



## Performance Audit

# Aligning Healthcare Professional Fees with Licensing Costs

November 26, 2018

This audit examined if the Department of Health (DOH) aligns the fees it charges to healthcare professions with the costs of licensing.

While DOH is required to base these fees on each profession's true licensing cost, fees charged to several professions are either too high or too low. The agency has not raised fees for professions that need increases partly because of concern such increases would reduce the number of practitioners in those professions. Instead, DOH uses other professions' reserves to cover the costs of professions whose fees are not sufficient. State law gives DOH authority to waive fees when doing so benefits public safety, but it does not designate an alternative source of funding to replace the waived fees.

Although the majority of the professions' costs appear appropriate, healthcare professions were charged for some services that did not clearly benefit them.

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# Executive Summary

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## Background

To ensure the public is protected and served by competent and qualified healthcare professionals, the Health Services Quality Assurance Division at the Department of Health (DOH) licenses and disciplines more than 400,000 healthcare professionals. These healthcare professionals pay fees to DOH to cover the costs of their licensing programs. State law requires that each healthcare profession fully cover the cost of all its licensing and disciplinary activities through these licensing fees. The agency sets fees for more than 80 separate licenses within 44 professions.

DOH places all fees collected for professions' licenses, registrations, certifications, renewals and examinations into the Health Professions Account. Revenue for the account for the 2015-2017 biennium was \$107 million. During the same period, total expenditures were \$123 million.

Some licensed healthcare professionals have expressed concerns about licensing fees being too high for their professions. To address these concerns, the Legislature mandated that the State Auditor's Office conduct a performance audit to review DOH's fee-setting process for each of the healthcare professions.

## **Has DOH set licensing fees for healthcare professions to reflect the costs of licensing those professions?**

According to state law and guidance published by the Government Accountability Office (GAO), fees should be set at a level that covers the costs of licensing the professions and provides reasonable reserves. However, 77 percent of the healthcare professions pay licensing fees that are significantly higher or lower than necessary to meet these requirements. Professions with fees that are too low have outweighed those that have fees that are too high, causing total reserves for the Health Professions Account to decline significantly. Concerns from stakeholders has caused DOH to make policy decisions to forgo necessary fee adjustments. DOH has recently implemented a cost-recovery policy that outlines options it can use if fees are not projected to cover costs. However, this policy does not require the agency to take timely action to ensure fees are set at the appropriate level.

## **Are the licensing and disciplinary costs charged to healthcare professions consistent with state law and government guidance?**

State law requires and government guidance suggests the expenses charged to each profession should only be for services that benefit the profession. All direct costs charged to the healthcare professions that were reviewed appear to have been allocated appropriately. However, healthcare professions' revenues paid for some smaller charges, including the state's medical marijuana database, that they did not receive a benefit from. Finally, DOH does not have policies or procedures requiring stakeholder involvement in the allocation methodology process to ensure charges to the professions are proportionate to the actual benefits the professions receive.

## State Auditor's Conclusions

This audit demonstrates that, contrary to state law, revenues for some healthcare professions have been covering the costs of licensing other professions. The Department of Health can make changes to address this issue, but the Legislature should consider a broader policy question as well.

The agency currently finds itself in a no-win situation. While some professions do pay more than the cost to license and discipline people in that profession, other professions likely will never have fees that fully cover their costs.

Consider low-wage or high-demand professions like home care aides and chemical dependency professionals. There is significant need for these types of professionals. However, the wages these professionals earn create the risk that fees that fully cover their licensing costs – as required by law – may drive people away from those professions. State law gives DOH the ability to waive fees in these situations, which is an important tool in mitigating the problem.

Because the law does not identify an alternative source of funding to make up the difference, the agency is in the position of having to make up the lost revenue through its own budget. The Legislature should reexamine this area by developing clear parameters for the types of professions that should receive fee waivers and establishing an alternative source of funding to replace the revenues that are lost when fees are waived.

At the same time, DOH must create clear policies and processes to set licensing fees at an adequate level. This can help blunt the effect of pressure from some stakeholders when the agency proposes fee increases.

