

# **THE EFFI BARRY** **TRAINING INSTITUTE**

## **Developing Unit Costs For Ryan White Services**

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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?

- Through a series of group-level trainings, boot camps, community forums, and individual consultation.

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).

# Tools Needed for Ryan White Unit Costing



# 1. The Basics





# Importance of Unit Cost Rates

- Defining unit cost and unit cost rates,
- The necessity of unit costs in RWHAP,
- Transitioning from older methods to the new,
- Pro's and con's on unit costing

# Fee for Service Rates

- Unit Cost Rates (UCR) are the equivalent of Fee For Service (FFR) rates
- Payments for Federal awards/sub-awards
- Sum of cost inputs (direct & indirect)
  - Associated with a Ryan White service category
  - In Units of Service (UOS)
  - Billing rate

# Clearly Defined UOs: Examples

- Cost of an x-ray for dental work
- 15-minute labor unit of medical case management visit
- The cost of a bag of food
- One-way transportation cost for the delivery of food or some other medical treatment purpose

# UCRs Are Necessary

Cost volatility in service categories among providers vary due to:

- How they are organized,
- The size, number of people, amount of revenue and resources,
- Type of business: tax exempt or commercial,
- Types of funding: Federal, D.C., local, private,

# UCRs Are Necessary

Cost volatility in service categories among providers vary due to:

- Efficiency to accomplish a task as defined by a UOS,
- Capability and/or willingness to track by service categories, and
- Types of accounting and Medical Management Systems (MMS)

# Volatility of UCRs

- Due to cost volatility, EMAs have the responsibility to compare different sub-recipients and their cost per unit for the service categories in their prime award.
- Once a comparison has been established for different sub-recipients, the EMAs can better monitor and select the appropriate price.

# Transfer from Old to New

How to transfer from the old cost reimbursable methodology to UCRs?

- The traditional method was cost reimbursement based on staffing and other costs from a line item budget.

6. Object Class Categories	GRANT PROGRAM, FUNCTION OR ACTIVITY				
	(1) Federal Share	(2) Non-Federal Share	(3)	(4)	(5)
a. Personnel	\$ 96,960.00	\$ -	\$ -	\$ -	\$ 96,960.00
b. Fringe Benefits	30,125.47	-	-	-	30,125.47
c. Travel	30,867.01	-	-	-	30,867.01
d. Equipment	13,000.00	-	-	-	13,000.00
e. Supplies	11,875.00	-	-	-	11,875.00
f. Contractual	110,000.00	20,000.00	-	-	130,000.00
g. Construction	-	-	-	-	-
h. Other	127,500.00	28,000.00	-	-	155,500.00
i. Total Direct Charges (sum of 6a - 6h)	\$ 420,327.48	\$ 48,000.00	\$ -	\$ -	\$ 468,327.48
j. Indirect Charges	28,426.33	3,246.19	-	-	31,672.52
k. TOTALS (sum of 6i and 6 j)	\$ <b>448,753.81</b>	\$ 51,246.19	\$ -	\$ -	\$ 500,000.00

# Transfer from Old to New

- To transition to UCRs from the cost reimbursement method, sub-recipients could establish UCRs that have easily defined service categories, like the cost of food or transportation, or an case management.
- More complex service categories like medical case management might remain on a yearly staffing budget basis that is cost reimbursable.



# Benefits of Unit Costing

- UCRs are easier to administer than cost reimbursements
- Facilitates a common understanding and clear expectations between agencies and sub-recipients
- Prime awardees ability to monitor since the units of service are defined in the same manner
- Less paperwork for agencies given the large number of sub-recipients and high volume of service utilization

# Benefits of Unit Costing, cont'd

- Sub-recipients that primarily work with Medicaid or 3<sup>rd</sup> party billings are better able to invoice on a UCR basis
- There is more flexibility to reallocate funds to sub-recipients to help where best needed based on unit analysis.

