

DEPARTMENT OF ELDER AFFAIRS UNIT COST DETERMINATION INSTRUCTIONS

I. OVERVIEW OF THE METHODOLOGY:

The unit cost methodology is a tool for assigning costs involved in delivering services, which can be used prospectively for contract rate setting purposes. Utilizing documented employee time and salary devoted to the delivery of specific services and prior year expense information, the methodology allocates the agency's resources among its activities, both service and non-service related.

Employing this methodology encourages the agency to determine which activities benefit from its outlays, and to understand the components of their total service costs. Providers can use the methodology to automatically distribute resources among the services they administer, or can manually distribute resources when documentation indicates specifically how they are used.

Each recipient or sub recipient service provider may offer a variety of services. In the methodology, these services (as defined in the Home & Community Based Services Handbook) are the end-goals of all provider activity and will act as receivers capturing all direct and indirect provider costs. The receivers assume all related direct costs, such as employee time and line item support expenses that are clearly incurred for the purpose of that program. Related indirect costs, which include activities such as administration, payroll, and budgeting, will be allocated to the services based on an allocation statistic.

A. Basic principles of the unit cost methodology:

Consistent treatment of similar costs

Consistently treating similar costs and documenting direct staff time and line item expenditures ensures that service costs will be treated consistently within the organization.

Costs allocated in a particular manner must always be allocated in that fashion. Cost must be treated as either a direct or indirect cost in like circumstances. For example, administrative costs cannot be allocated both directly and indirectly to services. Once an allocation method is chosen (either direct or indirect), that same method must be used consistently each year.

Documentation

Supporting documentation must exist to directly allocate staff time, or budgeted line-item expenditures, to a specific service or services. Documentation includes paid invoices, vouchers, logs or journals, which clearly identify the expenditure amount and service benefited. For salary and wage costs, documentation will consist of a time study conducted bi-annually or time sheets or service logs that clearly reflect time spent delivering the various services. Since unit costs will be determined on a prospective (or budget) basis, documentation will consist of aforementioned invoices, etc. from the prior actual year as a basis for directly allocating costs. The Department will require a supplemental Schedule of Functional Expense by Service as part of the fiscal year audit. Entities not required to have a fiscal year audit performed may be asked to provide their general ledger financial statements to substantiate costs.

B. Source of the methodology:

The cost principles used in this methodology were derived from Office of Management and Budget (OMB) Circulars A-87 ^ΔCost Principles for State, Local, and Indian Tribal Governments[@] and A-122 ^ΔCost Principles for Nonprofit Organizations[@] regarding the allowability of costs for federal reimbursement. Determining unit costs within this framework fosters the:

- (1) Clear representation of costs, and;
- (2) Stops the shifting of expenses from one program to another.

C. Definitions:

Direct Expense and Indirect Expense

Direct expenses include items that are easily associated with a particular service or services. For example, money spent for purchasing and delivering meals in the Meals on Wheels program is a direct expense identifiable to that service. Wages for an employee who performs Respite, Homemaker and Chore services can be allocated directly to these three services proportionate to the time spent in each service.

Indirect costs are those costs that have been incurred for common or joint objectives and that cannot be readily identified with a particular approved cost or service objective. These costs are allocated based on the Modified Total Direct Cost. Once a cost is considered and treated as an indirect cost, that treatment must be applied consistently.

Indirect expenses are costs that relate to the delivery of service, but not directly. For example, the provider's accounting division exists to handle revenue and account for expenditures of all funds, allowing the agency to provide services.

Unit Cost

The sum of Expenses directly incurred on behalf of a particular service (including salaries and expenses that can directly be associated with that service), along with its fair share of indirect line-item expenses for activities that do not directly contribute to services but may benefit them indirectly (such as administrative oversight, accounting functions, utilities, etc.) equals the total cost (or full cost) of the service, which represents all activity that is relevant to the delivery of a particular service. The full cost of a particular service reflects the provider's total expenses for that type of service and is divided by the number of service units delivered in a year to yield the cost of producing one unit of service, which is the unit cost.

