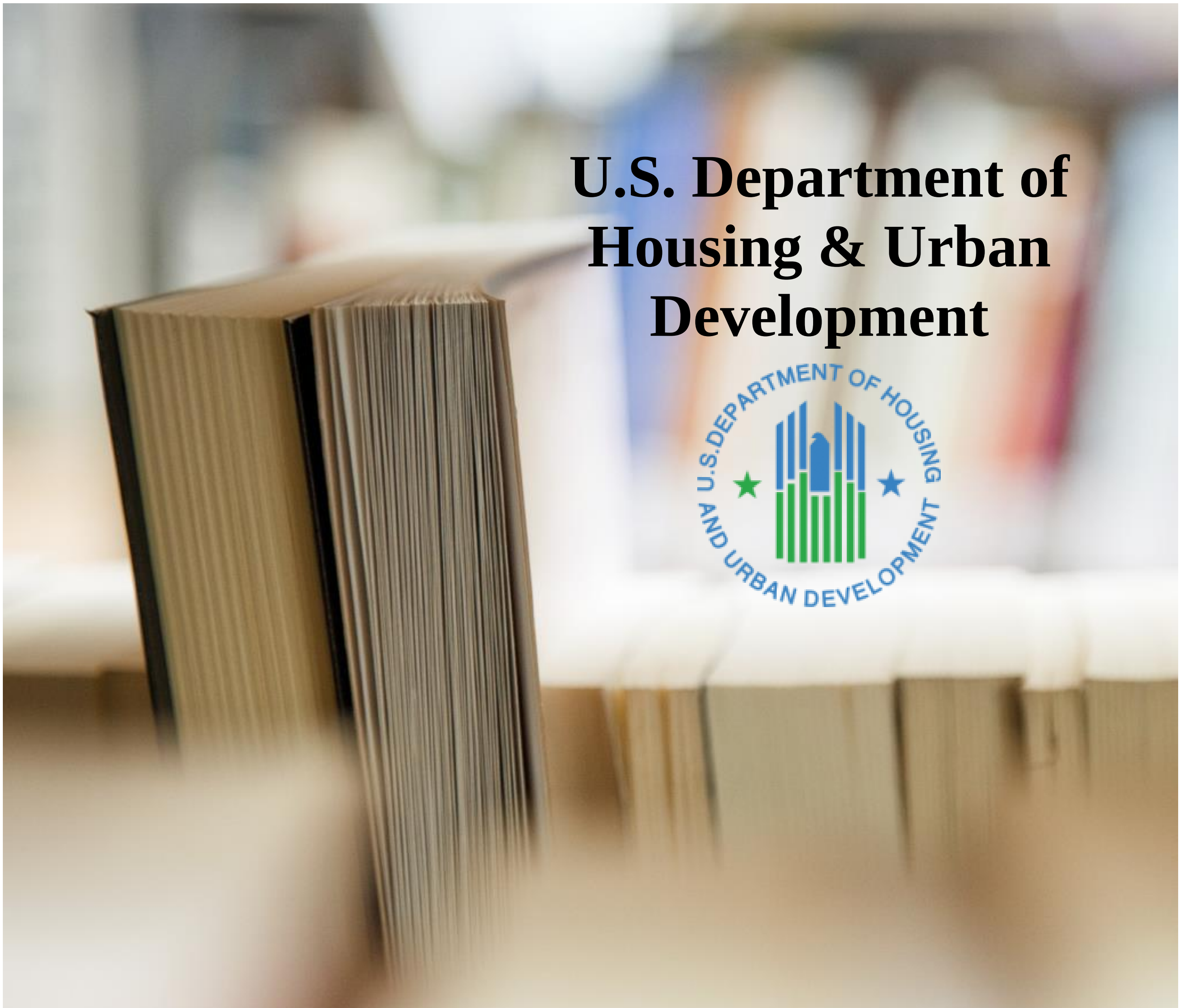

U.S. Department of Housing & Urban Development

OFFICE OF HOUSING COUNSELING
Understanding Billing Methodologies

Based on the Cost Principles Required by the Uniform Grant Guidance, 2 CFR Part 200, Subpart E & Appendix IV for Non-Profit Organizations

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Introduction

The Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR § 200 (Uniform Grant Guidance)* defines costs that organizations may allocate to grant awards and defines how organizations must account for the costs[1]. Housing Counseling Agencies (HCAs) should adhere to OMB's Uniform Guidance concerning personnel records management to maximize the impact of their grant funds, and to also avoid grant noncompliance issues. This document contains an overview of billing methodologies that comply with the requirements of the

The Uniform Grant Guidance became effective for new and continuation awards issued on or after December 26, 2014. Please note the new regulations do not affect grant funds awarded prior to December 26, 2014, unless funds made available under those grants are carried forward into a new Federal fiscal year or a continuation grant. The Uniform Guidance streamlines and consolidates government requirements for receiving and using federal awards to reduce administrative burden and improve outcomes.