# Disadvantages of Unit Costing

- Difficult to establish service units and costs for complex service categories
- The reluctance of some clinics to share the “true cost” of a UOS
- A single rate representing all service categories provides insufficient recovery
- No clear consensus for establishing UCRs
- Difficulty in matching UCRs to actual cost data
- Time consuming, resource intense effort to update

# Disadvantages of Unit Costing, cont'd

- Some sub-recipients are fiscally unsound:
  - Don't have the capacity or resources to manage UCR payment process
  - A UCR requirement may force them out of business
- Unfortunately, some sub-recipients believe that the RWHAP is around to provide them sustainability.

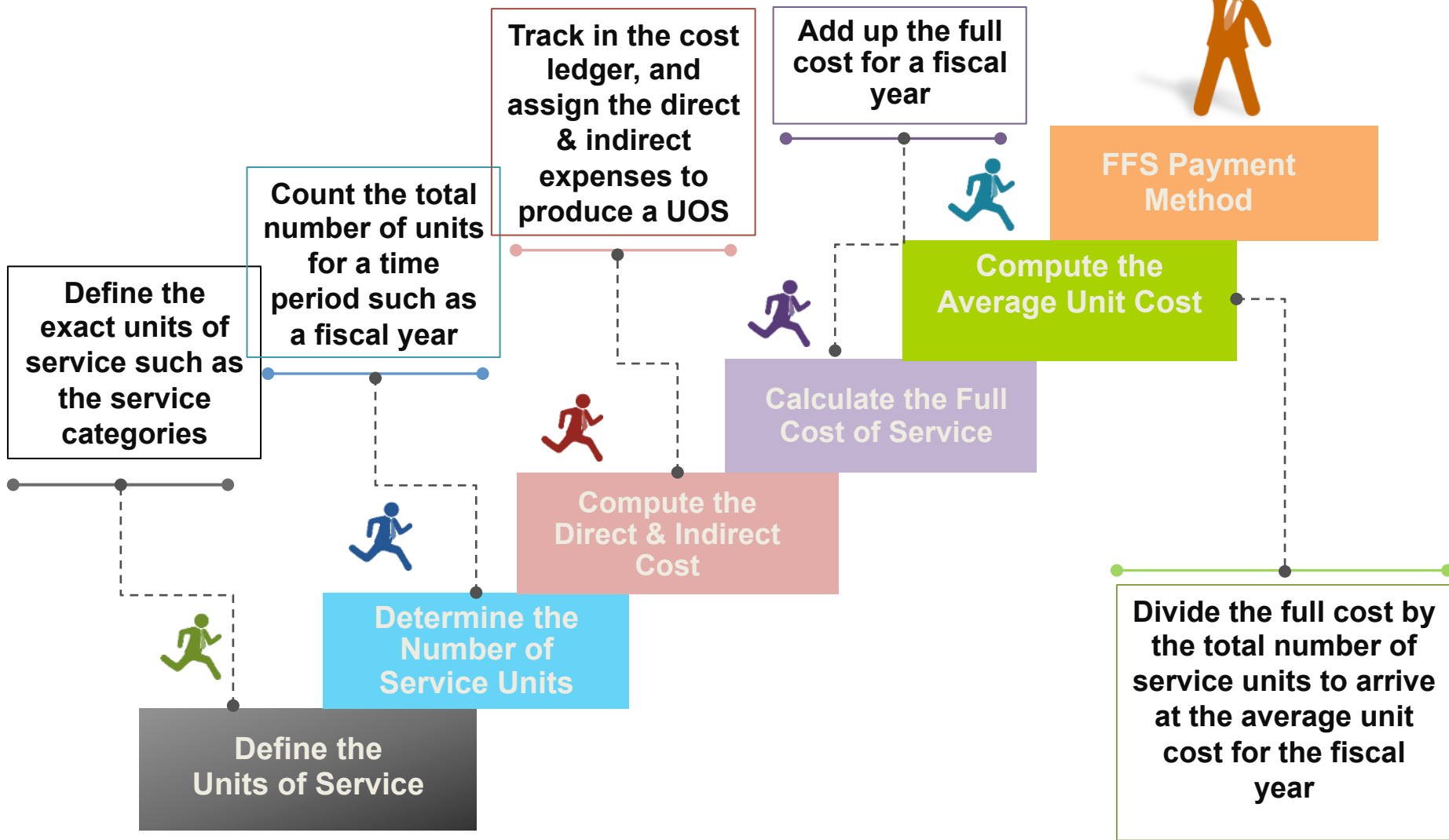
# Things to Consider

- Developing and managing UCRs requires a “TEAM” effort:
  - **Programs** identify the RWHAP service categories or standards of care
