

## UDS Overhead Cost Allocation Methods

Facility and non-clinical support service expenses are collectively referred to as overhead costs. In the Uniform Data System (UDS), these are reported on Table 8A, Lines 14 and 15, Column A, as accrued costs, and distributed (allocated) to service cost centers<sup>1</sup> on Lines 1-13, Column B.

### ACCRUED COST OF OVERHEAD (COLUMN A)

Report facility costs on Lines 14 and non-clinical support service costs on Line 15, in Column A of Table 8A.

**Line 14: Facility Costs** include facility personnel, rent, depreciation, mortgage interest payments, utilities, security, groundskeeping, janitorial services, maintenance, etc.

**Line 15: Non-Clinical Support Services Costs** include personnel such as corporate administration, billing, revenue cycle, and patient health records and intake personnel, as well as facility and liability insurance, legal fees, managing practice management system, other direct non-clinical support costs (travel, supplies, etc.).

### ALLOCATION OF OVERHEAD (COLUMN B)

The total accrued costs of Lines 14 and 15 is summed on Line 16, **Total Facility and Non-Clinical Support Services**. The Line 16 total is allocated as overhead to each of the cost centers on Lines 1-13, in Column B of Table 8A.

### Allocation Methods

There are multiple ways that overhead costs may be allocated to the cost centers in Column B (Lines 1–13). Health centers should use the simplest method that produces a reasonably accurate result that is comparable to that obtained by a more complex method.

It is important to allocate overhead costs in a way that represents the true cost of service areas. For this reason, allocating overhead using a single-step method, such as dividing the total overhead by the number of service areas, is not recommended.

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<sup>1</sup> Medical, Dental, Mental Health, Substance Use Disorder, Pharmacy, Other Professional, Vision, Enabling, Other Program-Related Services, and Quality Improvement

A recommended approach is to use the following 3-step method:

**1. Allocate Line 14, Facility, costs to each cost center based on either actual facility costs for that cost center or based on the percentage of total square footage that the cost center uses.**

Allocate facility costs directly attributable to a specific cost center listed on Lines 1-13 to that cost center.

**2. Allocate Line 15, Non-Clinical Support Services, to specific cost centers.**

Allocate any non-clinical support costs attributable to a specific cost center to that cost center. For example, decentralized front desk personnel, billing and collection systems and personnel, etc. are allocated to the service area they work in.

Consider lower allocation of overhead for contracted services, amounting to the cost for any space used for contracted services, as well as any costs for administering the contracted care (e.g., accounting and contract management).

Allocate any facility costs that are specific to non-clinical support services.

**3. Allocate remaining costs to each cost center.**

Allocate remaining costs using a consistent approach, commonly based on the proportion of direct costs or of visits.

## Example: Allocation of Overhead

### Step 1: Allocate Line 14, Facility Costs, to each cost center

A health center has \$70,000 of total facility costs reported on Line 14, Column A. There are three sites, each of which has a mix of services (medical, dental, mental health, non-clinical support). The health center has a total square footage of 12,500.

Site A: 2,500 square feet - 80% medical, 20% non-clinical support

Site B: 3,500 square feet - 57% dental, 29% mental health, 14% non-clinical support

Site C: 6,500 square feet - 31% medical, 31% dental, 15% mental health, 23% non-clinical support

The table below illustrates the calculation of total square footage for all 3 sites and allocates that total by the percentage of square footage for each cost center.

Medical square footage from all 3 sites represents 32% of the total square footage (4,015/12,500). Therefore, the medical cost center is allocated 32% of the total accrued facility costs (32% \*

\$70,000 = \$22,400), as shown on the last line in the medical column. This process is repeated for other service categories, as reflected in the subsequent columns. This calculation yields \$14,000 in non-clinical support facility costs.

