

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

A. INTRODUCTION

The Division of HIV and STD Programs is implementing a new standardized reimbursement approach to HIV Testing Services (HTS) called the Pay-For-Performance (PFP) model. This revised method of payment is seen as a way of decreasing barriers to testing and will allow providers to receive payments for program costs and also additional reimbursement when specific performance measures are reached.

There will be two budgets for each program, comprised of a base-cost reimbursement budget (60 percent of the contract allocation) and a PFP budget (40 percent of the contract allocation). Expenditures associated with the approved cost reimbursement base budget line items will be billed monthly in arrears. Expenditures associated with the PFP budget will be submitted and paid as applicable annually on a retrospective basis at the end of each contract term. Providers will qualify for additional reimbursement incentives if performance on each of the performance measurements (number of tests, new HIV positivity rate, linkage to care, and partner services) meets or exceeds the pre-established threshold for compliance.

A separate budget summary and justification form must be submitted for 1) the base-cost reimbursement budget and 2) for the PFP budget. The budget summary and justification forms for the base-cost reimbursement budget and Pay-For-Performance budget must be completed in accordance with the instructions provided below and submitted to DHSP.

Please be aware that you must provide justification for all proposed costs at the level of detail requested in these instructions.

Also included below are *Guidelines for Determining Types of Costs (C)* and a *Summary of Unallowable Costs (D)* which you must read and follow carefully.

If you encounter any difficulty completing the budget, please contact your Program Manager. You may also contact Dave Young, Chief, Financial Services Division (213) 351-8111.

B. GENERAL PROVISIONS

The following are general guidelines for completing your budgets:

1. The base-cost reimbursement and PFP budgets are comprised of Budget Categories, Budget Line Items and Budget Sub-items.

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

Budget Categories are the major classifications of expense shown on the Budget Summary page: Personnel, Operating Expenses, Capital Expenditures, Other Costs and Indirect Costs.

Budget Line Items are the individual cost items within each budget category. For the Personnel category, for example, budget line items are Salaries and Employee Benefits. The Operating Expenses category includes General Expenses, Travel/Per Diem and Facilities Operations.

Budget Sub-items are the individual cost items within budget line items. For the line item Salaries, for example, sub-items are the individual positions to be funded. Sub-items under the General Expense item include telephone, printing, postage, office supplies, program supplies, etc.

2. Your base-cost reimbursement and PFP contract budgets are subject to an administrative cap of 10%. You are asked to certify compliance with this requirement. The budget narrative sections must include an estimate of the administrative cost contained in each budget sub-item (expressed as a percentage). If the administrative percentage is 0%, please indicate this by inserting 0% in the space provided. Further guidance is provided in the *Guidelines for Determining Types of Costs (C)*.
3. Indirect Costs may only be included in the budget if your agency has a current *Negotiated Indirect Cost Rate Agreement (NICRA)* with a federal agency or an auditor certified indirect cost rate. If you are requesting funding for indirect costs, a copy of the NICRA or auditor certification must be submitted with the budget. Please note that, although your negotiated indirect cost rate may be much greater, indirect cost is limited to 15% of total salaries and employee benefits. In addition, the sum of all administrative costs in your budget, both direct and indirect, may not exceed 10% of total contract funds.
4. A summary of unallowable costs is included in Section D of these instructions.

C. GUIDELINES FOR DETERMINING TYPES OF COSTS

There are two types of costs: program costs and administrative costs. Administrative costs can be direct or indirect, while all program costs are considered to be direct.

1. Program costs are defined as the costs incurred for direct service delivery. These costs are normally only incurred as a direct result of providing a specific service to a client or his or her family members.

