THE EFFI BARRY
TRAINING INSTITUTE

"*NONPROFIT FINANCIAL BASICS*"

Financial Oversight and Sustainability Related to Transitioning to Fee For Service Reimbursement

October 25, 2018

Presenter: **A. Michael Gellman, CPA, CGMA**

Effi Barry HIV/AIDS Institute

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Effi Barry HIV/AIDS Institute

The Effi Barry HIV/AIDS Institute, led by HealthHIV, provides:

- Capacity Building
- Technical Assistance
- Support

How do I request Technical Assistance for my organization?

- Email taylor@healthhiv.org

This program is funded wholly, or in part, by the Government of the District of Columbia, Department of Health, HIV/AIDS, Hepatitis, STD, and TB Administration (HAHSTA).

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Learning Objectives

Part I:

- Understand the importance of the "Top Ten List for Improving Fiscal Sustainability"
- Explore "12 steps to effective budget building"

Part II:

- Learn the importance of effective financial messaging and using dashboards
- Develop tool that support shifting from grant based funding to unit cost based funding

Part III:

- Exploring Unit Costs descriptions and methods
- Learn the advantages and disadvantages to unit cost reimbursement

Top Ten Lists
for
Fiscal Health and Sustainability

Top Ten Lists for Fiscal Health and Sustainability

Fiscal Sustainability Improvement:

1. Increase the financial acumen of senior management and project managers.

2. Connect senior management and project managers to financial reports and budgets and foster an environment for sharing financial information throughout the organization.

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Top Ten Lists for Fiscal Health and Sustainability

Fiscal Sustainability Improvement:

3. Integrate budget and projection reports into the financial reporting systems and include cash-flow projections.

4. Make sure financial systems are always current and monthly internal financial reports and external grant reporting is timely and completed within 25 days of the close of the previous month-end.

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Top Ten Lists for Fiscal Health and Sustainability

Fiscal Sustainability Improvement:

5. Provide financial reports to the board of directors in a regular and timely manner so board members can fulfill their fiscal fiduciary role.

6. Healthy and sustainable organizations must monitor their balance sheets closely to build an Operating Reserve and ensure that cash and other assets are managed effectively while monitoring liabilities so that they do not expand out of control.

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Top Ten Lists for Fiscal Health and Sustainability

Fiscal Sustainability Improvement:

7. Install a complete accounting policies and procedures manual and regularly update the manual to meet the ever changing compliance requirements of grant funders.

8. Plan for an Sample Annual Financial Statement Audit and Uniform Guidance when required or Finance Committee oversees the audit process and function.

Top Ten Lists for Fiscal Health and Sustainability

Fiscal Sustainability Improvement:

9. Regularly review all Notice of award/Human Care Agreements to ascertain that you are meeting all fiscal compliance requirements.

10. Schedule quarterly update and compliance meetings with your external granting officers and maintain a transparent fiscal relationship with them that fosters a culture for sharing compliance and financial information.

Top Ten Lists for Fiscal Health and Sustainability

Effective fiscal sustainability:

- Select One Fiscal Monitoring Tip and Discuss Why it is Important and How You Can Implement Better Controls and Enhance Accounting Policies and Procedures in this Area:

- Tip #_____ Selected

- Discussion:_____
_____
_____
_____
_____
_____

Update Current Job Descriptions Based on Service Standards

SERVICE STANDARDS

FOR

MEDICAL CASE MANAGEMENT (MCM),

INCLUDING TREATMENT ADHERENCE SERVICES

Origination date: 2010	
Reviewed/Approved by the Care Strategies, Coordination and Standards (CSCS) Committee	1/25/17
Approved by the Planning Council	2/23/17

HRSA
Ryan White & Global HIV/AIDS Programs

The Ryan White HIV/AIDS Program (RWHAP) is funded by the Ryan White HIV/AIDS Treatment Extension Act of 2009 and is administered by the U.S. Department of Health and Human Services (HHS) in the Health Resources and Services Administration (HRSA) within the HIV/AIDS Bureau (HAB).

I.   PURPOSE OF SERVICE STANDARDS

The purpose of these service standards is to outline the elements and expectations all Ryan White service providers are to follow when implementing a specific service category. Service Standards define the minimal acceptable levels of quality in service delivery and to ensure that a uniformity of service exists in the Washington, DC EMA such that clients of this service category receive the same quality of service regardless of where or by whom the service is provided. Service Standards are essential in defining and ensuring that consistent quality care is offered to all clients and will be used as contract requirements, in program monitoring, and in quality management.

II.   GOAL

The goal of Medical Case Management (MCM) is to improve the health care outcomes of people living with HIV (PLWH) by identifying and removing barriers to medical care, facilitating continuous engagement in primary medical care and supporting adherence to treatment regimens.

III.   SERVICE DESCRIPTION

Medical Case Management is the provision of a range of client-centered activities focused on improving health outcomes in support of the HIV care continuum. Activities may be prescribed by an interdisciplinary team that includes other specialty care providers. Medical Case Management includes all types of case management encounters (e.g., face-to-face, phone contact, and any other forms of communication). Key activities include:

Service Standard – Medical Case Management

E. **INDIVIDUALIZED CARE PLAN (ICP)**

The Individualized Care Plan (ICP) should document long and short term goals and objectives to improve the client's health care outcomes. It should be reviewed and modified based on the acuity level identified. Within ten (10) business days of determining Ryan White eligibility, the MCM will develop the Individualized Care Plan with input from client. Progress notes should document the development of the Individualized Care Plan and whether the client was offered/received a copy.

In an ongoing interactive process with the client, problems are identified and prioritized. Identified problems are addressed through a planning process that includes the mutual development of goals, assigned activities and reporting outcomes.

