Understanding Billing Methodologies and Best Practices
June 20, 2017
2:00 PM (EST)
Facilitated by
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Training Topics
❖ What is a Billing Methodology?
❖ Acceptable Billing Methodologies
❖ Applying Billing Methodologies
❖ Best Practices
❖ Questions?
What Is A Billing Methodology?

LHCAs and Sub-Grantees

Documented method for how the organization will bill the Grant.

Intermediaries, SHFAS, & MSOs

Documented method for how the organization will bill HUD and reimburse Sub-grantees or Branches.

Method should detail the computation of:
- Hourly rates
- Fringe benefits
- If applicable, fixed price reimbursement
- All other budgetary line items

What Is A Billing Methodology?

- 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.
### Determining Acceptable Methodologies

<table>
<thead>
<tr>
<th>Type of Cost</th>
<th>ACCEPTABLE METHODOLOGIES</th>
<th>UNACCEPTABLE METHODOLOGIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>1. Using actual hourly rates for hourly employees and computing the hourly rate for salaried employees based on annual hours worked.</td>
<td>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.</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Indirect Cost</td>
<td>If Negotiated Indirect Cost Rate (NICRA), using the approved or lower rate, if no NICRA either use no rate or elect the 10% De Minimis Rate.</td>
<td>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).</td>
</tr>
</tbody>
</table>

### 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.

### Travel

- Reimbursement based on actual costs and/or per diem. Using per diem for Federal awards only, and the lower of per diem or actual for non Federal awards.
Converting from Salary to Actual Hourly Rate?

Different Methods for Converting from a Salary to an 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.).

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

### Applying the Methodology

**Converting from Salary to Actual Hourly Rate**

**SCENARIO**

- 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 1.5 days of paid vacation, 8 paid holidays, and 5 paid sick days

### Applying the Methodology

**Step 1: Compute Actual Hourly Rate**

<table>
<thead>
<tr>
<th>Total Available Work Hours</th>
<th>Hours per Year</th>
<th>$40,000 / 2,080 available hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,080.00</td>
<td>9,400</td>
<td>21.12</td>
</tr>
<tr>
<td>Compensated Leave</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td># of Paid Holidays (Hours)</td>
<td>64.00</td>
<td>0.84</td>
</tr>
<tr>
<td># of Paid Time Off Days (Hours)</td>
<td>160.00</td>
<td>2.34</td>
</tr>
<tr>
<td>Total Paid Time Off</td>
<td>224.00</td>
<td></td>
</tr>
<tr>
<td>Total Available Work Hours</td>
<td>2,080.00</td>
<td>$19.23 per hour</td>
</tr>
</tbody>
</table>
What is a Fringe Benefits 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’s Share of Payroll Taxes
➢ Pension Plan
➢ Workmen’s Compensation
➢ Group Insurance (health, life & disability)
➢ Tuition Reimbursement
➢ Training (non direct)
➢ Employee Health & Welfare Program

Applying the Methodology

SCENARIO – Including Compensated 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 the employee’s health, life and disability insurance
  ✓ $2,000 for the employee’s retirement benefits
  ✓ $1,100 for worker compensation insurance
  ✓ $210 for unemployment insurance
  ✓ 7.65% of the hourly rate for the employer’s portion of the Social Security and Medicare taxes

Applying the Methodology

Direct Labor & Fringe Benefits

Step 1: Compute Actual Hourly Rate

<table>
<thead>
<tr>
<th>Item</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Available Work Hours</td>
<td>2,080.00</td>
</tr>
<tr>
<td>Computation of Hourly Rate ($40,000 salary/2,080 available hours)</td>
<td>$19.23</td>
</tr>
<tr>
<td>Compensated Leave for use in Step 2: Computing the Fringe Rate</td>
<td></td>
</tr>
</tbody>
</table>
Applying the Methodology
Direct Labor & Fringe Benefits

Step 2: Compute Fringe Benefit Rate

<table>
<thead>
<tr>
<th>Fringe Benefit Costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Insurances</td>
<td>7,900.00</td>
</tr>
<tr>
<td>Compensation</td>
<td>4,307.52</td>
</tr>
<tr>
<td>Retirement Benefits</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Training</td>
<td>-</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>-</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>200.00</td>
</tr>
<tr>
<td>Workmen's Compensation</td>
<td>1,100.00</td>
</tr>
<tr>
<td>Total Fringe Benefits</td>
<td>17,877.40</td>
</tr>
</tbody>
</table>