Allocated Costs

The provider determines what effort and materials are direct and indirect and with what program they are associated, bearing in mind the premium on consistency. Expenses will be attributed to a particular service through a determination of its nature, and an allocation of costs.

1. Types of Cost Allocations:

- a. Cost identified with a single service is a direct cost 100% allocated to that particular service based on documentation, such as printing costs for brochures distributed for nutrition education.
- b. Costs benefiting multiple services are direct costs allocated to those services based on an equitable allocation basis such as percentage of time or percentage of wages when supported by documentation. An example is an in-home worker who performs Chore & Homemaker

services. The salary would be split between the two services proportionate to the percentage of time spent in each service.

c. Costs benefiting all services are indirect costs accumulated in a cost pool, such as office supplies or salaries for accounting staff, which is allocated from the General & Administrative cost pool across all services based on an appropriate allocation statistic.

d. Costs unrelated to the delivery of DOEA services are not allocated to DOEA services. Staff software training or a brochure that promotes a fund-raising event are examples of costs for activities unrelated to DOEA service delivery.

e. Unallowable costs are costs not allowed under state and federal grant awards to sub-recipients. These costs must be accounted for separately. Examples would be costs for lobbying and fundraising activities. These costs would also include salaries and other compensation to personnel for the percentage of time that they are involved in these activities, any directly associated costs, and a fair share of indirect supporting expenses. Further, meals not related to travel incurred in the performance of state business, refreshments and recognition items for staff, and entertainment expenses for employees and management are examples of unallowable costs.

II. ALLOCATION METHODS:

A. PERSONNEL COST SPREADSHEET:

Some positions can be easily identified with one particular service or activity and therefore do not require additional documentation to allocate their time directly to that service or activity. For positions that may perform multiple services, a time study, service logs, or journals are appropriate documentation to support the allocation of time to multiple services or activities in the personnel cost spreadsheet. For positions that are not directly related to services, but support services indirectly, wages are allocated to the Management and General Administration cost pool.

All services are converted into hours for the purpose of this spreadsheet. For simplification, if actual time studies or logs are not maintained, or if services are episodic in nature, an estimate of the percentage of time the employee devoted to each service should be used.

Management & General Administrative cost pool

Personnel positions normally associated with Management & General activities are the executive director and assistant director(s), fiscal office staff, human resources staff, data processing office staff, and all related supporting personnel for those offices. Salaries for these positions are usually 100% allocated to the Management & General Administrative cost pool. If any of these positions participate in lobbying, fundraising or other activities unallowable under state and federal grants, an appropriate proportion of time should be allocated to these unallowable activities.

Facilities Repair and Maintenance cost pool

Personnel positions normally associated with this cost pool are security personnel, and cleaning and janitorial staff. Only salaries for employees of the agency, whether full or part time, are allocable to

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this cost pool in the personnel cost spreadsheet. If general administrative positions or program service staff perform these functions, an appropriate portion of their time should be allocated to these functions.

Potential Billable Time

To determine the maximum amount of time an employee is available to perform or directly oversee services, hours for non-billable activities must be deducted from the total work hours, which includes various leave time, holidays, etc. The category of "other non-billable time" is for employee training/education hours, travel time (when it is not included as a billable activity of the service), and other time for which an employee is compensated but is not available to perform services. If documentation does not segregate these categories of non-billable time, this time can be grouped aggregately under one of the column headings.

Program Services

Salaries that would be allocated directly to services would normally include the following positions:

Program Managers, Case Managers & Case Aides

I & R, Counseling, education, & Screening staff

In-home workers (Chore, Respite, Personal Care, Homemaker)

Congregate & Home Delivered Meal staff and Nutrition staff

Home Health Workers

Recreation, Medication Management, Health Promotion and Health Support Staff

Adult Day Care, and Respite staff

Transportation staff

Any other position dedicated full time to providing a particular service or variety of services defined by the department in the Home & Community Based Services Handbook.

Salaries for these positions should be allocated directly to the service or services performed by the staff member in proportion to the time spent in each service as supported by a time study, activity reports, service logs, or journals.