The Individualized Care Plan (ICP) should contain the following:

1. Prioritized goals and measurable objectives responding to client needs and addressing barriers.
2. Planning tasks and action steps to be completed to help a client meet his/her goals with a specified timeframe. The name of the person who will be responsible for the assigned task: either the client, the Medical Case Manager, or both; should be notated.
3. Referrals for support services.
4. Documentation of the client's participation in primary medical care.
5. Notation of ongoing HIV education/counseling.
6. Client signature and date, signifying participation with development and agreement with Plan.

Service Standards – Medical Case Management (MCM)
Revised by the Care Strategies, Coordination and Standards (CSCS) Committee 1/25/17, Approved by the Planning Council 2/23/17

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F. **TREATMENT ADHERENCE COUNSELING**

The medical case manager is responsible for the provision of treatment adherence counseling to ensure readiness for or adherence to complex HIV/AIDS regimens. Information regarding their readiness for treatment should be shared with the prescribing physician. Treatment adherence must be incorporated into the Care Plan to support the client with taking all their medications as prescribed, making and keeping appointments; addressing barriers to care and treatment; and reducing risky behaviors by encouraging therapeutic lifestyle changes as necessary. The agency must have clear policies and procedures for missed appointment follow-up, especially with clients who are homeless, peri-incarcerated, pregnant, or report no contact information.

Service Standard – Medical Case Management

H. REFERRALS & LINKAGES

The medical case manager will refer the client in applying for medical, social, financial, housing and/or other needed services as specified in the client's Individualized Care Plan.

I. FORMAL RE-ASSESSMENT OF NEEDS

A formal re-examination of the client's condition, needs and resources to identify changes which occurred since the initial or most recent assessment. The Re-assessment should include:

1. Individualized Care Plan updates must occur at least every six months.
2. Summary of progress in achievement of goals must be documented in client's file.
3. Review of client's clinical, financial and support needs to identify changes and/or additional service needs.
4. Multidisciplinary team case conference with other providers, when appropriate.
5. Re-assessment for Nutritional, mental health, oral health and substance abuse issues should be completed annually.

Service Standard – Medical Case Management

IX. PERSONNEL QUALIFICATIONS

Each agency is responsible for establishing comprehensive job descriptions that outline the duties and responsibilities for each of the positions proposed in their program. All staff must be given and will sign a written job description with specific minimum requirements for their position. Agencies are responsible for providing staff with supervision and training to develop capacities needed for effective job performance.

Medical case managers must be able to work effectively with their clients; developing supportive relationships, facilitating access to needed services, and assisting clients in achieving their maximum possible level of independence in decision making. The ability to accomplish these objectives requires specific skills that can best be acquired through education and previous work experience. The required qualifications are as follows:

- Medical Case Manager
  - Licensure as a Physician, Nurse or Social Worker in the jurisdiction(s) in which services are rendered, and
  - A minimum of one (1) year experience working with HIV case management or relevant adult/pediatric community health work- clinical or hospital based.

- Medical Case Management Supervisor
  - Licensure as a Physician, Registered Nurse (RN), Nurse Practitioner (NP), or as an Advanced Level (Graduate/Clinical) Social Worker in the jurisdiction(s) in which services are rendered, and
  - A minimum of three (3) years' experience working with HIV case management or relevant adult/pediatric community health work- clinical or hospital based.
  - One (1) year of supervisory experience, preferred.

MEDICAL CASE MANAGER EDUCATION REQUIREMENTS AND TRAINING

The minimum education and/or experience requirements for Medical Case Managers are:

1. All Medical Case Management staff must complete a minimum training regimen within one year of their hire date that includes: (a) HIV Case Management Standards, (b) training in HIV 101 to include HIV disease processes, treatment, testing, legal ramifications to include confidentiality, counseling/referral and prevention, (c) cultural competency and (d) AIDS Drug Assistance Program (ADAP)/Insurance training. If newly hired Medical Case Managers have previously obtained all of the required training, they do not need to repeat it. Documentation of completion of required trainings must be kept in the Medical Case Manager's person

2. All Medical Case Managers must complete at least 12 hours of continuing education in an HIV care related program each year. Documentation of completion of continuing education must be kept in the Medical Case Manager's personnel file.

3. All Medical Case Management staff must complete all required training as prescribed by the recipient/administrative agent.

Additions to Job Descriptions

HIV Medical Case Manager

Tasks and Responsibilities

- Creates **Individualized Care Plans** to improve health care outcomes for clients

- Provide **treatment adherence counseling**

- **Refer** client to additional services as specified in the Care Plan

- Execute regular formal **re-examination** of client needs

Education and licensure requirements:

- **Licensed** Physician, Nurse, Social Worker in the jurisdiction care is provided

- Min. 1-year **experience** in HIV case management

- Engages in necessary **recertification** and licensure requirements throughout employment
    - Complete **minimum training regimen** as specific in the MCM Service Standard within one year of hire
    - Complete at least **12 hours of CE** in HIV-care related program each year
    - Complete all required training as specified by the agency

Budgeting for Compliance and Quality of Care

Compliance

- Ensures the achievement of standards of care and/or monitoring
  - Fiscal monitoring standards
  - Uniform Guidance (45cfr75)
  - Service standard (prevention and care)
  - Time and effort
- Measured by auditing fiscal and programmatic policies and practices

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Quality of Care

- Degree to which health care services for individuals and populations increase the likelihood of desired health outcomes – care continuum

- Consistent with current professional knowledge

- Measured by effectiveness, efficiency, equity, patient centeredness, safety, and timeliness

