



The Environmental Health Services Division (EHS), within the Department of Public Health, through its permitting and monitoring programs, primarily ensures that there is clean water, clean soil, adequate waste disposal, pest-free homes and businesses, hygienic restaurants, and wholesome food in King County. Most EHS programs are supported by fees. The fees are based on an hourly rate which includes overhead charges and any additional costs that are specific to individual programs for which the fee is being charged. By law, the fee may not exceed the cost of providing the services. By policy of the Board of Health, fees should be set to achieve full cost recovery.

The purpose of our audit was to evaluate the methods and process by which the Department of Health establishes overhead rates and sets fees. The objectives were to: determine whether overhead cost allocations were reasonable and equitable, determine whether environmental health service fees were sufficient to cover program costs, and review how EHS managed its designated fund balance.

The audit found that the overhead allocation methods used by EHS were reasonable and equitable. In addition, it was determined that there needs to be a program-by-program year-end analysis to ensure that full cost recovery is being achieved and finally, because of the size of the "designated" fund balance, there needs to be written policies and/or plans that document management's intended future uses of the fund balance.

Overhead Rates

To ensure that overhead cost allocations were reasonable, equitable, and consistent, charges to EHS programs were independently recalculated. The results were compared against actual and budgeted amounts to determine if they were consistent with the adopted allocation methodology. In addition, county overhead costs were reviewed to ensure that the cost of general government were not included. This was evaluated because recent court rulings have disallowed such costs in overhead allocations.

Fee Setting

The current fee setting methodology used a single unified hourly rate in the development of cost assumptions for fees. Analysis indicates that under this method not all fee-based programs may be able to generate sufficient revenue to recover costs, and that the fees generated from programs whose hourly cost is below the unified hourly rate could be subsidizing programs whose hourly cost is above the unified hourly rate.

An incorrect hourly rate can create the potential that EHS will not fully recover the cost of services provided or may collect a greater amount than is allowable under the cost recovery principle.

Fund Balance and Financial Reporting

The growth in the "designated" fund balance indicates that EHS has collected more revenue

than what was needed to recover full cost. When a fund balance is "designated," it represents management's intended future use of resources and should generally reflect actual plans that have been approved by senior management. In the case of EHS, it is important to have a written policy to address the issue of a designated fund balance and its usage because fees cannot exceed the cost of providing services.

Currently there is no written policy concerning the use of the "designated" fund balance or a desirable level fund balance retention.

Recommendations

The report includes four recommendations that are intended to:

- Ensure that sufficient revenues are generated to fully recover, but not exceed, the cost of services.
- Establish guidelines on how individual program surpluses and deficits could impact the determination of new fees.
- Improve the quality and usefulness of financial reporting requirements for the designated fund balance.
- Increase transparency and accountability of the fund.

Executive Response

The executive's response to the report concurred with all four of the report's recommendations.