  - **Accounting** tracks costs by service category and develops full cost in order to compute UCRs
  - **Database management** retains RWHAP UOS by service category in ARIES, CAREWARE
  - **Grants management** monitors sub-recipient contracts with agency
  - **Finance** computes UCRs
- EMAs are moving to UCRs
  - It behooves sub-recipients to develop their own UCRs or the EMA will develop region-wide rates that might not be beneficial to them

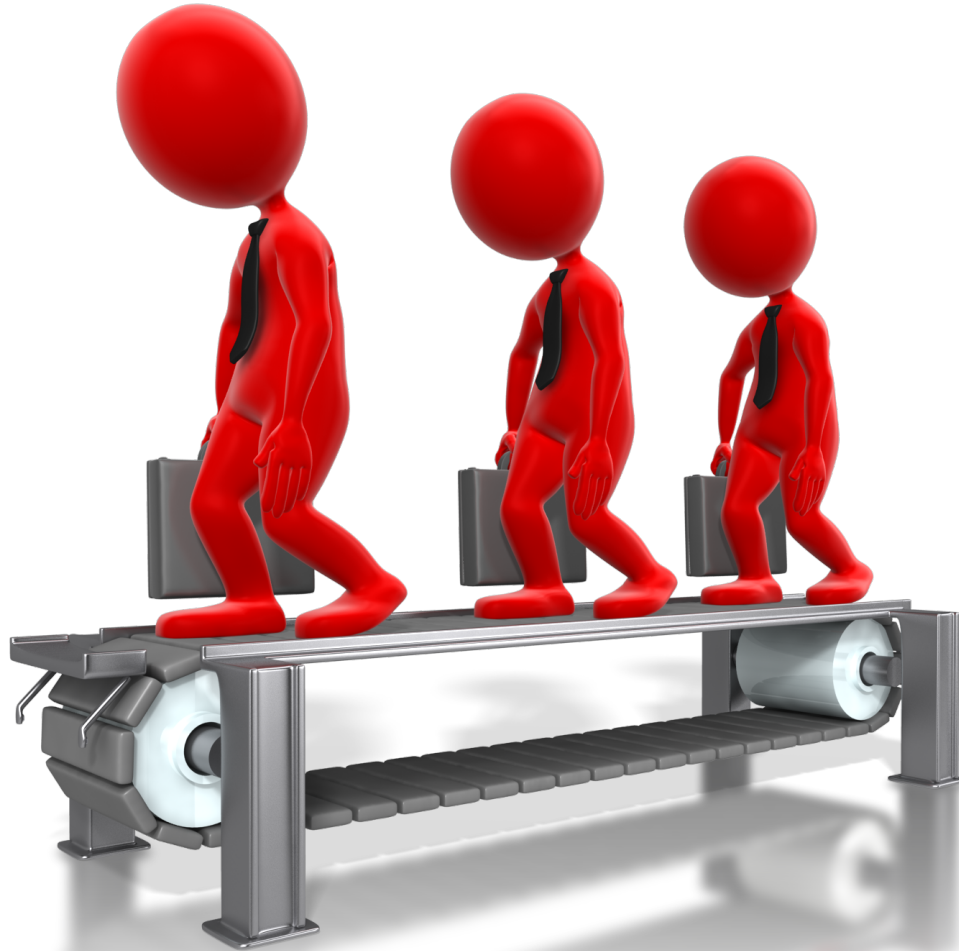
## 2. Developing a Unit Cost Rate



# Steps in Developing UCRs



# 3. Defining a Unit of Service





# Defining A Unit of Service

- Defining a Unit of Service (UOS) can be a difficult job
- This requires some help from program personnel who understand the RWHAP service categories
- The first item on your agenda is to have an organization-wide Standards of Care (SOC) based on the service categories for developing UCRs

