

Department of State Health Services
Unit Cost Reimbursement Guidelines for Ryan White Subrecipient Contracts

UNIT COST REIMBURSEMENT

Overview

Unit cost is a move to a more accountable method of managing grant funds. It is a process of linking or tracing costs to outputs (service categories). Unit cost is simply the “total cost” of producing one unit of output. A unit cost is calculated by dividing the total cost of production by the total units of output. Using source financial data from accounting systems (general ledger), all costs associated with an output are collected, summed and then divided by the number of output units produced. To understand unit cost, one must clearly identify each type of output so that all costs associated with producing each output can be captured in the general ledger. With proper accounting, unit cost principles will provide grantees a look at all costs in terms of outputs and highlight possible inefficient use of scarce resources. Using unit cost principles will not solve the problems of managing an organization nor is it a substitute for sound management or leadership. Rather, unit cost is a useful tool in the management process.

Applicable Principles

Unit cost rates must be based on actual allowable costs and conform with the cost principles and standards set forth in Uniform Grants Management Standards (UGMS), applicable Office of Management and Budget (OMB) Circulars, 45CFR74, 45CFR92, and Ryan White Care Act Title II Manual. (only applicable to Ryan White Grants).

No claims for reimbursement will include any increment above cost, whether termed “profit” or “fee”.

All costs must be treated consistently as either direct costs or indirect costs. The assignment of costs and allocation of indirect costs for each unit of output must be based on beneficial relationships. Reference the applicable OMB Cost Principles (Title 2 CFR) and the DSHS *Contractor’s Financial Procedures Manual*. The DSHS manual is available at: <http://www.dshs.state.tx.us/contracts/cfpm.shtm>

Financial System Requirements

One of the State and Federal requirements for receiving a grant is that organizations receiving funding have an adequate accounting system. Each subrecipient and their subrecipient subcontractors who receive grant funds must demonstrate that they can adequately track, manage and account for grant funds. Standards for financial management systems are defined in:

- Uniform Grants Management Standards, Subpart C. 20.

- Office of Management and Budget Circular A-110, Subpart C. 21.
- 45CFR92, Section 92.20 (State and Local Governments)
- 45CFR74, Section 74.21 (Non-Profit Organizations, Institutes of Higher Education)

Some specific operations that an organization's financial management system must perform include:

- Segregating direct costs from indirect costs.
- Establishing separate cost centers for each output unit to capture allowable (reimbursable) costs.
- Establishing separate cost centers for each output unit to capture unallowable costs and the value of donated goods and services.
- Incorporating a timekeeping system that identifies employees' time and effort by output unit.
- Documented cost allocation plans. Refer to DSHS *Contractor's Financial Procedures Manual*
- Capturing costs in separate cost centers by service and by funding source for each unit of service.
- Capture utilization statistics relative to each output unit.
- Provide monthly posting and closing of accounting records.
- A record keeping system that organizes and summarizes transactions in a form that provides the basis for preparing Financial Status Reports.
- Maintain adequate documentation to support all costs charged to the grant.

Unit Cost Accounting Standards

The grantee must have a basic accounting system which identifies the total costs of the grantee's organization. The grantee should make full use of the organizations financial accounting system to separate costs into cost centers. Thoughtful establishment of cost centers in the accounting system will minimize adjustments and allow many expenses to be assigned directly to the appropriate cost center. Any cost analysis system must involve close cooperation between the fiscal and program staff. Consultation and agreement with organization officials on the structure of general ledger accounts and the treatment of each type of cost will facilitate appropriate allocation of costs.

Identify Output Unit

Unit cost simply identifies costs with the outputs produced. Before costs can be identified with outputs, each unit (service category) needs to be clearly defined in the contract. All activities involved in delivering the output or service must then be identified so that cost related to those activities can be captured in the output (service category) unit cost center.

Cost Centers

A cost center is defined as an organizational component or activity into which costs can be grouped. Determining the cost centers within an organization is basic to cost analysis and unit cost accounting. Each cost center must be designated as a direct cost center or an indirect (support/administrative) cost center.

Each output unit (service category) should have at least one direct cost center to capture allowable direct costs. If unallowable cost or donated goods and services are utilized in the production of the output unit, a separate cost center must be established to capture these costs. Only costs recorded in the “allowable direct cost center” can be used in the calculation of a unit cost reimbursement rate. Once costs have been distributed to a particular output unit cost center, if further distribution is required for reporting purposes (i.e. for Single Audit reporting purposes, the activity is funded by more than one state or federal grant), costs may be distributed between funding sources based on a cost allocation plan.