Uniform Grant Guidance

While compliance with OMB's Uniform Grant Guidance is expected, this should be done in the context of compliance with the various HUD regulations that intersect with these requirements. Specifically, the Grant Award and the HUD Housing Counseling Handbook 7610.1-REV5 (HUD Handbook) which provides HCAs with guidance on the required information that needs to be submitted to HUD to support the charges made to HUD's Office of Housing Counseling awards.

These compliance elements must be considered as HCA develops a universal compliance strategy to meet each requirement irrespective of origin. Compliance with the requirements in the Uniform Grant Guidance alone is not sufficient. Rather, in addition to these requirements, each HCA must also comply with the HUD Handbook in tandem with all other laws, rules and regulations.

The basis of this document is to explain what is a billing methodology, how to develop one, and how to implement it. It is imperative to keep in mind that all costs considered while developing billing methodologies must be based on actual costs.

[1] A full-text copy of OMB's Uniform Administrative Requirements, Cost Principles, and Audit Principles for Federal Awards can be found at http://www.ecfr.gov

What is a Billing Methodology?

The Billing Methodology is the documented method of how an organization determines to bill its grants or how an organization will reimburse its sub-grantees in the case of parent organizations.

Under the Office of Housing Counseling grants, Intermediaries, SFHAs and MSOs need to approve the billing methodology proposed by its sub-grantees.

The Billing Methodology should detail the computation of:

- **Hourly Rates**
- **Fringe Benefits**
- **Fixed Price Reimbursement, if applicable**
- **Other Applicable Budgetary Line Items**

Basic Concepts to Remember

✓ Any employee funded by federal grants must document the time they spend working on the grant's objectives.

✓ Methodology and documentation must be based on actual hourly rates and time spent by employees on awards being charged.

✓ If fixed cost reimbursement – detail the process used to ensure that the fixed cost reimbursement rate does not exceed the actual cost of providing the housing counseling services.

The HUD grant award is very explicit when it comes to what is required from its grantees regarding billing methods. As part of the quarterly reports requirements, grantees are required to explain the method used for calculating hourly rates and fringe benefits if those were included as part of the rate.

If the grantee decides to use the Fixed-Price Reimbursement Approach they are required to document actual expenses which must be reasonable without exceeding actual costs.

Acceptable Billing Methodologies

This section describes various acceptable billing methodologies that agencies can implement that comply with OMB's Uniform Grant Guidance.

Type of Cost	ACCEPTABLE METHODOLOGIES	UNACCEPTABLE METHODOLOGIES
Direct Labor	1. Using actual hourly rates for hourly employees and computing the hourly rate for salaried employees based on annual hours worked.	1. Computing hourly rates as a percentage of the person's salary based on estimated level of effort. 2. Including non-salary related costs in the hourly rate such as office space and supplies to counselors.
Fringe Benefits	1. Compute based on actual fringe benefits paid on behalf of the employee including insurances (health, life, dental, vision, disability), employer's share of FICA/Medicare, compensated leave, unemployment, workmen's compensation, etc. 2. Determine the annual costs for all fringe benefits.	1. Computed based on an estimate not supported by actual costs or including fringe benefits that are paid for by the employee instead of the organization. 2. Changing the fringe benefit rate each quarter due to changes in the actual fringe related costs. Costs should be annualized.
Indirect Cost	1. If the agency has a Negotiated Indirect Cost Rate (NICRA), using the approved or lower rate. 2. If no NICRA, either use no rate or, elect the 10% De Minimis Rate.	1. Using a rate not approved by a Federal cognizant agency. 2. Using the parent rate (if a sub-grantee). 3. Electing the 10% De Minimis rate although not eligible. 4. Applying a program charge (overhead rate).