# Sample UOS

## **Outpatient/Ambulatory Health Services**

### ***Description:***

**Outpatient/Ambulatory Health Services are diagnostic and therapeutic services provided directly to a client by a licensed healthcare provider in an outpatient medical setting. Outpatient medical settings include clinics, medical offices, and mobile vans where clients do not stay overnight. Emergency room or urgent care services are not considered outpatient settings. Allowable activities include:**

- **Medical history taking**
- **Physical examination**
- **Diagnostic testing, including laboratory testing**
- **Treatment and management of physical and behavioral health conditions**
- **Behavioral risk assessment, subsequent counseling, and referral**
- **Preventive care and screening**
- **Pediatric developmental assessment**
- **Prescription, and management of medication therapy**
- **Treatment adherence**
- **Education and counseling on health and prevention issues**
- **Referral to and provision of specialty care related to HIV diagnosis**

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One (1) unit of service = one hour of professional or paraprofessional service

# Sample UOS

## **Food Bank / Home-delivered Meals – currently funded**

**Food Bank / Home-delivered Meals** involve the provision of actual food or meals. It does not include finances to purchase food or meals, but may include vouchers to purchase food. The provision of essential household supplies, such as hygiene items and household cleaning supplies, should also be included in this item. The provision of food or nutritional supplements by someone other than a registered dietician should be included in this item as well.

Food vouchers provided as an ongoing service to a client should be reported in this service category. Food vouchers provided on a one-time or intermittent basis should be reported in the Emergency financial assistance category.

One (1) unit of service = one bag of food for food pantry services, one meal for home delivered meals and one package for non-food items as allowed

## **Medical Transportation Services – currently funded**

**Medical Transportation Services** are conveyance services provided, directly or through a voucher, to a client to enable him or her to access health care services.

One (1) unit of service = one one-way trip

Outpatient / Ambulatory Health Services are based on 1.0 UOS or 1.0 hour of a professional/para-professional service. The Food Bank equates 1.0 unit to 1 bag of food, 1 home delivered meal, and 1 package of non-food items. Transportation equates 1.0 unit to 1 one-way trip.

# Sample Unit of Service

- Units (for non-service or goods) and UOS vary as to types.
- How do you clearly define the service or unit categories?
  - By writing them in a Standards of Care (SOC)
- The SOC must have a clearly defined: title, description that represents a unit or UOS.
- This type of policy is the **building blocks** of your unit cost rate system.



# 4. The Role that Cost Plays



# Important Cost Definitions

- **Direct** costs directly relate to the program performed, such as the work under “Outpatient/ Ambulatory Health Services” (O/AHS).
- Direct costs are identifiable and are tracked in accounting systems to the program using a “charge code” (Ex: O/AHS equates to program ID “100”).
- Direct labor, travel, equipment, supplies, contracts and so forth can be associated directly with ID 100 which are O/AHS direct costs.

# Important Cost Definitions

**Indirect** costs are those costs that support direct efforts such as O/AHS.

- They are allocated to organization-wide direct programs.
- They are not specifically identifiable to a direct program because they are staples, pens and pencils, insurance, executive staff that cannot be further broken down.

