

COST ALLOCATION METHODOLOGY

Objective

This is to provide the cost allocation methodology for the allocation of direct and indirect and administration costs in determining the total cost of the Urgent Care Center (UCC) Crisis Stabilization (CS) services (Mode/Service Function Code 10/25) utilizing the directly allocated method.

Cost Background

Composition of Total Cost:

The total cost of service is typically comprised of direct costs and indirect and administration costs. For year-end cost reporting purposes, the cost of the mental health direct services must exclude capital expenditures and unallowable costs.

Direct Costs:

Direct costs are those costs that can be identified as being expended **directly** for the purpose of achieving primary program objectives, specifically in this case, the delivery of mental health services. Therefore, all costs (salaries, employee benefits, services and supplies) that are readily identifiable to the services provided at the clinic site are direct costs. Additionally, any direct supervision, such as clinic manager and program manager, required for the delivery of the services is considered direct cost. Direct costs can include both regular UCC employees and contracted UCC employees.

In this cost allocation methodology, CS service delivery is the primary program objective.

Direct Costs 100% dedicated to one specific service delivery:

These direct costs are incurred at the clinic specifically for the primary program objective, which is the delivery of CS services, and are identified and charged directly to that service.

Examples of direct costs 100% dedicated to the CS service delivery:

- Salaries and employee benefits (S&EB) for the clinical staff that solely provide CS services in the UCC
- S&EB for the clerical staff that solely supports the operation of the CS program in the UCC
- Payments for contracted clinical employees for providing the CS services in the UCC
- Other UCC expenses related only to CS services
 - Office equipment
 - Furniture

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- Supplies
- Rent and leases, utilities, telephone, and security if the clinic site is used only for providing the CS services

Direct Costs expended for the delivery of multiple service types in the UCC such as CS and Outpatient (OP):

These direct costs must be allocated to the service types where expended.

Examples of direct costs expended for multiple service types in the UCC for CS and OP:

- S&EB for the clinical staff that provide both CS and OP services
- S&EB for the clerical staff and receptionists that support both the CS and OP programs
- S&EB for clinic manager that oversees the CS and OP clinic operations
- S&EB for the medical director
- Telephone
- Insurance
- Office equipment
- Office supplies
- Furniture
- Household expenses
- Rent and leases
- Custodial
- Security
- Utilities

Allocation Methodology

Under the direct allocation method, labor records, time sheets, and/or job codes could be used to assign the S&EB cost for UCC clinicians (regular or contracted employees) who provided direct services in both CS and OP programs. The percentage of direct UCC S&EB cost for each program will then act as the allocation basis for assigning the UCC cost for clinic management and clerical support.

Other UCC direct costs that are shared by the CS and OP programs must also be allocated:

- Telephone
- Insurance
- Office equipment
- Office supplies
- Furniture
- Household expenses

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- Allocate based on the S&EB percentage of the clinical employees and cost of contracted clinical employees
- Rents & leases or depreciation expense on building
 - Allocate based on usable square feet of space, excluding common area such as hallways, reception, waiting area, restrooms, and stairwells.
- Custodial
- Security
- Utilities
 - Allocate based on annual program operating hours
 - CS program:
 - 24 hrs per day, 7 days per week = 168 hrs per week
 - 168 hrs per week for 52 weeks = 8,736 hrs annually
 - OP or Other operations:
 - 8 hrs per day, 5 days per week = 40 hrs per week
 - 40 hrs per week for 52 weeks = 2,080 hrs annually

Indirect and Administration Overhead Costs:

Indirect and administration overhead costs are those costs that are incurred for a common or joint purpose benefiting more than one program objective.

Examples of indirect and administration overhead cost are those costs related to the headquarters facility including the executive office and the general administration of the legal entity, such as accounting, human resources, contracts, data collection system, and information technology and data management.

Allocation of Indirect and Administration Costs

After the direct service costs have been determined and allocated to the appropriate services, the indirect and administration costs are those remaining to be allocated to the various program objectives or clinic sites to determine the total costs of for each service type.

Use of multiple allocation bases to allocate indirect and administration costs when the indirect/administration overhead costs benefit the various services in varying degrees:

- Examples of allocation bases for the allocation of administration overhead costs to all the services provided by the legal entity:
 - Executive office
 - Accounting
 - Allocate based on total direct service costs
 - Contract Administration Cost
 - Allocate based on expenditures of the programs that received relative benefit from contract administration
 - Human Resources

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- Allocate based on total direct S&EB for all services
- Data collection system, information technology and data management
 - Allocate based on the number of reports/records/transactions for all services rendered at all provider locations.

REF: OMB Circular A-122