Total Labor: $40,000.00

Fringe Benefit Rate: 44.69%

224 hours x 19.23 hourly rate
2,080 hours x 19.23 rate x 7.65%

Step 3: Apply Fringe Benefit Rate to Labor Costs to Determine Fully Loaded Hourly Rate

<table>
<thead>
<tr>
<th>Cost Element</th>
<th>Fringe Rate</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor Costs</td>
<td>$40,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>44.69%</td>
<td>$17,877</td>
</tr>
<tr>
<td>Total Direct Labor and Fringe Benefits</td>
<td>$57,877</td>
<td></td>
</tr>
</tbody>
</table>

Step 4: Calculating the Fully Loaded Hourly Rate

Computation of Fully Loaded Hourly Rate

<table>
<thead>
<tr>
<th>Computation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Direct Labor and Fringe Benefits (step 3)</td>
<td>$57,877</td>
</tr>
<tr>
<td>Total Available Work Hours</td>
<td>2,080</td>
</tr>
<tr>
<td>Fully Loaded Hourly Rate (step 4)</td>
<td>$27.83</td>
</tr>
</tbody>
</table>
Applying the Methodology

Fixed Price Reimbursement

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

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

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.

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.

Applying the Methodology

Fixed Price Reimbursement

- Must be able to document the process for determining the level of effort
- Must be able to demonstrate, over multiple years, data to support the level of effort for each fixed price service
- Costs must be allowable, allocable, and reasonable
- HUD must approve the methodology during the grant approval process

EXAMPLE:

- ABC Organization has been providing housing counseling services for over 5 years.
- They maintain an electronic timekeeping system and require each counselor to charge time by agency and by client.
- On an annual basis, the accounting/finance department does a staffing analysis of hours spent providing counseling to one client, reviewing data from the timekeeping system and comparing it to the CMS system for the five year period.
- Based on that analysis, the accounting/finance department determined that each client receives 11.5 hours of counseling services.
- Accounting/finance submit the detailed billing methodology including a write up of how they determined the fixed price for counseling services.
- All Counselors are paid the same hourly rate of $25 per hour, including fringe benefits.
Applying the Methodology

**Fixed Price Reimbursement**

<table>
<thead>
<tr>
<th>Hourly Rate</th>
<th>$25/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td># of hours per client</td>
<td>11</td>
</tr>
<tr>
<td>Fixed Price Per Client For Counseling</td>
<td>$275.00</td>
</tr>
</tbody>
</table>

There can be different fixed prices for different services.

**Best Practices**

- Should be calculated based on the HUD hours identified in the timesheet and multiplied by the Billing Rate.
- If Indirect costs, should be computed based on the approved base.
- Invoice
- Personnels Activity Report (PAR)
- Should clearly indicate the various tasks that the employee can charge time to.
- Should be approved accordingly by responsible official (e.g., electronic approval, etc.).
- Should be based on approved billing methodology.
- Can be different for each person.
- Should not include indirect costs.

For any type of billing methodology, time keeping and personnel activity reporting is required.

**Invoice**

**Billing Rate**

**Timesheets**

**Best Practices**

Get Accounting/Finance Staff Involved:
- Meet with accounting/finance staff to compute the hourly rate, fringe benefit rate, and/or fixed price rate.
- Document the billing methodology for review by accounting/finance.
- Ensure accounting/finance has the final approved billing methodology.
- If there are changes, notify your HUD POC in writing of the changes and provide an updated billing methodology for review.
Best Practices

Time and Attendance
- Ensure time is tracked by task (i.e. HUD grant(s))
- Track actual hours worked
- Hourly rates should only include direct costs associated with the HUD grant(s)
- Ensure timesheets are complete and approved
- For personnel activity reporting, establish a charging/billing code by activity that can be included on the timesheet. For example by type of service:
  - Code 1001 Direct Counseling
  - Code 1002 Marketing and Outreach
  - Code 1003 Follow up with Client
  - Code 1004 File management and back office support

Please forward any questions to:
housing.counseling@hud.gov
with “Understanding Billing Methodologies and Best Practices” in the Subject line

Thank you