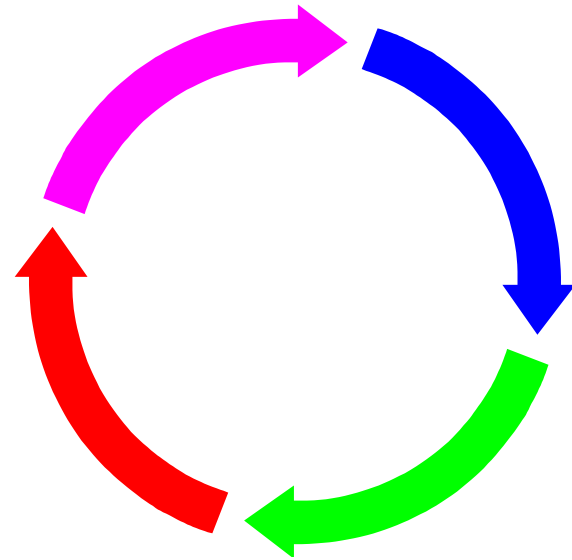Agency for Healthcare Research and Quality. 2018. https://www.ahrq.gov/professionals/quality-patient-safety/quality-resources/tools/chtoolbx/understand/index.html

- Step 1:
  - Where Do You start?

Budget Preparation
Step 1: Where Do You Start?

- Process View (budget cycle)
  - **<u>Preparation</u>**
  - Approval
  - Installation
  - Measurement
  - Projection

- Process View (budget cycle)
  - **<u>Preparation</u>**
    - Assemble Next Year's Budget

- Process View (budget cycle)
  - **<u>Preparation</u>**
    - Assemble Next Year's Budget
      - » When?
      - » Mid-year
      - » Consider Meeting Schedule, Business Cycle and Funding Sources

Chart of Accounts

- Step 2:
  - Analysis of Chart of Accounts and Departments/Projects/Cost Centers

Great Results Begin Here

- ***The Starting Point of a Good Budget and Cost Accounting System***
  - Natural Accounts
    - Line-Items Accounts
  - Project / Cost Centers
    - Departments / Sub-Departments
  - General and Administrative

CHART OF ACCOUNTS EXAMPLE

CHART OF ACCOUNTS AND DEPARTMENTS / PROJECTS
FISCAL YEAR 2018

ACCOUNT #	ACCOUNT DESCRIPTION	DEPT/PROJ #	DEPT / PROJECT DESCRIPTION
	REVENUE		
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS		
4030	FOUNDATION CONTRIBUTIONS AND GRANTS		
4120	FEDERAL GRANTS		
4160	PROGRAM FEES		
4400	MISCELLANEOUS INCOME		
4500	INTEREST AND DIVIDEND INCOME		
	EXPENSES		
5100	GRANTS		
6010	ACCOUNTING AND LEGAL SERVICES		
6030	BANK CHARGES		
6035	COMPUTER SERVICES		
6036	COMPUTERS AND SOFTWARE		
6037	COMPUTER CONSULTING		
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES		
6070	DELIVERY SERVICES		
6080	DEPRECIATION		
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS		
6150	EMPLOYEE BENEFITS		
6200	EQUIPMENT RENTAL		
6250	INSURANCE		
6300	LIBRARY / BOOKS / SUBSCRIPTIONS		
6350	MAINTENANCE CONTRACTS & REPAIRS		
6400	MEALS AND ENTERTAINMENT		
6450	MISCELLANEOUS		
6460	NEWSLETTER		
6500	OFFICE EXPENSE		
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS		
6800	PROMOTION		
6900	RENT		
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER		
7350	TEMPORARY SERVICES		
7400	TELEPHONE		
7500	TRAVEL		
7700	OUTSIDE COUNSEL		

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CHART OF ACCOUNTS EXAMPLE

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FISCAL YEAR 2018

ACCOUNT #	ACCOUNT DESCRIPTION	DEPT/PROJ #	DEPT / PROJECT DESCRIPTION
	REVENUE		
		100	DEVELOPMENT
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS	120	FUNDRAISING
4030	FOUNDATION CONTRIBUTIONS AND GRANTS	150	SPECIAL EVENTS
4120	FEDERAL GRANTS		
4160	PROGRAM FEES		
4400	MISCELLANEOUS INCOME	200	EDUCATION
4500	INTEREST AND DIVIDEND INCOME		
		230	WORKSHOPS
	EXPENSES	250	CAREER DAY
		270	SPECIAL ED PROGRAMS
5100	GRANTS		
6010	ACCOUNTING AND LEGAL SERVICES		
6030	BANK CHARGES	300	ANNUAL MEETING
6035	COMPUTER SERVICES		
6036	COMPUTERS AND SOFTWARE		
6037	COMPUTER CONSULTING	400	GRANTS
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES	410	YOUTH
6070	DELIVERY SERVICES	430	ADULT
6080	DEPRECIATION	470	SPECIAL ED
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS		
6150	EMPLOYEE BENEFITS	500	PROGRAMS
6200	EQUIPMENT RENTAL		
6250	INSURANCE	510	BOOKS TO KIDS
6300	LIBRARY / BOOKS / SUBSCRIPTIONS	520	CLOTHS TO KIDS
6350	MAINTENANCE CONTRACTS & REPAIRS	530	MEALS ON WHEELS
6400	MEALS AND ENTERTAINMENT		
6450	MISCELLANEOUS		
6460	NEWSLETTER	00	GENERAL AND ADMINISTRATIVE
6500	OFFICE EXPENSE		
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS		
6800	PROMOTION		
6900	RENT		
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER		
7350	TEMPORARY SERVICES		
7400	TELEPHONE		
7500	TRAVEL		
7700	OUTSIDE COUNSEL		

