sources
- Recipients and Subrecipients receive multiple RWHAP funding
- Recipients and Subrecipients receive other sources of funding
- Billing Medicaid, Medicare and other payers



# Allocations

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- Recipients and subrecipients– must show how administrative costs are allocated between funding sources.**
- Knowledge of Subrecipients Budgets – Obtain entire agency budget – or budget for services that are RWHAP funded.**
- Funding Sources**
- Allocation Methodology/Plan**





# Allocation of Compensation

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## Written policy which:

- ❖ Provides an after the fact process that documents the allocation of salaries and wages to a federal program
- ❖ Defines significant changes in the corresponding work activity
- ❖ Is reasonable over the long term
- ❖ Makes timely necessary adjustments to the budget and payroll allocations to assure the amount charged to the federal award is accurate, allowable, and properly allocated.

# Salary Rate Limitation

- Individual's full salary: \$255,000

50% of time will be devoted to project	
Direct salary:	\$127,500
Fringe (25% of salary):	\$31,875
Total:	\$159,375

- Amount that may be charged to the federal award due to the legislative salary rate limitation:

- Individual's base full time salary *adjusted* to Executive Level II: \$189,600

50% of time will be devoted to project	
Direct salary:	\$92,550
Fringe (25% of salary):	\$23,137.50
Total:	\$115,687.50



# Fiscal Management

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- Financial Policies and Procedures**
- Advances of federal funds (personnel or subrecipients)**
- Proper documentation**
- Payments within 30 days**

# Property Standards

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- Tracking capital assets purchased with RWHAP funds
- Federal government revisionary interest
- Supply and medication inventory

# Reimbursement Methods

**Services provided with federal funding must be reimbursed at the actual cost of the service**

- Categorical, line item, effort, or budget
- Unit Cost
- Fees— must be reconciled to cost by a retrospective testing of the cost of the services

# Categorical/Line Item/Effort/Budget

## Direct Service Costs

- Personnel Compensation–Fringe Benefits
- Contractor or Consultant Costs
- Supplies
- Travel
- Equipment
- Other

## Administrative Costs (10% cap)

- Personnel Compensation and Fringes for agency Management
- Accounting
- Company Dues, Licenses
- Human Resource cost
- Financial Audit contract
- Non malpractice Insurance
- Professional Contracts
- Purchasing
- Indirect Cost rate



Line Item	Annual Salary	Program FTEs	Program Salary Subtotal	Medical Services	CQM	Support Services	Administrative	Program TOTAL
Personnel, Name & Position	Salary	FTE						
Subtotal								
Fringe benefit rate								
<b>Total Personnel</b>								
Travel								
<b>Total Travel</b>								
Supplies								
<b>Total Supplies</b>								
Contractual								
<b>Total Contractual</b>								
Other								
<b>Total Other</b>								
<b>Total Direct Costs</b>								
<b>Indirect Costs</b>								
<b>GRAND TOTAL</b>								
% budgeted by cost category					%		10.0% cap	

# Unit Cost

## Prior to award the recipient will:

- Define the unit of service
- Determine the number of service units provided
- Determine the direct cost per service
- Determine indirect cost
- Determine full cost of service
- Calculate the average cost per service

**Subrecipient should project its fee for services for the year by calculating all its unit costs**

**End of Year Reconciliation – using paid invoices and actual service units reported  
If payment made is determined to be unreasonable, re-negotiate next year's payment.**



# Define Categories and Allocation Methods

- **Personnel Compensation** – Time and effort spent on program activities
- **Fringe Benefits** – Percentage or direct
- **Subrecipient Costs** – Time and effort or pre-defined in consistent manner across subrecipients and time
- **Supplies** – directly using departmental requisitions
- **Travel** – mileage per person and number of trips
- **Communication Costs** – using formula FTEs
- **Copy Machine** – only used by the service, i.e., clinic case managers
- **Facility Costs** – including depreciation by square footage

# Average Unit Cost

Divide the full cost by the total number of service units to arrive at the average cost during a particular time period.

The Unit Cost Formula is determined by dividing the total allowable costs by the total number of units provided.

$$\frac{\text{Allowable direct and indirect costs of services}}{\text{Service Category Units of Service}} = \text{Unit Cost}$$

# Fee for Service

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The recipient decides the fee to be paid by service provided.

A contract budget is requested.

At the end of the year, a cost report is reconciled to their accounting records. The cost reports reflect all cash expenditures incurred during the reporting period as well as accrual for goods and services purchased during the course of the budget period for which cash has yet to be disbursed.

If equipment is included in the cost report, an inventory log that meets compliance to the federal property principles.

Total payments are reconciled with the cost report. Any adjustments needed are made in following years.

# Example: Subrecipient RWHAP Part A/B

Cost of the medical team dedicated to the care of the PLWH. If agency RWHAP Part C provider or FQCHC, will have to use a formula based on visits to isolate the RWHAP Part A/B visits:

Salary	\$240,000	
Benefits	52,500	
Travel	10,000	
Other Costs	<u>21,500</u>	
Total Direct Cost	\$324,000	
Administrative Cost	32,400	
Total Cost of Case Manager	\$356,400	$\$356,400 / 2,500 = \$142.56$

# Documentation



# Supporting Documentation

**Personnel** – Includes all salaries and allowances paid to staff directly contributing to the activities of the service category. Time sheets or payroll reports to certify the level of effort (aka effort certification).

**Personnel Benefits** – Documentation can be provided by employee or in the aggregate for all employees. When using percentages of salary, the Subrecipient must provide a worksheet that shows the allocation.

**Consultants** – Contract and consultant invoice that reflects the job performed, rate and hours.

**Contractual Expenses** – Submit invoices that meet the payment arrangements specified in the contract and that are properly approved.

# Supporting Documentation

## Equipment/Supplies –

- Used for completing *the service goals*.
- Separate office supplies from medical and educational purchases.
- The Subrecipient should provide copies of invoices for all purchases of equipment or for all other special purchases.

**Travel** – airfare, ground transportation, accommodation, meals/per diem, etc. For airfare, economy class must be used at all times. Supporting documentation will consist of properly approved invoices. Mileage logs for local travel.

**All other budgeted items** – are Documented through properly approved invoices. Examples: Copier rental, facility rent, telephone that can be directly allocated to the service cost, etc. Supporting documentation will consist of properly approved vendor invoices.

# Exercise I

**How to determine the allowability, allocability, and reasonableness of unit cost?**



# Exercise II

## Allocation Methodologies

# Takeaways

- Identify the federal requirements to be met in determining the unit cost of a service
- How to estimate the cost of a service funded by the RWHAP legislation
- Document the actual cost of a service reimbursed by fee for service/service unit.

# QUESTIONS



# Contact Information

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