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

Examples of program costs are:

- salaries and related employee benefits for staff who provide direct services to clients, their clinical supervisors and other staff who directly assist these individuals in the provision of services
 - consultants who provide direct services to clients, supervise program staff, develop program materials or perform other program functions

 - program supplies such as educational materials, medical supplies and other supplies that are used specifically for this program
 - office supplies that directly support program activities such as folders for client charts

 - travel costs for program staff

 - printing and photocopying of medical forms, program materials and other materials used by or for program participants

 - equipment used for direct service delivery

 - general liability insurance associated with program staff or space

 - maintenance of client records, including client and service data entry
2. Administrative costs are defined as the costs incurred for usual and recognized overhead, including established indirect rates for agencies; management and oversight of specific programs; and other types of program support such as quality assurance, quality control and related activities. Administrative costs must not exceed 10% of your total budget.

Examples of administrative costs are:

- salaries and related employee benefits for accounting, secretarial and management staff, including those individuals who produce, review and sign monthly reports and invoices

- consultants who perform administrative, non-service delivery functions

- general office supplies

- travel costs for administrative and management staff

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

- general office printing and photocopying
- general liability insurance associated with administrative staff or space
- audit fees

As mentioned above, administrative costs can be direct or indirect. Direct and indirect administrative costs combined must not exceed 10% of the budget.

Both program and administrative costs, as defined above, can be direct costs if they are directly attributable to the program.

3. Direct costs are costs that can be directly charged to the program and which are incurred in the provision of direct services.

Examples of direct costs are:

- salaries and related employee benefits for staff who charge their time directly, on the basis of actual time worked, to the program or project for which they work
 - expenses related to staff that are direct-charged, including recruitment costs and travel expense
 - telephone expenses related to a unique telephone number or an extension for which expenses can be determined and substantiated on an actual or allocated basis
 - space costs and related expenses for facility space that is used only for funded activities, for which expenses can be determined and substantiated on an actual or allocated basis
 - all program supplies, as defined above
 - other expenses that are both directly attributable to the program and consistently treated, on an agency-wide basis, as direct costs
4. Indirect costs are defined as the administrative costs that are incurred for common or joint activities that cannot be identified specifically with a particular project or program.

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

Examples of indirect costs are:

- salaries and related employee benefits for staff who do not charge their time directly to specific individual programs and/or projects, either because of the nature of the position or because it is not realistic to allocate their salaries, on the basis of actual time worked, to numerous programs or projects funded by multiple sources
- expenses related to staff who are indirectly-charged, including recruitment costs and travel expense
- telephone costs and space usage that is not designated solely to the program, for which actual expense cannot be determined and/or substantiated
- other administrative expenses that are not specifically identified with the program

All indirect costs are normally pooled to create an indirect cost rate which is then applied to individual grant and contract-supported projects. The inclusion of indirect cost rates in contract budgets will be permitted only if your agency has a Negotiated Indirect Cost Rate Agreement (NICRA) with a federal agency or an auditor certified indirect cost rate.

Indirect costs are calculated in a number of standard ways. In some cases, an agency's rate is determined without consideration of the costs of equipment and capital improvements. If your indirect rate has been determined using this method, it must be applied in a consistent manner, that is, by applying it to your proposed program costs less equipment and capital improvements. Other methodologies are also used, but in all cases you must apply your indirect cost rate to your program costs in a manner that is consistent with the way it was calculated on your NICRA or auditor certified rate.

If you are requesting funding for indirect costs, the NICRA or auditor certification must be submitted with the budgets. Please note that, although your negotiated indirect cost rate may be much greater, indirect cost is limited to 15% of total salaries and employee benefits. In addition, the sum of all administrative costs in your budgets, both direct and indirect, may not exceed 10% of total contract funds.

The dollar amount of indirect cost to be included in your budgets should be reported on the Budget Summary Form.

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

D. SUMMARY OF UNALLOWABLE COSTS

Below is a summary of unallowable costs; it is not intended to be a complete or definitive listing. Agencies are responsible for referring to the documents referenced below for complete guidelines.