CHART OF ACCOUNTS EXAMPLE

CHART OF ACCOUNTS AND DEPARTMENTS / PROJECTS
FISCAL YEAR 2018

ACCOUNT #	ACCOUNT DESCRIPTION	DEPT/PROJ #	DEPT / PROJECT DESCRIPTION
	REVENUE		
		100	DEVELOPMENT
4010	INDIVIDUAL CONTRIBUTIONS		
4020	CORPORATE CONTRIBUTIONS	120	FUNDRAISING
4030	FOUNDATION CONTRIBUTIONS AND GRANTS	150	SPECIAL EVENTS
4120	FEDERAL GRANTS	151	Spring 10K Race
4160	PROGRAM FEES	152	Fall Gala Dinner
4400	MISCELLANEOUS INCOME		
4500	INTEREST AND DIVIDEND INCOME		
		200	EDUCATION
	EXPENSES		
		230	WORKSHOPS
5100	GRANTS	232	Workshops - Youth Series
6010	ACCOUNTING AND LEGAL SERVICES	234	Workshops - Adult Series
6030	BANK CHARGES	250	CAREER DAY
6035	COMPUTER SERVICES	270	SPECIAL ED PROGRAMS
6036	COMPUTERS AND SOFTWARE	275	Sp Ed - HHS Grant
6037	COMPUTER CONSULTING	277	Sp Ed - DOE Grant
6040	CONFERENCE FEES		
6050	CONSULTING SERVICES		
6070	DELIVERY SERVICES	300	ANNUAL MEETING
6080	DEPRECIATION		
6100	DUES AND SUBSCRIPTIONS		
6110	SPECIAL EVENTS / PROJECTS	400	GRANTS
6150	EMPLOYEE BENEFITS		
6200	EQUIPMENT RENTAL	410	YOUTH
6250	INSURANCE	430	ADULT
6300	LIBRARY / BOOKS / SUBSCRIPTIONS	470	SPECIAL ED
6350	MAINTENANCE CONTRACTS & REPAIRS	475	Sp Ed - HHS Grant
6400	MEALS AND ENTERTAINMENT	477	Sp Ed - DOE Grant
6450	MISCELLANEOUS		
6460	NEWSLETTER		
6500	OFFICE EXPENSE	500	PROGRAMS
6600	POSTAGE		
6700	PRINTING / PUBLICATIONS	510	BOOKS TO KIDS
6800	PROMOTION	520	CLOTHS TO KIDS
6900	RENT	530	MEALS ON WHEELS
7100	SALARIES		
7200	TAXES - PAYROLL		
7300	TAXES - OTHER	00	GENERAL AND ADMINISTRATIVE
7350	TEMPORARY SERVICES		
7400	TELEPHONE		
7500	TRAVEL		
7700	OUTSIDE COUNSEL		

Responsibility Budgets

- Step 3:
  - Assign Areas of Budget Responsibility

  Who and Where

  "A Budget in Name Only"

Assemble Budget Packages

- ## Step 4:
  - Budget Packages for Staff Use
    - Forms
    - Time-line/Work Plan
    - Financial Reports
    - Sample Data
    - Instructions/Memo from the President

Document Assumptions

- ## Step 5:
  - ### Assumption Worksheet
    - #### Most Important Form
      - ##### Documentation Behind the Budget

"ITS ALL IN THE DETAILS"

Timeline/Work Plan

- ## Step 6:
  - Work Plan by Due Dates
    - Training and Kick-off Meeting
    - Preparation
    - First Draft
    - Budget Interviews
    - Second Draft
    - Management Meeting
    - Final Proposed Budget
    - Budget Summary Analysis

Trainings and Meetings

- Step 7:
  - Training
    - Individual
    - Group

- Step 8:
  - Meetings
    - Group Kick-off Meeting
    - Individual Budget Interviews

Budget Summary Analysis

- ## Step 9:
  - Prepare Budget Summary Analysis
    - Highlight:
      - Significant Changes
      - Major Challenges
      - Goals
      - Contingencies

Approval Process

- Step 10:
  - Prepare for the Approval Process
    - Set Dates
    - Decide Who Will Make the Presentation
      - Staff or Treasurer
    - Script the Presentation
    - Get Budget/Finance Committee Approval
    - Get Board Approval
    - What About Changes?
    - What About Contingencies?

- ## Step 11:
  - Load Approved Budget into Accounting System
  - Update Chart of Accounts and Financial Statements

The Last Step

- Step 12:
  - PUT THE BUDGET TO USE
    - WHEN?
  - EVERYDAY!!!!!!!

Other Budget Considerations

- In-Kind Contributions
- Indirect Costs and the Allocation of Overhead
- Contingency Budgets
- Cash Flow Considerations and Reports
- Forecasting Methods

Other Budget Considerations

- Reporting to Boards/Program Managers – Dashboards
- Reserves
- Budgets and Link to Strategic Plans
- Budgeting for Grants and Awards
- Capital Budgets
- Budgeting for Salaries

- Assumption Documentation
  - Not Emphasized
  - No Consistent Methods or Procedures
  - All in the Preparation
    - What-to-Do
    - What-Not-to-Do

- Cash Flow
  - Ignored
  - Misunderstood
  - Needs to be Monitored Closely

- Get Staffed Involved
  - Where
    - Everywhere
      - Monitoring Budget Reports
      - Building the Budget
        » Ownership
        » Responsibility
        » Accountability

Essential Financial Communication and Messaging to Boards: Finding the Perfect Balance

Providing financial information and reports to your organization's board of directors is a well-known and expected best practice.

How this is done varies widely and is often poorly performed, with little thought to the platform used and the ultimate absorbability of the information provided.