|   | Medical<br>(Lines 1–3) | Dental<br>(Line 5)    | Mental Health<br>(Line 6) | Non-Clinical<br>Support<br>(Line 15) | Total Square<br>Feet    |
|---|------------------------|-----------------------|---------------------------|--------------------------------------|-------------------------|
| Site A                                      | 2,000                  | -                     | -                         | 500                                  | 2,500                   |
| Site B                                      | -                      | 1,995                 | 1,015                     | 490                                  | 3,500                   |
| Site C                                      | 2,015                  | 2,015                 | 975                       | 1,495                                | 6,500                   |
| Total square<br>feet (SF) by cost<br>center | 4,015                  | 4,010                 | 1,990                     | 2,485                                | 12,500                  |
| % of total SF                               | $4,015/12,500 = 32\%$  | $4,010/12,500 = 32\%$ | $1,990/12,500 = 16\%$     | $2,485/12,500 = 20\%$                | $12,500/12,500 = 100\%$ |
| % total SF times<br>total facility costs    | $32\% * \$70K$         | $32\% * \$70K$        | $16\% * \$70K$            | $20\% * \$70K$                       | $100\% * \$70K$         |
| <b>Facility Allocation</b>                  | \$22,400               | \$22,400              | \$11,200                  | \$14,000                             | \$70,000                |

## Step 2: Allocate Line 15, Non-Clinical Support Service Costs, to each cost center.

The health center has \$250,000 of non-clinical support costs reported on Line 15, Column A. This is added to the \$14,000 in non-clinical support *facility* costs calculated in Step 1, yielding \$264,000 in total non-clinical support service (admin) costs to be allocated.

First, distribute non-clinical support costs to the applicable service cost center, where possible. This includes allocating decentralized admin costs like medical billing and medical front desk; dental front desk and dental records, etc. to those specific cost centers.

For this health center, the distribution of non-clinical support costs is reflected below. After allocating based on costs applicable to the cost centers, \$34,000 of admin costs remain, as shown in the table below.

| Cost Center  | Total to be Allocated to Cost<br>Center in Column B |
|--|---|
| Medical (Lines 1–3)                                  | \$75,000  |
| Dental (Line 5)                                      | \$105,000   |
| Mental Health (Line 6)                               | \$50,000  |
| Total Allocated in this Step                         | \$230,000   |
| Remaining Non-Clinical Support Costs to be Allocated | \$34,000  |
| Total Non-Clinical Support Costs                     | \$264,000   |

## Step 3: Allocate the remaining costs.

Next, allocate remaining indirect non-clinical support costs (\$34,000) to each cost center, based on the proportion of each cost center's net costs (direct cost plus previously allocated overhead cost). For this health center, medical service costs represent 31% of total direct costs. This calculates to be \$10,540 of the remaining \$34,000 to attribute to medical. That process is repeated for all cost centers until the full amount has been allocated.

| Cost Center            | Percent of Total Net Costs | Allocation      |
|------------------------|----------------------------|-----------------|
| Medical (Lines 1–3)    | 31%                        | \$10,540        |
| Dental (Line 5)        | 45%                        | \$15,300        |
| Mental Health (Line 6) | 24%                        | \$8,160         |
| Total                  | 100%                       | <b>\$34,000</b> |

Below is the amount allocated through each of the previous steps, culminating in the final column listing actual overhead costs to be reported in column B for each of the listed cost centers for this health center.

| Cost Center            | Allocated Facility Costs (Step 1) | Allocated Non-Clinical Support Services (Step 2) | Allocated Remaining Costs (Step 3) | Total Overhead Costs to be Reported in Column B <sup>2</sup> for Cost Center |
|------------------------|-----------------------------------|--|------------------------------------|--|
| Medical (Lines 1–3)    | \$22,400                          | \$75,000   | \$10,540                           | \$107,940  |
| Dental (Line 5)        | \$22,400                          | \$105,000  | \$15,300                           | \$142,700  |
| Mental Health (Line 6) | \$11,200                          | \$50,000   | \$8,160                            | \$69,360   |
| Total Overhead         | \$56,000                          | \$230,000  | \$34,000                           | <b>\$320,000</b>   |

<sup>2</sup> Total overhead to allocate on Line 16, Column A, must equal the total allocated across cost centers in Column B.