

DETERMINING REASONABLE COST

BACKGROUND:

Subrecipient services invoices need to be evaluated for reasonableness at least twice a year following a procedure which is compliant with 45 CFR 75 Subpart E.

PROCEDURE:

Evaluation of Reasonable Cost by Service Category:

1. The cost of a service will depend on the Subrecipient's cost to either provide or purchase the service. Costs vary between Subrecipient agencies due to a variety of factors such as: geographic location, access to services and or products, size of facility, personnel salaries and fringe, and level of expertise. For example, the cost of providing a medical visit in a small private medical practice could vary greatly from the cost of providing a medical visit in a hospital or community health center. The same could also be true for the provision of medical and/or non-medical case management services. A case management visit provided by a small AIDS Service Organization may cost significantly less than a case management visit provided by a governmental agency, hospital or larger agency. The reason for the variation in cost is the cost of personnel, benefits and services is greater.
2. Determining the Cost of a Service: In order to test budgets and expenses for the "reasonableness" of the Subrecipient's costs the following should be considered. The agency will need to determine the total cost to provide a particular service (this criteria should be established in policies and documented). To arrive at a cost per unit/visit the total cost to provide the service should be divided by the expected number of units to be provided. This cost per unit/visit is not used by the Subrecipient to submit for reimbursement; rather it is used by the recipient to compare to other Subrecipients to determine if the cost of the service being provided is reasonable for the agency and the population being served. Decisions on the determination of the cost of a service should not simply be based on the lowest cost estimate, but on each Subrecipient's actual expenditures to provide quality services.
3. Additional Factors that Impact the Cost of a Service – When evaluating the cost of a service for the purpose of reasonable cost it is important to determine if the cost includes additional activities that are not being provided by other Subrecipients providing the same service. If one clinical provider provides only clinical care and another clinical provider provides clinical care with the inclusion of the payment for laboratory/radiology or other ancillary/subspecialty procedures, the cost per medical visit of the second clinical provider will be significantly higher. The same is true with

medical case management services. If one provider uses bachelor's level social workers to provide the service and another provider utilizes registered nurses, the cost of the service could vary significantly.

Range of the Cost of a Service by Service Category

1. Ambulatory Outpatient Medical Care – For example:

The cost for one medical visit has been determined to be X amount:

The factors that contributed to that amount are: (Examples: direct personnel involved in the care, fringe and employee benefits, other personnel costs, supplies, etc.)

The number of anticipated clients to be served is:

Divide the number of clients into the determined cost to determine cost per unit (that has been previously determined). Is the cost reasonable based on the factors listed above? ISDH will make final determination of reasonableness.

2. Medical and Non-Medical Case Management – This service category may be affected by the cost of the personnel providing the service (bachelor's level versus registered nurse) and by the definition of a visit. A visit could be defined as 15, 30 or sixty minutes. A visit could be defined as brief, intermediate and intensive. If the cost of a case management visit is to be evaluated, then definition of the visit must be the same for all providers.

Analysis: Cost of a case management visit based on a bachelor's level provider using 30 minute visits with an expectation of 3,000 visits per year.

Cost of the service – Salary	\$30,000
Benefits	6,000
Travel	1,000
Other Costs	<u>1,500</u>
Total Direct Cost	\$38,500
Administrative Cost (Based on 10%)	\$ 3,850

Total Cost of Case Manager: \$42,350

Divided by: Expected number of visits: 3,000

Equals a cost per encounter of \$ 14.11

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Analysis: Cost of a case management visit based on a registered nurse providing the service using 30 minute visits with an expectation of 3,000 visits per year.

Cost of the service – Salary	\$50,000
Benefits	18,000
Travel	1,000
Other Costs	<u>1,500</u>
Total Direct Cost	\$70,500
Administrative Cost (Based on 10%)	\$ 7,050

Total Cost of Case Manager: \$77,550

Divided by: Expected number of visits: 3,000

Equals a cost per encounter of \$25.85

3. Calculation of the Cost of a Service for Other Direct Cost/Line-Item Core and support Service Categories. - For other service categories such as Early Intervention Services, Legal Services, Mental Health Services, etc., the cost of the service is calculated in the same manner. The total cost of the service is divided by the proposed number of units of service to be delivered to arrive at a cost for each unit of service.
4. Definition of Unit per Service (for the purpose of establishing reasonableness)
Unit is a standard of measurement. The following is an example of the definition of unit for all core and support services to be reimbursed by unit. Please refer to the ISDH HIV Services website to refer to the most updated Service Unit listing.
 - AIDS Pharmaceutical Assistance - *one prescription*
 - Child Care Services - *one 4 hour*
 - Early Intervention Services (EIS)--*one contact*
 - Emergency Financial Assistance - *one utility, rent, medication payment*
 - Food Bank/Home Delivered Meals - *one visit for one meal, voucher,*
 - Health Education/Risk Reduction - *one visit*
 - Health Insurance Premium and Cost Sharing Assistance-- *monthly payment per person*
 - Home and Community-Based Health Services--*one visit, purchase durable equipment*
 - Home Health Care --*one visit*
 - Hospice - *one visit*
 - Housing Services—*one month of payment assistance, one bed day substance abuse*
 - Linguistic Services--*one translation*
 - Medical Case Management--*one visit*

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- Medical Nutrition Therapy-- *one visit for the purpose of performing an assessment education and provide nutritional supplemental*
- Medical Transportation --*one way trip or one voucher for a one-way trip*
- Mental Health Services--*one visit*
- Non-medical Case Management Services --*one visit*
- Oral Health Care-- *one visit*
- Other Professional Services-- *Office visits of an hour or less with a legal provider, account and other professional.*
- Outpatient/Ambulatory Health Services--*one visit*
- Outreach Services-*one contact*
- Psychosocial Support Services-- *One visit in an individual or group setting.*
- Referral for Health Care and Support Services--- *An instance of directing a client to a service in person or through telephone, written, or other type of communication. Each instance of referral should be counted as a separate service unit*
- Rehabilitation Services--*one hour of rehabilitation services*
- Respite Care-- *the provision of one service activity per eight hours*
- Substance Abuse Outpatient Care Substance -- *one visit*
- Substance Abuse Services (residential)- *one day*

Determine the number of service units provided

Subrecipient to use its own data system to project historically the units of service as defined in section above.

EXCEPTIONS:

Other methodologies

REFERENCES:

eCFR

<https://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75# top>.

National Monitoring Standards

<https://hab.hrsa.gov/program-grants-management/ryan-white-hiv-aids-program-recipient-resources>

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