Unit Cost 301 – Unit Cost and Actual Cost, Are they the Same? December 13, 2018

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Unit Cost 301 – Unit Cost and Actual Cost, Are they the Same?

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Health Resources and Services Administration (HRSA) Overview

• 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

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%





Learning Objectives

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

- 1. Describe how to make informed resource allocation decisions based on unit cost.
- 2. Identify how to estimate the cost of a service funded by the RWHAP
- 3. Identify compliance federal requirements in determining a unit cost of service
- 4. Determine the documentation of the actual cost of a service reimbursed by fee for service/service unit.





Takeaway from prior unit cost sessions

- ➤ Define unit cost
- Five steps to determine Unit Cost
- Federal requirements to be met when determining a federal cost of a unit
- ➤ Direct vs indirect cost
- ➤ Calculate unit cost of a service





Review – What is Unit Cost?

True or False

Unit cost is the amount of money that it cost a company to produce one article.

Unit cost and unit price are related but not the same thing.

Unit Cost can be used to assess the reasonableness of the payment.

Medicare, Medicaid, physician practices use cost to established their service fees/charges.

The average expense per client is the same as the average unit cost.

Unit cost relates to the agency funding source.

Unit cost is not an estimate but the exact cost of the service.





Review – What is Unit Cost?

True or False	
Unit cost is the amount of money that it cost a company to produce one article.	True
Unit cost and unit price are related but not the same thing.	True
Unit Cost can be used to assess the reasonableness of the payment	True
Medicare, Medicaid, physician practices use cost to established their service fees/charges.	False
The average expense per client is the same as the average unit cost.	False
Unit cost relates to the agency funding source.	False
Unit cost is not an estimate but the exact cost of the service.	False





Determining Cost of a Unit

- Step 1: Define unit of service
- Step 2: Determine number service units
- Step 3: Determine Direct and Indirect cost
- Step 4: Determine full cost of service
- Step 5: Calculate the Average Unit cost







Determine Direct and Indirect Cost

Direct Cost

 A cost that can be accurately traced to a program/service activity with little effort

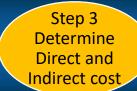
Indirect Cost

A cost that is not directly traceable to a program/service activity

Note

Ryan White HIV/AIDS Program legislation defines indirect cost for subrecipients part of administration cost and capped at 10% in the aggregate





Federal Requirements to be Met

When determining the cost of a federal funded unit, the cost 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.





Federal Requirements

Most important federal principles that apply to the cost of a unit:

- Cost Principles allowable, allocable, and reasonableness
- Uses of Ryan White HIV/AIDS Program (RWHAP) funds for core medical services, support services, and administration
- RWHAP definitions and limitations of cost
- Reasonableness of payments apply when the unit cost is the basis for reimbursement 45 CFR 75.404





Calculation Unit Cost

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

<u>Allowable direct and indirect Costs services</u> = **Unit cost** Service Category Units of Service as defined





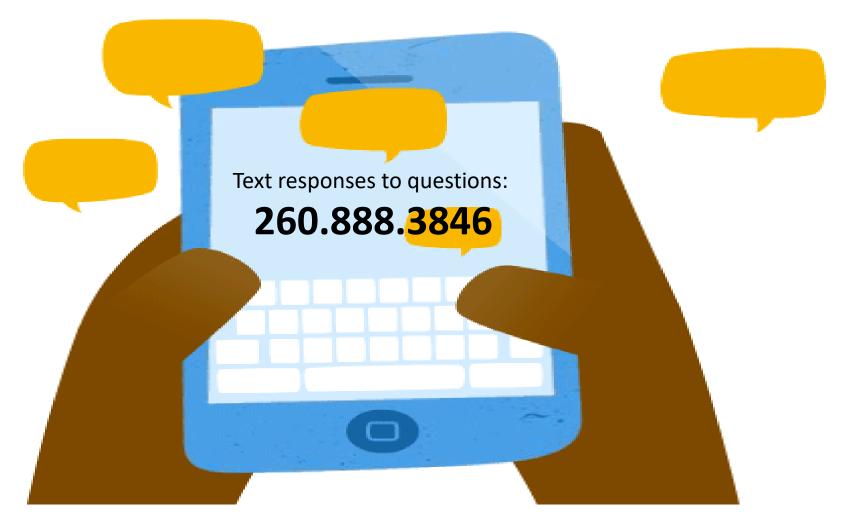
Supporting documentation

- Personnel Time sheets or payroll reports-effort certification
- Personnel Benefits Worksheet with distribution of fringes of direct allocations of fringes per staff
- Consultants Invoice that reflects the job performed, rate and hours
- Contractual Expenses Invoices that meets the payment arrangements
- Supplies/Other Direct Costs -- The subrecipient should provide copies of vendor invoices for all supply purchase
- Equipment Subrecipient should provide copies of invoices for all purchases of equipment
- Travel Documentation to consist of properly approved invoices. Mileage logs for local travel
- All other budgeted items Documented through properly approved invoices





Fiscal Institute Knowledge Test







Case Study I

How to establish reasonableness of total expenditures?



Audience discussion

- How were the allowable cost principles applied to the budget?
- How will you test the reasonableness of the budget (payment)?
- What questions should you ask before approving the budget?



Evaluate if payments exceed the actual cost of the service

- Total payments received from RWHAP Part A
- Compared the revenue received with the total expenses in the accounting system.
- Anticipated for 2018 and compared those estimates with their calculated costs.
- Evaluate variance between cost and payment for the service to determine if the payment exceeded to cost or to the contrary cost exceeded the payment.
- Audience: The cost exceed the payment. Any reasons for cost being so high?



Case Study II

Determine the reasonableness of the fee charged for a medical case management visit.



Takeaway

- Identify the federal requirements to be met in determining the unit cost of a service
- Estimating the cost of a service funded by the RW legislation
- Documenting the actual cost of a service reimbursed by fee for service/service unit.



QUESTIONS





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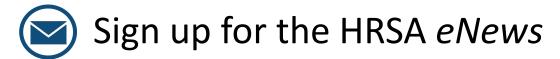
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