Three Dimensions of Financial Messaging

- Find the three dimensions

- Different for each audience/situation

- Consolidate, compromise, and balance are the keystones

- Think/process three-dimensionally

Think/Process Three-Dimensionally

Try to incorporate…

– three perspectives
– three points of view
– three reference points

…into your messaging vehicle.

CEO

Board

President
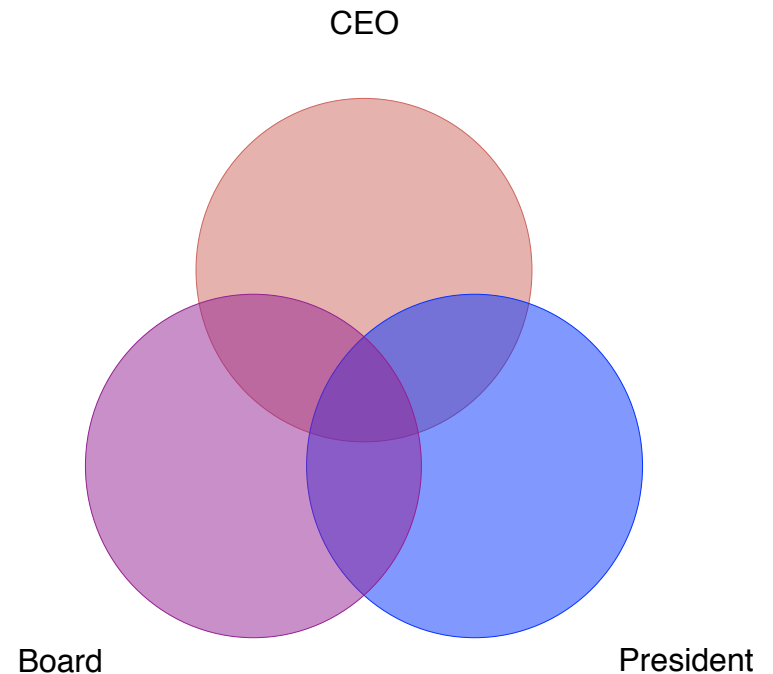
Financial Messaging Core Goals

- Connecting with the audience

- Helping board members fulfill their fiduciary role related to finance

- Include hot buttons
  - Theirs
  - Yours

- Consolidate, compromise, balance
  - Less is better than more
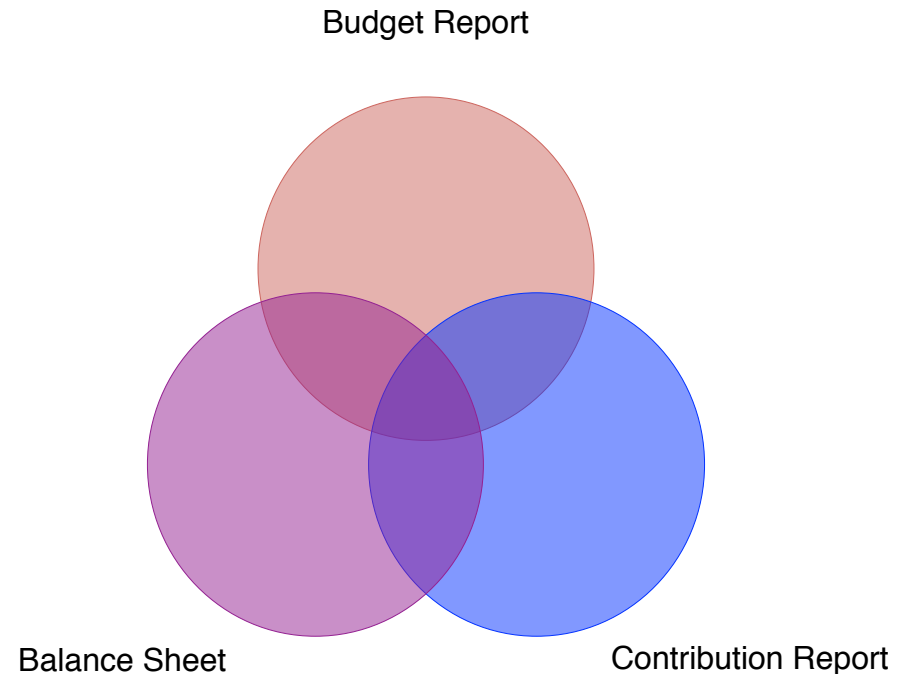
Audience
Board

Fiduciary
Role

Hot
Buttons
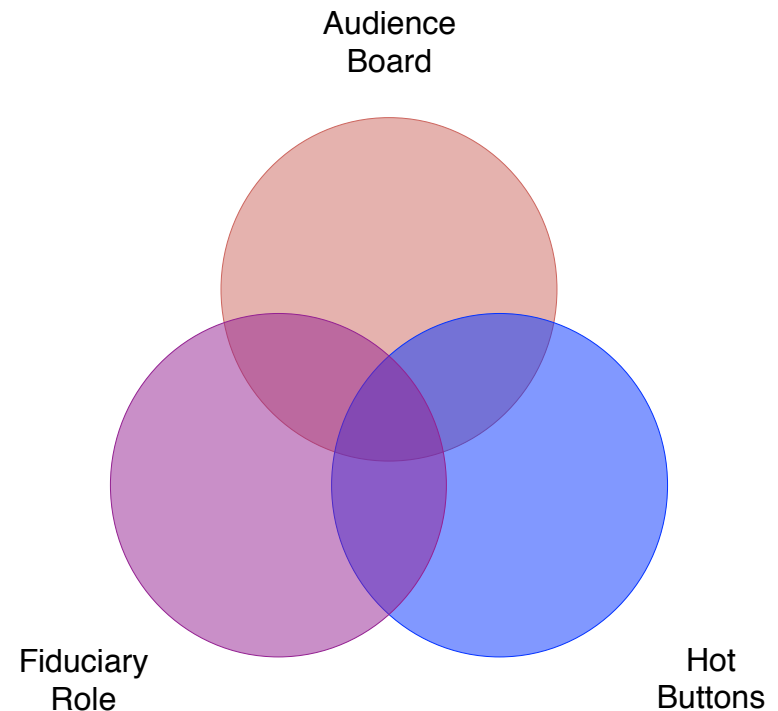
Financial Messaging Tools: Dashboards