The following costs are not permitted under the *Public Health Service Grants Policy Statement* and *OMB Circular A-122*:

- bad debts
- capital improvements
- contingency provisions
- contributions and/or donations to others
- depreciation expenses as a direct cost and as related to federally-funded equipment
- entertainment costs
- fines and penalties
- interest expense, unless the expense meets the specific criteria outlined in the regulations
- land or building acquisition (includes mortgage payments)
- lobbying costs
- refreshments
- stipends
- taxes for which exemptions are available to the organization

The following costs are not permitted under the *California Government Code Section 16645 through Section 16649*:

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

- assisting, promoting or deterring union organizing by employees performing work on a state service contract

The Division of HIV and STD Programs has provided the following clarification concerning the purchase of condoms:

- Funds may be used to purchase condoms for clients of prevention programs for primary prevention. Before using funds for the purchase of condoms, agencies should exhaust all other resources, including other funding sources and free condom distribution. If purchasing condoms, agencies should avoid purchasing condoms with Nonoxynal-9. This is according to the CDC's 2002 STD Treatment Guidelines that state that "condoms lubricated with spermicides are no more effective than other lubricated condoms in protecting against the transmission of HIV and other STDs". In addition, "spermicide-coated condoms cost more, have a shorter shelf-life than other lubricated condoms, and have been associated with urinary tract infections in young women".
- Funds may be used to purchase client incentives such as phone cards, bus tokens, food vouchers and hygiene kits to contribute to the achievement of the objectives of evidence- or behavior change theory-based HIV prevention interventions. The amount requested must be reasonable and fully justified.

E. BUDGET JUSTIFICATION SECTION

In the budget justification section, provide a clear and complete description that explains:

- the purpose of each budget line item and/or sub-item and how it is directly connected to the provision of a given service
- the dollar amount requested for the item and the methodology used to calculate the amount
- the administrative percentage of each item
- the administrative dollars supporting each item

Several forms have been provided that include sections for a short descriptive justification for each budget category. Your justification must include all of the proposed budget line items and/or sub-items within that budget category. For example, the justification for Personnel must include a description of each position to be funded under the contract. The justification for Operating Expenses (General Expenses) should include

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

budget sub-items such as telephone, printing, postage, office supplies and program supplies. The justification for Operating Expenses (Travel/Per Diem) should include local and out-of-town staff travel. The justification for Operating Expenses (Facilities Operations) should include rent, utilities and facility maintenance.

Please round all annual salaries and amounts requested to the nearest dollar.

Specific instructions for each budget category are as follows:

PERSONNEL

1. Salaries:

Separate forms are provided for full time and part time staff. If your agency has multiple employee benefit rates, please group staff according to the rate received and prepare a separate personnel form for each group.

On the form, briefly describe each position. The following must also be included for each position:

- the exact title of the position
- the last name of the individual filling the position
NOTE: If the position is vacant, label it as such and include the date you expect it to be filled.
- the annual salary of the individual (rounded to the nearest dollar)
NOTE: If a salary increase is scheduled to go into effect during the period covered by the budget, indicate both salary levels and the number of months for each; for example, \$25,000 (9 months) / \$25,750 (3 months).
- the full-time equivalent (FTE) of the position (the amount of time the individual will devote to the program)
NOTE: This value should be in decimals. Example: if a 40-hour workweek constitutes full-time employment in your agency, then a full-time employee who works all 40 hours on this program would be 1.00 FTE. An employee who works a total of 20 hours per week on the program would be .50 FTE. FTE's may be calculated up to a maximum of three decimal places.
- the number of months the employee is expected to work on the program
- the amount of funding requested (rounded to the nearest dollar)

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

NOTE: Generally this should be the annual salary multiplied by the FTE, adjusted for number of months of work. If you utilize some other methodology to derive these costs, describe it and explain why it is used.

- the percentage of time spent on administrative duties
- the administrative dollar amount, calculated as the amount requested multiplied by the administrative percentage. On the file, formulas have been entered to automatically calculate these amounts.

The employee benefits percentage should also be entered on this form. Formulas have been entered to automatically calculate the salary subtotal, the dollar amount requested for employee benefits and total personnel costs. If additional pages are needed for a group of staff receiving the same employee benefits package, please include the salary subtotal, the dollar amount for employee benefits and the total personnel costs on the last page only. Be sure to verify that this total is then carried forward to the budget summary page.

2. Employee Benefits:

A form for your employee benefits calculations is included in the budget. If your agency has multiple employee benefit rates, include a separate page for each rate.