# Indirect Costs

Indirect costs are grouped together in a bucket called a cost pool (numerator) and divided by an allocation base (denominator) to create a fraction.

$$\frac{150}{1,000} = 15\%$$



# Sample Fringe Rate Calculation

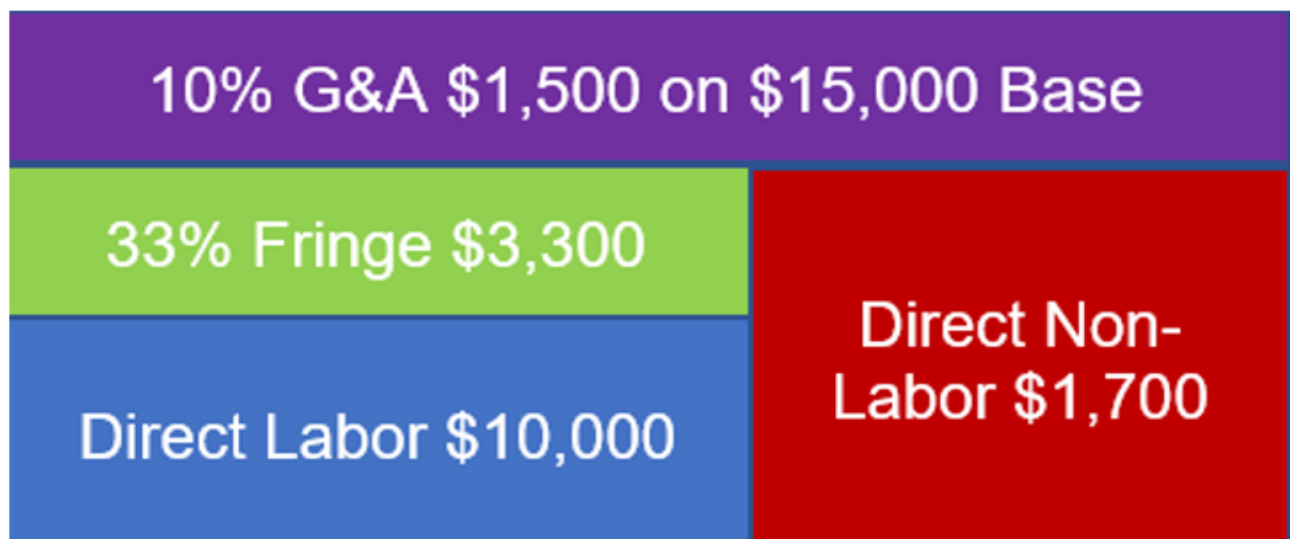
- If you had \$100,000 in employee benefits (fringes) divided by \$300,000 in direct labor (representing all programs in an organization), the fringe benefit rate would be 33%.
- If you have \$10,000 in direct labor, the computation of fringe would be 33% multiplied by \$10,000, or \$3,300.
- Perhaps you can see the usefulness of “indirect rates” like the fringe benefit rate of 33%.

# Use of Indirect Rates

- For our discussions, there are 2 types of indirect rates:
  - Fringe
  - General and Administrative (G&A)
- The two types are like layers of cost on direct cost, i.e.
  - Fringe benefits on direct labor, and
  - G&A on top of direct labor + fringe benefits + direct non-labor cost.

# Cost Model

## The Full Cost Building Block Diagram



**Full Cost** is the sum of direct costs (direct labor of \$10,000 and direct non-labor of \$1,700 in the above diagram = \$11,700) and indirect cost (fringe expense of \$3,300 and G&A expense of \$1,500) less “unallowable expense” which we will explain later. Thus, the full cost of a particular UOS is \$16,500.

# Defining Line Item Cost

- **Direct Labor** or personnel cost is wages directly identifiable to a program such as O/AHS. It is direct service staff wages.
- **Fringe Cost** is normally considered an indirect cost, but when applied to direct labor it is considered a type of direct cost. For this example, it is an indirect cost allocation of fringe benefits to direct labor. Employment related expenses are shown as follows:
  - Discretionary: 401k/403b retirement, Short-Term/Long-Term disability, group health and life insurance, tuition assistance, mass transit fares, paid parking, and gym expenses.
  - Non-Discretionary: benefits mandated by law or regulation such as: payroll tax (Social Security & Medicare), state and Federal unemployment tax if applicable, and workers compensation insurance.