3-D Approach:

- Ultra condense reports
  - Remove noise
  - Include all the hot buttons

- Enhance peripheral vision
  - Interaction of hot buttons
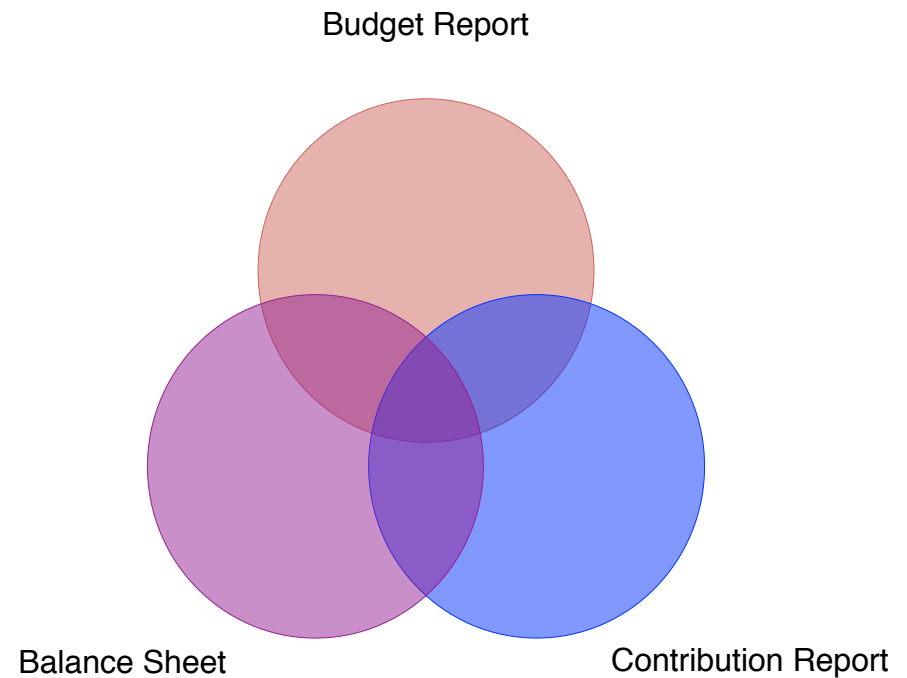
- Use three different metrics

Messaging in Three Dimensions:

1. Budget report
2. Balance sheet
3. Contribution report

Budget Report

Balance Sheet

Contribution Report

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Financial Messaging Tools: Dashboards

Explore Sample Dashboard

Budget Report
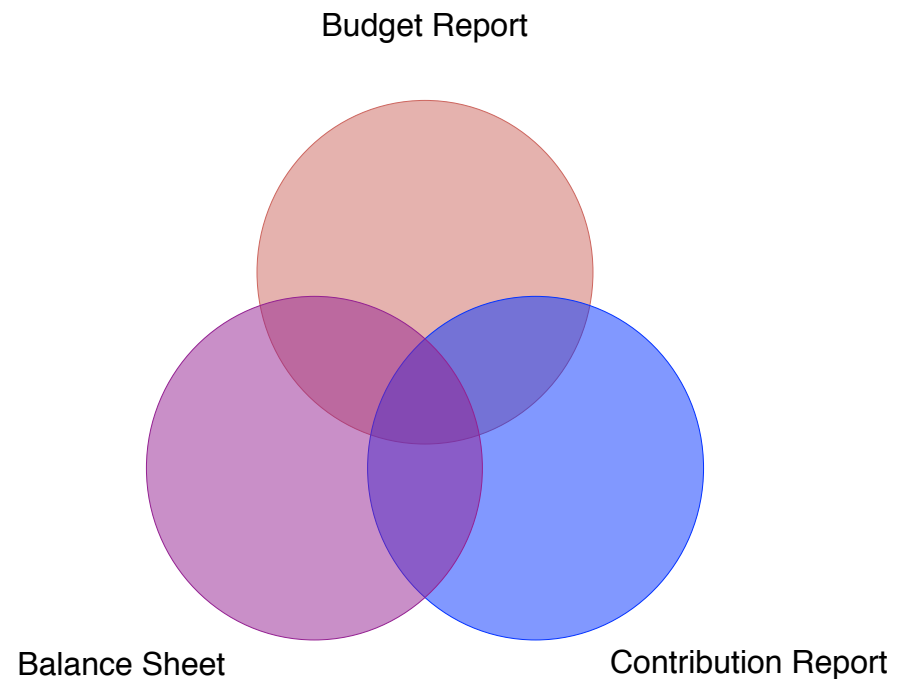
Balance Sheet

Contribution Report

Financial Messaging Tools: Dashboards

Individually these reports only tell part of the story:

1. budget report vs.
2. balance sheet vs.
3. contribution report

Three dimensions together tell a more complete story.