Part I

Submit a copy of the “Statement of Functional Expenses” from your agency’s most recent audited financial statement to support the agency’s rate request. On the form, indicate the fiscal year ending, agency rate, and rate requested. If the rate requested exceeds the agency rate, include a justification in the space provided.

Part II

On the form, itemize all components of the employee benefit rate. Applicable components must be detailed by percent of salary expense, not by dollars expended.

The employee benefits form must also include a sentence that states that the rate is applied equally to all personnel line items or, if this is not the case, how the rate applies (i.e. “... applies equally to all personnel line items except...”).

OPERATING EXPENSES

Justifications for items in this budget category must include the following:

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

- sufficient information to clearly show how the costs were determined
- A copy of the current cost allocation plan if referenced in the calculations
- the total amount requested for each item (rounded to the nearest dollar)
- the administrative percentage of each item
- the administrative dollar amount, calculated as the amount requested multiplied by the administrative percentage. On the file, formulas have been entered to automatically calculate these amounts.

1. Operating Expenses (General Expenses):

This form should include budget sub-items such as telephone, printing, postage, insurance, client incentives, office supplies, program supplies and audit expenses.

Supplies should be grouped into two main categories: those that relate to the number of clients being served, such as educational and medical supplies, and those that do not, such as computer software and office supplies. A direct correlation between direct client-related supply costs and the proposed number of units of service should be demonstrated.

2. Operating Expenses (Travel/ Per Diem):

This form should include local and out-of-town staff travel. Each justification should include the purpose of the travel, the mode of transportation (private car, public transport, taxi/car service, etc.) and the methodology used to calculate the cost. Sufficient information to clearly show how the travel costs were determined or the methodology used should be provided. For example, 50 training sessions @ 20 miles round trip @ \$.475 per mile. All travel must be directly related to accomplishing the objectives of the program.

Please note, the maximum allowable reimbursement rate for mileage is Los Angeles County's prevailing rate, currently \$.475 per mile.

Travel requests for conference attendance may include lodging costs. All requests for reimbursement of conference-related travel costs must clearly demonstrate that the conference addresses the services provided under the specific contract and that participation in the conference will enhance service delivery. DHSP (generally) does not reimburse for international travel expenses.

3. Operating Expenses (Facilities Operations):

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

This form should include budget sub-items such as rent, utilities and facility maintenance. The justification provided must contain an explanation of how the amount of space charged to the contract was determined and how the cost of that space has been calculated. This budget limits the amount that can be charged for related party leases (i.e. less than an arm's length transaction) to the lower of property rent related cost or fair market rent. OMB Circular A-122 defines a less than arm's length lease as one under which one party to the lease agreement is able to control or substantially influence the action of the other.

A formula has been entered to automatically calculate the total amount requested for Operating Expenses. If additional pages are needed, please include the total on the last page only. Be sure to verify that this total is then carried forward to the budget summary page.

CAPITAL EXPENDITURES

This form should include all equipment requests. Equipment is defined as any single item with a useful life of more than one year and an acquisition cost that equals or exceeds the lesser of (a) the capitalization level established by your agency for financial statement purposes, or (b) \$5,000. The justification should list each specific item of equipment with purchase price and indicate the purpose of the equipment and who will use it. A brief purchase vs. lease analysis must also be included for any item with a unit cost of \$5,000 or more.

Please note that equipment may only be included in the budget to the extent that it is used by the funded program. If, for example, a proposed photocopier will also be used by other agency programs, only a prorated share of the total cost of the photocopier may be included in the budget.

The equipment form must include the following:

- a listing of each item and the purchase price (rounded to the nearest dollar)
- the proposed use of the equipment, and by whom
- the percentage of use in support of the proposed program
- the administrative percentage

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

- the administrative dollar amount, calculated as the amount request multiplied by the administrative percentage. On the file that has been sent to your agency, formulas have been entered to automatically calculate these amounts.

A formula has been entered to automatically calculate the total amount requested for Capital Expenditures. If additional pages are needed, please include the total on the last page only. Be sure to verify that this total is then carried forward to the budget summary page.