## Recommendations

We made a series of recommendations to DOH to increase transparency around each profession's financial status, to make sure the licensing fees charged to each profession meet the state's legal requirements, and to ensure the costs charged to each profession are appropriate. We also made recommendations to the Legislature to help make the rate-setting process more transparent, and to consider alternative sources of funding for some licensing costs.

## Next steps

Our performance audits of state programs and services are reviewed by the Joint Legislative Audit and Review Committee (JLARC) and/or by other legislative committees whose members wish to consider findings and recommendations on specific topics. Representatives of the State Auditor's Office will review this audit with JLARC's Initiative 900 Subcommittee in Olympia. The public will have the opportunity to comment at this hearing. Please check the JLARC website for the exact date, time, and location ([www.leg.wa.gov/JLARC](http://www.leg.wa.gov/JLARC)). The State Auditor's Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion. See **Appendix A**, which addresses the I-900 areas covered in the audit. **Appendix B** contains information about our methodology.

# Background

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To ensure the public is protected and served by competent and qualified healthcare professionals, the Health Services Quality Assurance Division at the Department of Health (DOH) licenses and disciplines more than 400,000 healthcare professionals in 44 professions. DOH issues licenses based on competency tests, applications, background checks, renewals and other requirements. DOH also supports the work of the healthcare professions' 28 boards and commissions to develop rules and standards of practice that regulate the professions.

## **Healthcare professionals pay fees to DOH to cover the costs of their licensing programs**

The agency sets fees for more than 80 separate licenses within 44 professions. The revenues it collects for these fees are used to cover the cost of licensing activities such as issuing licenses, establishing standards of practice, complaint investigation and taking disciplinary action.

State law requires each healthcare profession to fully cover the cost of its licensing and disciplinary activity through these licensing fees, though the agency may waive fees when doing so benefits public safety. For fee-setting purposes, DOH monitors each profession's revenues, expenditures and reserve balances. DOH sets target reserves for each profession that are based on expenditures from the previous biennium and adjusted for anticipated growth and disciplinary rates. These target reserves can range from three to 48 months of expenditures.

DOH monitors each program's projected reserves for the next six years, based on assumed growth in expenditures and revenues. When these projections identify a profession's reserves going well below or above its target, staff review the profession's financial situation more closely and assess the need for a fee change.

All fee changes must go through an administrative rule-making process that includes a requirement that DOH seek public feedback. The agency sets final fee amounts and forecasted reserves based partially on this feedback.

## **All revenues and expenditures related to licensing of healthcare professions in Washington flow through the Health Professions Account**

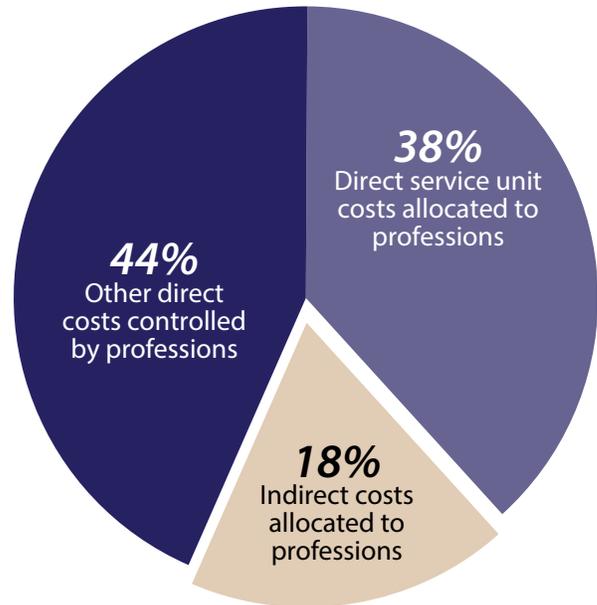
DOH places all fees collected for professions' licenses, registrations, certifications, renewals and examinations into the Health Professions Account. The agency pays all expenses incurred in licensing and disciplining the healthcare professions from this account. However, it tracks reserve balances for each profession separately. Revenue for the account for 2015-2017 was \$107 million. During the same period, total costs charged to the professions were \$123 million.

These costs are broken up into indirect costs and direct costs. **Exhibit 1** shows direct costs are further categorized by direct costs controlled by the professions and direct service unit costs that are allocated to them.