Program managers and direct program supervisors' time should be allocated across the services they direct. These salaries should either be allocated equally across all services they direct or, if certain services demand more of their time than others as supported by documentation, their salaries should be distributed according to time actually spent overseeing those services.

Should program services staff perform general administrative functions or unallowable activities such as lobbying, fundraising or other activities unallowable under state and federal grants, an appropriate proportion of time should be allocated to these activities.

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For positions that perform CIRTS data entry or billing functions for services, or provide direct support to program staff, if documentation exists to support the allocation of time performing these duties, then their time should be directly distributed proportionately to the services benefited if part of their time is spent performing general administrative support, an appropriate portion of their time should be allocated directly to this cost pool.

The total time allocated for direct service personnel should equal 100% of the available work hours. In no case should time allocated to services exceed the net available hours. The total time for program managers may include time spent in functions that are strictly administrative in addition to service oversight.

B. SUPPORT BUDGET WORKSHEET:

If the accounting system is set up to allocate expenses by service or expense documentation exists supporting the allocation of part or all of the expense line item directly to a service or services, these costs should be directly assigned. If the sub-recipient entity does not segregate expenses by service in their accounting system or is new to the methodology, line item expenses are assigned to the cost pools (General Administration or Facilities & Maintenance). These cost pooled expenses will automatically be spread across all services proportionate to the direct wage expenses for each service.

The Wages line item will be automatically input from the Personnel Costs spreadsheet.

Management & General Administrative cost pool

Management & General activities include operational oversight, business management, general record keeping, budgeting, financing, and all management and administration except for direct conduct of program services or lobbying or fund-raising activities and are usually associated with the following positions: the executive director, compensated board officers, fiscal office staff, human resources staff, data processing office and all related supporting personnel for those offices.

Expense allocations to the Management & General administrative cost pool are the fringe, travel, communications/postage, advertising, worker's compensation and general liability insurance, printing/office supplies, office equipment, professional/legal/audit fees, and miscellaneous expenses (filing fees, subscriptions and memberships related to DOEA services, etc.) that are usually associated with these positions.

Actual payroll taxes, fringe benefits, and travel costs paid for officers and employees associated with these positions should be allocated to this cost pool.

Communications/postage, advertising, printing & supplies, office equipment, professional fees/legal/audit expenses, subscriptions/dues/membership costs, insurance premiums for worker's compensation, general liability and cash handling bonds, depreciation of office furnishings and MIS equipment, and other expenses that were incurred for purposes general in nature should be allocated to the management & general administrative cost pool. This cost pool is reallocated to all services automatically based on the percentage of direct services as compared to total direct allocations since these activities indirectly support all services.

However, if documentation exists supporting that all or a portion of that expense is specifically incurred for a programmatic purpose, the appropriate proportion of the expense should be allocated directly to the service(s). Examples: printing costs for brochures regarding improving nutrition would be directly allocated (100% of cost of brochures) to nutrition education. Conversely, the cost of a brochure that lists all services the agency provides would be allocated to the management and general administrative cost pool. In this example the cost of brochure would be distributed across all services in the proportion that services share the redistribution of the Management & General Administrative cost pool.

Expenses that are accumulated in the Management & General Administrative cost pool are redistributed to all the services cost centers in a manner that is proportionate to their share of total direct expenses. For example, if Case Management's direct expenses total 20% of all direct expenses incurred by the agency, then the amount of redistribution of the expenses in the Management & General Administrative cost pool would be 20% to the Case Management cost center.

Facilities Repair and Maintenance cost pool

Salaries of maintenance or security staff will automatically be carried over from the personnel costs worksheet. Expenses or subcontracts for construction, pest control, cleaning, and other building related work should be allocated directly to this cost pool. Additionally, utilities, insurance premiums for property liability and glass replacement, space costs (rent/lease/mortgage payments for office or storage space, building depreciation, loan payments and applicable interest for a building improvement loan), pest control and repair and maintenance costs directly incurred by the agency, and other expenses related directly to the upkeep of the physical facility should be cost pooled here.

