TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
Pierce County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. The Health Department Should Not Charge Fees In Excess Of The Actual Cost

During our audit, we examined the methodology used to formally establish user fees charged by the health department. The fees adopted did not appear to be formulated based upon documented costs.

Annually the Tacoma-Pierce County Board of Health adopts by resolution a schedule of fees to be charged for services provided to the public by health department programs. The 1993 fee schedule was adopted in November 1992, and subsequently revised several times during 1993. During 1993, the health department operated 85 different health service programs, 33 of which charged fees for health services.

We inquired about analyses of costs to support fees set by the board of health. We found that fees were set at the recommendation of program managers and without comprehensive documentation of the relationship between fees and costs. We examined 1993 year-end revenues and expenditures on a program basis and noted the following:

a. Three programs were supported by fees only and, for all three, revenues exceeded expenditures.

b. Thirty programs were partially supported by the fees adopted by the board of health, in which.

(1) revenue exceeded expenditures in 12 of these programs.

(2) revenue was less than or equal to expenditures for the remaining 18 partial fee supported programs.

RCW 70.05.060 states in part:

> Each local board of health shall have supervision over all matters pertaining to the preservation of the life and health of the people within its jurisdiction and shall:
>
> > (7) Establish fee schedules for issuing or renewing licenses or permits or for such other services as are authorized by the law and rules of the state board of health: PROVIDED, That such fees for services **shall not exceed the actual cost** of providing any such services. (Emphasis supplied.)

The absence of documentation of the relationship between fees and costs prevented us from directly determining whether or not the department complied with RCW

70.05.060(7). In our opinion, however, contrary to RCW 70.05.060(7), the fees adopted for the three fee only programs were set at a level in excess of the actual cost of providing the services as demonstrated by the surplus of fee revenue over expenditures.

We inquired about plans, policies, or procedures to document the considerations involved in setting of fees. We also inquired about these considerations to monitor the relationship between fees and costs and to refund or pay back amounts collected in excess of actual cost for those programs charging fees for health services. We found that the health department has no formal plans, policies, or procedures related to compliance with RCW 70.05.060(7).

We recommend the health department develop comprehensive documentation of the rationale used in setting user fees.

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
Pierce County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Federal Findings

1. The Department Should Comply With The Provisions Of OMB Circular A-87 Applicable To Charging Indirect Costs To Federal Programs

During our audit, we examined the methodology and estimates used to develop and administer an indirect cost allocation plan. The health department administers various federal and state programs and uses this plan to allocate its costs to all programs.

We found that the indirect cost allocation plan contained some design flaws such as the following:

a. The plan was based on prior year payroll costs which were not supported by time and effort records.

b. Equipment use costs were treated as an indirect cost instead of a more appropriate direct charge.

c. The current indirect cost allocation plan did not include:

(1) Description of and justification for the allocation bases and methods used to arrive at the indirect cost rates the plan developed for distributing indirect costs to benefited programs.

(2) Description of the treatment of any allocation surplus or deficit which occurs as a result of the use of an indirect cost rate.

(3) Description of the accounting treatment of indirect cost allocations in excess of any program limitations on administrative or indirect costs.

(4) Certification by an authorized official that the cost allocation plan had been prepared in accordance with applicable requirements.

(5) A schedule of expenditures made during the year showing, for each federally supported program, direct salaries and wages, other direct expenditures, indirect charges, and total expenditures.

OMB Circular A-87, *Cost Principles for State and Local Governments*, establishes the principles and standards for determining costs applicable to federally assisted programs. OMB Circular A-87 requires the preparation of a cost allocation plan whenever indirect costs are charged to federal programs. Circular A-87 also states that indirect costs are allowable only to the extent of benefits received by federal programs and are to be distributed to federally supported programs on a basis which considers the relative benefits received by all the governmental entity's programs.

In our opinion, the above cited deficiencies in the health department's indirect cost allocation plan substantially reduce assurance that the health department is complying with the OMB Circular A-87 requirements and limitations on indirect costs.

We recommend the health department revise its indirect cost allocation plan to comply with the OMB Circular A-87 requirements applicable to indirect costs.

2. The Tacoma-Pierce County Health Department Should Allocate Leased Space Based On Direct Costs Incurred By Each Program

During our audit, we examined the methods used to allocate rental costs to federal programs. The methods used by the health department allocates more rental costs to federal programs than would be allowable by federal regulations.

The health department houses programs in buildings with different rental costs. To allocate the costs to the programs, the department creates an indirect cost pool for all building rents paid. Rental expenditures are then charged to each program based on the ratio of space used by the program to total usable space in all buildings used by health department programs. This practice resulted in some programs paying more than the actual cost of rent for the space occupied and other programs paying less than the actual cost of rent for the space occupied.

The health department's practice of pooling and allocating space rent cost, as described above, is contrary to Office of Management and Budget A-87, *Cost Principles for State and Local Governments*. OMB Circular A-87 states that indirect costs are allowable only to the extent of benefits received by federal programs and are to be distributed to federally supported programs on a basis which considers the relative benefits received by all the governmental entity's programs.

We recommend the health department charge programs only for the actual rent cost of space occupied.