Type of Cost	ACCEPTABLE METHODOLOGIES	UNACCEPTABLE METHODOLOGIES
Fixed Price Reimbursement	Multiplying actual hourly rates x actual hours, based on available data such as time tracking, staffing utilization reports, etc. to compute a fixed price amount.	1. Estimating the level of effort in hours. 2. Using percentages of salaries based on level of effort to compute hourly rates. 3. Failure to document the source of the data for determining hours per
Travel	Reimbursement based on actual costs and/or per diem based on Federal Travel Regulations.	Using per diem for Federal awards only, and a lower of per diem or actual for non-Federal awards.

TIP Agencies should ensure that any fringe benefit rate charged to federal awards is based on benefits available to all the employees, the ones charged to federal awards and the ones that are not.

Applying Billing Methodologies

The next step after determining what costs will be included in the hourly rate is to apply it and calculate the rate. In this section, we will explain the various options to calculate the hourly rate and provide examples.

Converting from Salary to Actual Hourly Rate

Standard Hourly Rate

To compute the standard hourly rate, divide the annual salary by the available work hours per year. The average, full-time, salaried employee works 40 hours a week or 2,080 (40 x 52) hours a year. The 2,080 hours includes compensated leave (i.e. holidays, vacation, sick leave, etc.).

Example

- Full-time employee with a salary of $40,000 a year
- Organization operates 5 days per week for 8 hours per day for 52 weeks per year
- Each year the employee is entitled to 15 days of paid vacation, 8 paid holidays, and 5 paid sick days

Total Available Work Hours	2,080.00
Computation of Hourly Rate ($40,000 salary/2,080 available hours)	$19.23
Compensated Leave:	
# of Paid Holidays (Hours)	64.00
# of Paid Time Off Days (Hours)	160.00
Total Paid Time Off	224.00

Actual Hourly Rate

Computed based on the actual hours excluding compensated leave and is used for cost reimbursement agreements such as the HUD housing counseling agreement.

Total Available Work Hours (2080 – 224)	1,856.00
Computation of Hourly Rate ($40,000 salary/1,856 available hours)	$21.55
Compensated Leave:	
# of Paid Holidays (Hours)	64.00
# of Paid Time Off Days (Hours)	160.00
Total Paid Time Off	224.00

TIP The lower the actual total work hours, the higher the actual hourly rate. Accordingly, the exclusion of compensated leave and other leave could be reviewed for reasonableness.

Calculating a Fringe Benefit Rate

A fringe benefit rate is the cost of an employee's benefits divided by the wages paid to an employee for the hours working on the job. Costs included as fringe benefits include:

- ✓ Compensated leave (vacation, holiday & sick leave)
- ✓ Employer share of payroll taxes
- ✓ Pension Plan
- ✓ Workmen's Compensation
- ✓ Group Insurance (health, life, & disability)
- ✓ Tuition Reimbursement
- ✓ Employee Health & Welfare Programs

Example – Including Uncompensated Leave

- Full-time employee with an annual salary of $40,000.
- Organization operates 5 days per week for 8 hours per day for 52 weeks per year.
- Each year the employee is entitled to 15 days of paid vacation, 8 paid holidays, and 5 paid sick days.
- Organization pays:
  - ✓ $7,200 of group insurances (employee's health, life, and disability insurance)
  - ✓ $2,000 for the employee retirement benefits
  - ✓ $1,100 for worker compensation insurance
  - ✓ $210 for unemployment insurance
  - ✓ 7.65% of the hourly rate for the employer portion of the Social Security and Medicare taxes

Step 1: Computation of Actual Hourly Rate	
Item	Total
Total Available Work Hours	2,080.00
Computation of Hourly Rate ($40,000 salary/2,080 available hours)	$19.23
Compensated Leave for use in Step 2: Computing the Fringe Rate	
# of Paid Holidays (Hours)	64.00
# of Paid Time Off Days (Hours)	160.00
Total Paid Time Off	224.00

Step 2: Computation of Fringe Benefit Rate	
Fringe Benefit Costs	Total
Employer's share of taxes	3,059.88
Group Insurances	7,200.00
Compensated Leave	4,307.52
Retirement Benefits	2,000.00
Training	-
Tuition Reimbursement	-
Unemployment insurance	210.00
Workmen's Compensation	1,100.00
Other	-
Total Fringe Benefits	17,877.40
Total Labor	40,000.00
Fringe Benefit Rate	44.69%

Step 3: Apply Fringe Benefit Rate to Labor Costs		
Cost Element	**Fringe Rate**	**Total Costs**
Direct Labor Costs		$40,000
Fringe Benefits	44.69%	$17,877
Total Direct Labor and Fringe Benefits		$57,877