Expenses allocated to the Facilities Repair and Maintenance cost pool will automatically be redistributed to all services in the agency proportionately by square footage occupied. In order for this redistribution to occur the management has to first determine how many square feet of available space is dedicated to each service program and to administrative functions and common areas. This may be based on the judgment of the administration if there are not clearly delineated work areas. These values are input in the line provided as "Square Footage Occupied", with the determined values for each service going in the field for that service. The sum of square footage dedicated to common areas and administrative functions should be input on this line in the column for the Management & General Administrative cost pool. The redistribution of space costs formula will then distribute to each service its share of space cost along with its proportionate share of costs related to Management & General Administrative functions.

Program Services Costs

These costs are associated with the activities that result in goods and services being provided to customers in order to fulfill the purpose and mission of the organization. Those services are the major purpose for and the major output of the organization and often related to several major programs. Expenses for program services should be reported by the kind of service function or group of functions. For example, a health and welfare organization may have programs for health and family services, research, and disaster relief, among others.

The Wages line item will be automatically input from the Personnel Costs spreadsheet.

Expense allocations to program services are the fringe, travel for program personnel, printing costs directly related to the service(s), professional consultant fees directly supporting the service(s), program -specific audit expenses, allowable public relations and advertisement costs as a required service described in an award, equipment and equipment maintenance charges when the equipment was purchased specifically for a service or services, revenues paid for service subcontracts, program supplies, food supplies, and other miscellaneous expenses incurred for a specific program purpose.

If building space occupied by programs staff is separate from administrative staff, then the utilities, property liability & glass coverage insurance, costs incurred for necessary maintenance, repair, or upkeep of program space, construction subcontracts for program building(s), loan costs and interest for repair, improvement or maintenance of the program building(s), depreciation, maintenance, pest control and security for programs offices would be allocated directly to services based on actual square foot costs if known, or on the same percentage basis their salaries are distributed if staff performs multiple services.

UNALLOWABLE COSTS

While the costs of organized fund raising activities, lobbying activities, investment activities, etc., may be necessary to the agency's operations, are unallowable, regardless of the purpose for which

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the funds will be used. A proportionate share of indirect support expenses will automatically be allocated by the spreadsheet to these activities.

To be allowable, costs must:

- (1) Demonstrate reasonableness for and comparability to current market conditions necessary for the performance of the contract to which they are allocated;
- (2) Conform to any limitations or exclusions set forth in the Client Services Manual or in the contracts as to type or amount of cost items;
- (3) Be consistent with policies and procedures that apply uniformly to both federally financed and general revenue activities of the Department;
- (4) Be accorded consistent treatment;
- (5) Be determined in accordance with generally accepted accounting principles;
- (6) For OAA funds, not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or prior funding period;
- (7) For CCE funds, core service funds cannot be used to meet matching requirements for Area Agency on Aging administrative costs; and
- (8) Be adequately documented.

The principles to be applied in establishing the allowability of certain items of cost based on 45 CFR, Parts 74 and 92, for nonprofit organizations and 41 CFR, Subpart 1-15.2 for for-profit organizations is incorporated by reference to OMB Circular 122, Cost Principles for Nonprofit Organizations, Attachment B in its entirety. These principles apply to all of the Department's programs whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather, determination as to allowableness in each case should be based on the treatment or principles provided for similar or related items of cost.

Items restricted from expenditure of state grant funds are defined in 3A-40.1.03, F.A.C.

Expenditures prohibited from state or federal funds, as applicable, unless expressly provided by law include, but are not limited to:

Congratulatory telegrams; Flowers and/or telephone condolences;
Presentation of plaques for outstanding service;
Entertainment for visiting dignitaries;
Refreshments such as coffee and doughnuts;
Decorative items (globe, statues, potted plants, picture frames, wall hangings, etc.);
Greeting Cards (section 286.27, F.S.);
Alcoholic beverages;
Portable heaters and fans, refrigerators, stoves, microwave ovens, coffee pots, coffee mugs, etc.;
Clocks for private offices;
Meals, except those served to inmates and clients of State Institutions;
Lobbying expenses

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