Please note that all non-expendable equipment, as defined above, as well as all sensitive equipment or furniture must be carefully monitored, inventoried and accounted for. Sensitive equipment or furniture is defined as any highly desirable portable item (e.g., calculators, typewriters, computers, printers, dictation devices, microscopes, etc.) regardless of cost.

An equipment inventory log must be submitted with the annual cost report at year-end, detailing all equipment purchased with contract funds.

OTHER COSTS

This form should include all consultant/contractual items.

1. **Consultant Agreements:**

A consultant agreement is defined as an agreement with an individual to provide a service or with an individual or firm to provide a support service, such as accounting, audit, clerical work or ancillary services such as laboratory or x-rays. A copy of the current consultant agreement must be submitted at the time of budget negotiation or prior to full execution of the agreement if not yet in place during budget negotiations. All consultant agreements must be reviewed and approved by DHSP prior to execution.

In this budget section, you will need to include brief scopes of work for all consultants and state how each assists the agency in meeting the program's service delivery objectives. The following must also be included for each consultant agreement:

- the generic type of service to be provided (i.e. direct client service delivery, staff training, etc.)
- the name of the individual or organization (if known)

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

NOTE: Individuals employed by your agency cannot serve as consultants to this program.

- the rate to be paid for the services to be provided
- the number of hours/units of services to be provided
- the time frame for the consultant agreement
- the amount requested (rounded to the nearest dollar)
- the administrative percentage of the consultant agreement
- the administrative dollar amount, calculated as the amount requested multiplied by the administrative percentage. On the file that has been sent to your agency, formulas have been entered to automatically calculate these amounts.

2. Contractual Agreements:

A subcontract is defined as an agreement with an organization or firm to deliver any direct services. If you are proposing to subcontract with another organization, you must state the name of the subcontractor and the purpose of the subcontract. In addition, for each subcontract, you must attach a complete budget package that includes all budget forms and a NICRA or auditor certified indirect cost rate, if applicable. Please note that administrative costs incurred by the subcontracted agency counts toward the 10 percent administrative cap for the lead agency. The agency name on the subcontract budget pages should include both your agency name as well as the name of the subcontracting agency.

All subcontractors are subject to the same federal, state and local regulations as your agency.

Please note, all subcontract agreements must be submitted to the Division of HIV and STD Programs and receive written approval prior to execution.

A formula has been entered to automatically calculate the total amount requested for Other Costs. If additional pages are needed, please include the total on the last page only. Be sure to verify that this total is then carried forward to the budget summary page.

INDIRECT COSTS

**COUNTY OF LOS ANGELES – DEPARTMENT OF PUBLIC HEALTH
DIVISION OF HIV AND STD PROGRAMS
COST REIMBURSEMENT (BASE) / PAY-FOR-PERFORMANCE
HIV TESTING SERVICES
BUDGET PREPARATION INSTRUCTIONS**

Indirect costs may only be included in the budget if your agency has a current Negotiated Indirect Cost Rate Agreement (NICRA) with a federal agency or an auditor certified indirect cost rate. If you are requesting funding for indirect costs, a copy of the NICRA or auditor certification must be submitted with the budget. Please note that, although your negotiated indirect cost rate may be much greater, indirect cost is limited to 15% of total salaries and employee benefits. In addition, the sum of all administrative costs in your budget (and any subcontractor budget(s)), both direct and indirect, may not exceed 10% of total contract funds.

The dollar amount of indirect costs to be included in your budgets should be reported on the budget summary page.

BUDGET SUMMARY

Once you have completed the individual budget pages, the bottom line total of each must be entered on the appropriate budget category line on the Budget Summary page. Indirect costs are also entered on this summary page.

ADMINISTRATIVE COST CERTIFICATION

Once the budget summary has been completed and you have confirmed that your administrative costs do not exceed 10% of contract funds, the Certification of Maximum Administrative Cost must be signed by your Agency Head/Executive Director or Chief Financial Officer/Fiscal Manager.