# Defining Line Item Costs

**G&A Costs** are indirect costs that benefit the organization as-a-whole. That is why in the diagram G&A costs are the top layer of expense. They include:

- Functional labor expenses such as executive, management, finance and accounting, HR, IT, purchasing, legal, and the application of fringe benefits to these forms of indirect labor
- Operational expenses such as rent, utilities, maintenance and repair, depreciation, printing, postage, website, communications, audit, local taxes, registration fees, dues and subscriptions.

# Unallowable Cost

- **Unallowable Expenses** pertain to statutory regulations such as the Uniform Guidance for Health & Human Services (HHS) awards 45 CFR 75, Subpart E, Cost Principles that define certain expenses on Federal awards and sub-awards to be not recoverable, meaning there is no reimbursement for the incurrence of said cost.
- In addition, the Fiscal Monitoring Standards for Ryan White Parts A and B provide additional unallowable expenses beyond the Uniform Guidance as well as the HHS Grants Policy Statement, not to mention any District of Columbia HAHSTA grant, and terms and conditions of this award.

# Unallowable List & Profit

- Typical unallowable expenses (not a full list):
  - Interest on borrowings with some exceptions
  - Bad debt expense
  - Penalties and fines
  - Retainers with no specific itemized activities
  - Advertising (non-programmatic)
  - Public relations
  - Fund-raising or development
  - Lobbying, advocacy
  - Membership department
  - Alcoholic drinks
  - Most legal fees
  - Goods and services for personal use
- **Profit** is unallowable on ALL Federal direct awards and sub-awards. Profit is defined as a gain above total allowable cost that benefits an organization.

# Ryan White Unallowable Costs

- Cash payments to service recipients, including cash incentives
- Medical or other care provided in a hospital, emergency room, or other inpatient basis.
- Clothing
- Funeral, burial, cremation or related expenses
- Local or State personal property taxes
- Foreign travel
- Purchasing or improving land, or to purchase, construct, or permanently improve any building or other facility (other than minor remodeling)
- Non-targeted marketing promotions or advertising about HIV services that target the general public
- Broad-scope awareness activities about HIV services that target the general public
- Pre-exposure prophylaxis
- Maintenance of a privately owned vehicle lease or loan payments, insurance, or license and registration fees
- Costs to carry out any program of distributing sterile needles or syringes for the hypodermic injection of any illegal drugs
- Outreach activities that have HIV prevention education as their exclusive purpose
- Influencing or attempting to influence members of Congress and other Federal personnel
- Creation, capitalization, or administration of a liability risk pool or any amount expended by a State under Title XIX of the Social Security Act (Medicaid)
- Criminal defense or class-action suits unless related to access to services eligible for RW funding
- Developing materials designed to promote or encourage intravenous drug use or sexual activity, whether homosexual or heterosexual
- No use of Part B funds for the purchase of vehicles without written Grants Management Officer (GMO) approval



# 2 Types of UCRs

- Defined “full cost” as direct cost plus allowable indirect expense without profit or fee of any kind.
  - Develop 2 levels of full cost:
    - 1) allowable full cost and
    - 2) full cost with unallowable expenses.
- UCR for government grants where they use UCRs as an alternative payment method to cost reimbursement and as such, such rates (based on full cost) exclude unallowable expenses and/or profit.
- UCR based on full cost with unallowable expense and profit to understand the total true cost of a doing business for a particular UOS.

# Ryan White Payer of Last Resort

- Any allowable cost incurred above the 10% administrative cap (direct or indirect) is unallowable.
  - If all indirect expenses were 15%, and an organization used all its administrative expenses as “indirect” or up to the 10% cap, then 5% of their allowable indirect expense would not be recovered, even though they are allowable because RWHAP statutory regulation limits the recovery.
- If all administrative costs subject to the 10% cap are 100% indirect,
  - This means some of the indirect costs are allowable, but are not recoverable above the 10% cap.

# 5. Computing Unit Cost Rates



# Method for Computing UCR

Please refer to handouts.