Budget Report

Balance Sheet

Contribution Report

Shifting From
Grant-Based Funding
to
Unit Cost-Based Funding
(Fee-for-Service)

Grant vs. Contract

Grant

- Pays salaries
- Invoiced monthly
- Grant year budget required
- Grant agreement required
- CAREWare reports required

Human Care Agreement

- Only bill for services provided
- No budget required
- Human care agreement required
- CAREWare reports required
- Compliance audits/ claims review
- Task orders, per service category

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Putting Health First

Fee for Service

- Billing and reimbursement based on number of service units delivered

- Services outline in Human Care Agreements and in Service Standards

Organization - nonMedical Case Mgmt Svcs	Fixed Unit Price
Initial Assessment with Service Plan	$ 325.00
90 Day Re-Assessment & Re-Evaluation of Service Plan	$ 200.00
6 Month ReAssessment w/Service Plan Revision	$ 200.00
Annual Re-Assessment & Re-Evaluation of Service Plan	$ 325.00
Client Encounter*	$ 125.00
Client Encounter Follow Up* (30mins+)	$ 50.00
Client Encounter Follow Up* (15 mins)	$ 25.00
Electronic Follow Up/Communication (ie, text message, email, snapchat, Facebook message, DM, Facetime, etc.) Capped at one charge per month, per visit, per service category.	$ 25.00

Shift Grants to Unit Cost Funding

<u>Grant-Based Funding Model</u>

- Impact on Budgeting and Planning
  - Apply for Grants that Support Your Mission and Services to Constituents
  - Grants Are Awarded by Funding Authority
  - Budgets are Assembled and Constructed that Meet the Requirements of the Grant and the Funding Authority and Needs of Constituents
    - This is **"<u>Top Down</u>"** Planning and Budgeting
    - The Funding/Support/Revenue is Identified and The Expenses are Complied Within Funding Constraints

Shift Grants to Unit Cost Funding

<u>Unit Cost-Based Funding Model</u>

Is the **<u>Opposite</u>** of Grant Based Funding Model and Requires a Different Approach to:

- Planning
- Budgeting
- Performance Measurement
  - Requires Cost Analysis
  - Requires Cost Control
  - Requires Cost Identification by "Unit of Service"

Shift Grants to Unit Cost Funding

- ## Unit Cost-Based Funding Model:
  - Impact on Budgeting and Planning
    - Must First Be Able to Identify Your Mission Delivery by Unit of Service
    - Must be Able to Assign Costs by Unit of Service
    - Have to Do Regular "Performance Measurement Analysis" to Manage:
      - Actual Cost by Unit of Service Compared to Funding by Unit of Service
      - Monitor **Changing** Service Volume and Costs Against **Static** Unit of Service Funding

Exploring
Units of Service
and
Unit Cost

Units of Service and Unit Cost

Glossary of Key Terminology:

- Units of Service
- Unit Cost
- Key Elements of Performance Measurement
  - Labor
  - Direct Costs
  - Fringe Rate
  - Number of Units
  - Time Period
  - Indirect Costs and Indirect Cost Rate
  - Disallowed

Ten Steps to Understanding Unit Cost

1. Detailed Robust Budget
2. Departmental / Activity Budgets
3. Define Units of Service
4. Define Time Period
5. Have a System to Track the "Number" of Service Units
6. Identify Key Direct Cost Elements
7. Understand the "Math"
8. Regularly Calculate Performance Measurements
9. Respect "Indirect Costs"
10. Plan for "Next Year"

Ten Steps to Understanding Unit Cost

Step #1 – Budgets

- Detailed Budgets are The Key
- Prepare Annual Budgets
- Have Staff Participate in the Process
  - Build in Ownership and Responsibility
- Get Board Approval
- Regularly Measure Progress Against Budget
  - Monthly Financial Reporting & Budget Dashboard

Ten Steps to Understanding Unit Cost

Step #2 – Departmental/Activity Budgets

- The First Step to Unit Costs
- Separate the Budget by Natural:
  - Departments and Activities (Cost Centers)
    - » Recipient Services
      - Medical Exams
      - Medical Procedures
      - Career Counseling Services
    - » Administration (Overhead – Indirect Costs)
    - » Fundraising
- Assign Management Responsibility/Ownership
- Track Progress
  - Internal Monthly Financial Reporting

Ten Steps to Understanding Unit Cost

Step #3 – Define Units of Service

- A Step Before Calculating Unit Costs
- Identify Types of Services by:
  - Common Units:
    - » Office Visits
    - » Medical Exams
    - » Transportation Services
  - Required Units of Service Categories:
    - » By Funding Authority:
      - HAHSTA
      - Ryan White

Step #4 – Define the Time Period

- A Set Measurement Time Period
  - To Analyze and Measure Unit Costs
    » Usually a One Year Period of Time
      - Your Most Recent Fiscal Year
      - First Based on Budget for the Fiscal Year
      - Then Compared to Actual Cost
        - Periodically During the Year
        - Final at Year-End

Ten Steps to Understanding Unit Cost

Step #4 – Define the Time Period _{continued}

- A Set Measurement Time Period
  - Unit of Service:
    - » One Nutrition Counseling Session
      - Each Session is 1.5 Hour (90 minutes)
      - Average 3 Sessions a Day
      - Average Service Week is 4 Days
        - After PTO (paid time off) and Admin.
      - Max Capacity
        - 3 X 4 = 12 units a week X 52 = 624 Units per year /12 or 52 a month

Step #5 – Track the "Number" of Service Units

- Set-Up a System/Database to Track:
  - The Number of Recipients/Clients:
    » Served
    - **Per Day** (most often used)
    - **Per Week**
    - **Per Month**

Step #6 – Direct Cost Elements

- Costs/Expenses Incurred "Directly" to Perform Specific Unit of Service
  - These Costs are Tracked By General Ledger Accounts:
    » Typical Elements
      - Labor (salaries, payroll taxes, benefits)
      - Professional Fees
      - Medical Supplies
      - Transportation Services
      - Lab Fees, X-rays, Physical Therapy Fees, Etc.