Step 4: Computation of Fully Loaded Hourly Rate	
Item	**Total**
A- Total Direct Labor and Fringe Benefits (from step 3)	$57,877
B- Total Available Work Hours	2080
Fully Loaded Hourly Rate (A/B)	$27.83

Step 5: Apply Fully Loaded Hourly Rate	
Item	**Total**
A- Fully Loaded Hourly Rate (from step 4)	$27.83
B- Total Work Hours (for a two-week period)	80
C- Total Billable to HUD Housing Counseling Hours	20
Billable to HUD Housing Counseling grant program	$556.60

It is expected that employees receive salary increases during the period of performance of the awards. Those salary adjustments could result in a change of the hourly rate used by the organization to charge the HUD award(s); therefore, organizations can adjust those rates and provide an explanation for the change when they submit their respective quarterly report.

For example, Mary Smith has an annual salary of $30,000 or an hourly rate of $14.42 ($30,000/2,080 hours) without fringe benefits. Six months after the period of performance began she has her annual evaluation and her salary is increased to $33,000. It is acceptable for the organization to revise Mary's hourly rate to $15.86 ($33,000/2,080 hours) to reflect the salary increase halfway through the period of performance. The organization would have to submit a revised explanation in the respective quarterly report indicating the reason for the rate increase.

Organizations are also allowed to add cost to the counselor's hourly rate to account for supervisory, quality control or similar tasks. This cost could be added to the hourly rates as long as they are directly associated to the counseling hours being charged directly to the award. In addition, this cost cannot be part of the indirect cost pool base, for organizations with approved Negotiated Indirect Cost Rate Agreements (NICRAs). Using this approach, the organization has elected to include the supervisor's time in the counselor's rate as opposed to separately. There are no regulations preventing an organization from using this approach and the supervisor's hours are confirmed using a Personal Activity Report or equivalent with the corresponding hours allocated to all counselors they supervise. The allowability of this approach is based on reasonableness and such an allocation must be properly documented for it to be found reasonable. Below is an example using this approach.

<u>Example</u>

- An organization has 25 counselors, 3 supervisors, and one quality control staff— all of them are working strictly in counseling related tasks
- The annual salary for each of the supervisors and the quality control staff is $50,000 and $40,000, respectively
- Supervisors and quality control staff time is split evenly among all counselors
- Counselors charged a combined 50,000 hours of counseling
- Counselor #1 has an hourly rate of $20

Step 1: Computation of Supervisory and Quality Control Rate		
Total Supervisors and Quality Control Staffs Salary		$190,000
Total Counseling Hours Charged by Counselors		50,000
Supervisory and Quality Control Cost Per Counseling Hour	=	$3.80
Counselor #1 Hourly Rate	+	20.00
Fully Loaded Hourly Rate that Organization Can Charge for Counselor #1		$23.80

Fixed Price Reimbursement

Grantees have the option to charge their HUD awards using a Fixed Price. It is possible that multiple fixed rates will need to be developed if the grantee's staff perform multiple functions. In order to have a fixed price approved, grantees will need to work with their POC and provide all the necessary information to show the appropriate support for the proposed fixed rate(s). As explained in the illustration below, these fixed prices need to be based on historic costs in order to arrive at the most exact amount possible.

Step 1: Determine the Hourly Rate
Use the same approach explained for determining the hourly rate.

Step 2: Determine the Fringe Benefits Rate
Use the same computations illustrated for determining the Fringe Benefits Rate.

Step 3: Determine the # of Hours per Service
Do an analysis to determine level of effort per service, i.e. review time spent on prior services for the same grant over at least 2 years, comprehensive staffing analysis for at least 2 years.

Step 4: Compute the Fixed Price for Each Service
Multiply the hourly rate x the fringe benefits rate to get the fully loaded rate. Multiply the fully loaded rate x the number of hours determined in Step 3 to compute the fixed price.

As a part of the Financial & Administrative Review process, which is conducted by grant period of performance, the fixed rate will be reconciled using actual financial information for the period of the performance to verify that the actual fixed rate meets or exceeds the fixed reimbursement rate charged during the grant period of performance. If the actual fixed rate is less than the fixed reimbursement rate charged during the grant resulting in an overpayment of claims, then HUD will negotiate with the organization a resolution of the overpayment.