Direct Costs

Direct costs are those costs that can be traced exclusively to one output, such as hands on labor or supplies consumed directly in the production of the output. Labor costs must be based on an after-the-fact distribution of actual time worked on each activity. Cost distributions based on budget estimates or predetermined percentages are unallowable. Refer to UGMS, Attachment B. 11 (h); OMB Circular A-122 (2 CFR Part 230), Attachment B. 7 (m); OMB Circular A-87 (2 CFR Part 225), Attachment B. 11 (h).

Indirect Costs

Indirect costs are those costs that benefit two or more outputs and cannot easily be associated with a particular output unit. Typical examples of indirect costs may include: depreciation or use allowance on buildings and equipment, building rent, the cost of operating and maintaining facilities, general administration costs such as salaries and expenses of executive officers, personnel administration and accounting. Reference sections on indirect cost and cost allocation plans in applicable OMB Circulars and UGMS for more detail instructions.

Cost Allocation

A grantee is required to have an up-to-date cost allocation plan and to use the plan to allocate costs among the various outputs which they benefit. Costs should be allocated to output units by means of a base that best measures the relative degree of benefit. The nature and use of each cost category will determine the appropriate methodology to use for allocation of the cost. For example, costs related to utilities or a building could be allocated based on the square footage of building space occupied by each output unit. Each plan should set forth the formula or basis for distributing a cost to a cost center. The plan should include supporting documentation showing how the allocation percentage was calculated, the basis upon which costs are allocated and the rationale for the basis selected. Reference the applicable OMB Circulars, UGMS, and the DSHS *Contractor's Financial Procedures Manual* for more detail instructions on allocating costs.

Unit of Service Documentation

A grantee must maintain documentation on file to support each unit of service billed. The documentation should support the effort and resources utilized in providing the service. For example, if a unit of service is measured in time, documentation should be on file to support the time spent providing the service. The supporting documentation should be signed by the client evidencing delivery of the service.

Equipment

Unit cost rates may include the full cost of equipment approved/purchased with Federal or state grant funds in a given contract term. The cost of equipment purchased with prior year or other State or Federal grants must be excluded from the unit cost rate calculation. Equipment purchased by the grantee with non-state/federal funds should be allocated through depreciation or use allowance.

Unit Cost Rate Calculation

In response to a Request for Proposal, subrecipients will be required to submit an eight categorical budget for each unit cost and the rationale for the number of proposed units of service to be provided and billed to the grant. Historical cost data should be used when available to develop the budget. The budget should reflect the total costs allocable to the unit and an estimate of the amount of costs to be recovered by billing third party payers. The amount of estimated costs to be recovered from third party sources is subtracted from the total budgeted costs to arrive at total billable costs. To arrive at the (billable) interim unit cost rate, divide the total billable costs by the proposed number of units to be provided.

The conditions under which an interim unit cost rate may be adjusted must be clearly specified in the contract. The purpose for adjusting the unit cost rate should be to align the rate with actual costs as reported on the FSR. Before a unit cost rate is adjusted the reported costs should be reconciled to the general ledger. At the end of the contract term the costs reported on the FSR should be reconciled to the general ledger and audited for compliance with contract terms and applicable cost principles. If the reconciliation reveals that reimbursements were in excess of actual costs, any excess reimbursement amount may be applied to other service categories (funded under the same contract/award) where actual costs exceeded reimbursements. In this case the expenditures in the other service categories must be allowable and allocable to like services defined in the contracts scope of work and incurred within the same contract period. The conditions and methodology under which excess reimbursements may be applied to other service categories must be clearly defined in the contract. Excess reimbursements that cannot be applied to other eligible service categories must be refunded.

Reporting

Grantees are required to submit an annual Financial Status Reports (FSR's), DSHS Form 269a at the end of the contract term as specified in the contract for each billable unit cost rate and to report the number of units billed for the related period. The FSR should reflect actual allowable costs incurred under each of the budget categories (as recorded in the general ledger) for the specified output unit. It should not include unallowable costs and the value of donated goods and services. The FSR should also reflect as a reduction to total costs, amounts collected from third party payers. The FSR should be signed by the appropriate authority, certifying the accuracy and allowability of the costs reported. A separate FSR may be submitted to report unallowable costs and the value of donated goods/services. Grantees may require more frequent reporting from sub-grantees.

Advance Payments

Sub-grantees may request a one-time advance for each contract only to meet immediate need for cash disbursement. The amount of the advance shall not exceed the amount of the contract divided by the number of months covered by the contract multiplied by two (2). Sub-grantees must make the request on a form specified by the grantee and provide written justification and documentation. Approval of the advance will be at the discretion of the grantee. The advance shall be requested at the beginning of the contract term. Advanced funds must be expended during the applicable contract term so that, after the final monthly billing, the sub-grantee will not have advanced funds on hand.