Ten Steps to Understanding Unit Cost

Step #7 – "Understand the Math"

- There are Important Calculations to be Familiar with and be Proficient at:
  - Units of Service Time Periods
  - Direct Labor
  - Indirect Labor
  - Labor Fringe (benefits and payroll taxes)
  - Overhead (indirect costs)
  - Unallowable Costs
  - Unit Cost
  - Total Cost

Ten Steps to Understanding Unit Cost

Step #7 – "Understand the Math" continued

- One Nutrition Counseling Session
  - Estimated Time 1.5 Hours or 90 Minutes
    - Direct Labor
      - Nutritionist = 1.0 hour
      - Case Counselor = .25 hour
      - Nurse = .25 hour
    - Direct Labor Fringe
    - Blood Sugar Test
    - Case Management Supplies
    - Medical Supplies
    - Overhead Rate

Ten Steps to Understanding Unit Cost

Step #7 – "Understand the Math" continued

- Direct Labor
    - Nutritionist = 1.0 hour = $60K/52 weeks/40 hours = $28.85
    - Case Counselor = .25 hour = $50K/52 weeks/40 hours/4 = $6.00
    - Nurse = .25 hour = $50K/52 weeks/40 hours/4 = $6.00
    - Total Direct Labor = $40.85
- Direct Labor Fringe = 30% of Direct Labor $40.85 X 30% = $12.25
- Blood Sugar Test = $10.50
- Case Management Supplies = $5.00
- Medical Supplies = $7.50
- Total Direct Cost = $76.10
- Overhead Rate = 10% of Total Direct Cost $76.10 = $11.42
- Total Unit Cost = $87.52

Ten Steps to Understanding Unit Cost

Step #8 – Periodic Performance Measurements

- For Unit Cost:
  - Actual Unit Cost to Budget Unit Cost
  - Budget Unit Cost to Provider Unit Funding
  - Budget Volume for Recipient Services to Actual Volume of Recipients Served
- For the Organization
  - Unit Cost Expected Funding Short-Fall
  - Indirect Cost Underfunding
  - Other Funding Sources to Support Funding "Deficits"

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Ten Steps to Understanding Unit Cost

Step #8 – Performance Measurements <small>continued</small>

- For Unit Cost:
  - Actual Unit Cost to Budget Unit Cost
    - Actual $95.78   Budget $87.52

  - Budget Unit Cost to Provider Unit Funding
    - Budget $87.52   Unit Cost Funding $70.00

  - Budget Volume for Recipient Services to Actual Volume of Recipients Served
    - Budget Volume 52 per month
      - Actual Volume:
        - » March 48 per month
        - » April 46 per month
        - » May 47 per month
        - » June 45 per month

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Step #8 – Performance Measurements continued

- For the Organization
  - Unit Cost Expected Funding Short-Fall
    - Impacted by Volume
    - Fixed vs. Variable Cost
    - Founder Provider Rate
    - Indirect Cost Cap
  - Indirect Cost Underfunding
    - Funder Allocation Fixed
    - Actual Indirect Cost 2x to 3x Higher
    - How Support Indirect Cost Underfunding
  - Other Funding Sources to Support Funding "Deficits"
    - Other Fee for Service Income
    - Contributions
    - Sponsorships

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Ten Steps to Understanding Unit Cost

Step #9 – Manage Indirect Costs

- Know Your Elements of Indirect Costs
  - Indirect Labor (examples)
  - Occupancy/Rent/Office Space
  - Shared Costs (telephone, insurance, office supplies, etc.)
- Understand the Funding "Caps"
  - HAHSTA / Ryan White 10%
- Be Aware of the Effect of "Volume"

Ten Steps to Understanding Unit Cost

Step #9 – Manage Indirect Costs continued

- Direct Labor $100,000
- Other Direct Costs $75,000
- Direct Labor Fringe $25,000
- Total Direct Costs $200,000

- Indirect Costs: $40,000
  - Indirect Cost Rate (40,000/200,000)   20%
  - Occupancy
  - Indirect Labor
  - Indirect Fringe
  - Other Shared Costs (Telephone, Insurance, Office Supplies)

Ten Steps to Understanding Unit Cost

Step #10 – Plan for Next Year

- Planning for the Next Fiscal Year and Budget
  - Assess Performance
    - » Actual Unit Cost to Budget Unit Costs
    - » Funding by Unit to Actual Unit Costs
  - Assess Financial Health
    - • **Strength of Balance Sheet**
  - Assess Sustainability
    - » Impact on Future Resources
    - » Diversified Funding
    - » Cost Containment
    - » Grow the Volume
    - » Change the Mix of Services

CASE STUDY EXCERCISES

Units of Service and Unit Cost

Advantages and Disadvantages

Related to

Units of Service and Unit Cost

Unit of Service and Unit Cost

Advantages:

- Unit cost funding is less difficult to administer than cost reimbursement grants

- Better understanding and managing expectations between funding agencies and subrecipients

- Easier to monitor

- Easier to fund and easier to bill

- Allows for enhanced performance improvement plans (PIP's)

- Allows for flexibility for subrecipients to control and provide services

Unit of Service and Unit Cost

Disadvantages:

- Difficult to establish and define units of service and isolate related unit cost

- A single rate representing all service categories leads to "under recovery"

- Hard to get consistent industry data to support agency uniform rates

- Subrecipients often do not have the capacity to manage and provide services within unit cost parameters

- Subrecipient under- recovery will stress limited financial resources and could force closure

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"*NONPROFIT FINANCIAL BASICS*"

Financial Oversight and Sustainability Related to

Nonprofit Organization Fiscal and Financial Management

Part II
Budgets and Unit Cost Applications

October 25, 2018

Presenter: A. Michael Gellman, CPA, CGMA

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