Indirect costs are costs that support DOH as a whole, such as finance and administration, human resources and information technology support. Each profession pays a portion of the agency's indirect costs. Each year, DOH sets an indirect rate to charge each of the healthcare professions a portion of these costs. This rate is calculated by the agency and approved by the U.S. Department of Health and Human Services for charging indirect costs to federal grants. Exhibit 1 also shows these indirect costs account for 18 percent of the total costs charged to the professions during the 2015-2017 biennium.

In addition to these indirect costs, the professions pay for direct costs that exclusively benefit the healthcare professions. DOH charges these costs to each of the healthcare professions using a combination of allocations and direct charges. The allocated charges come from the costs of service units that provide services like the call center, complaint-related investigations and background checks. When a complaint against a healthcare professional results in a legal case, costs can be significant. This audit focused on reviewing the costs that are allocated to the professions including indirect costs and service unit direct costs.

**Exhibit 1 – Costs charged to healthcare professionals**  
\$123.1 million total charged for the biennium ending June 30, 2017



Source: Agency Financial Reporting System (AFRS).

### **This audit examines whether the licensing fees and allocated costs charged to healthcare professionals are appropriate**

Some licensed healthcare professionals have expressed concerns about licensing fees being too high for their professions. In particular, professions with relatively few members (such as denturists) have a smaller base to cover the administrative and regulatory costs, resulting in higher fees. Workers in professions with relatively low wages (such as home care aides and nursing assistants) have said that high fees might deter potential candidates from joining the profession.

To address these concerns, the Legislature mandated that the State Auditor's Office conduct a performance audit to review the Department of Health's fee-setting process for each of the healthcare professions. The audit addressed the legislative requirements by answering the following questions:

1. Has the Department of Health set licensing fees for healthcare professions to reflect the costs of licensing those professions?
2. Are the licensing and disciplinary costs charged to healthcare professions consistent with state law and government guidance?

# Audit Results

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## **Has the Department of Health (DOH) set licensing fees for healthcare professions to reflect the costs of licensing these professions?**

### **Answer in brief**

According to state law and guidance published by the Government Accountability Office (GAO), fees should be set at a level that covers the costs of licensing the professions and provides reasonable reserves. However, 77 percent of the healthcare professions pay licensing fees that are significantly higher or lower than necessary to meet these requirements. Professions with fees that are too low have outweighed those that have fees that are too high, causing the total reserves for the Health Professions Account to decline significantly. Concerns from stakeholders has caused DOH to make policy decisions to forgo necessary fee adjustments. During the audit, DOH implemented a cost-recovery policy that outlines options it can use if fees are not projected to cover costs. This policy does not require the agency to take timely action to ensure fees are set at the appropriate level.

### **According to state law and guidance published by the Government Accountability Office (GAO), fees should be set at a level that covers the costs of licensing the professions and provides reasonable reserves**

State law requires DOH to charge fees that cover the licensing and disciplinary costs for each profession. Guidance for setting federal user fees published by the GAO goes even further, recommending that user fees should be based on anticipated costs and a needed reserve for unexpected costs. For example, GAO guidance on user fees highlights the importance of providing a cushion for unexpected revenue decreases or cost increases. The GAO adds that establishing minimum and maximum reserves is advisable to ensure accountability and adherence to the reserve's goal.

GAO guidance also suggests entities should consider using some public funds – such as general tax revenues – to lower licensing fees when users have difficulty paying or when the public is the main beneficiary from a service. State law also allows the Secretary of Health to waive fees in certain cases when the fees would not be in the best interest of public health and safety. However, the law does not identify an alternative source of funding that can be used when fees are waived.

In Washington, revenues and expenditures for all 44 healthcare professions flow through the Health Professions Account. Based on guidance from the Office of Financial Management (OFM), DOH sets a reserve target for the account that covers five months of the combined expenditures for all professions. It also sets a target reserve for each individual profession that is based on that profession's historical and anticipated costs. According to DOH, these target reserve balances need to be set high enough to cover unexpected costs such as expensive disciplinary cases.

## Seventy-seven percent of healthcare professions pay licensing fees that are significantly higher or lower than necessary to cover costs and provide reasonable reserves

To determine whether the licensing fees for the different healthcare professionals were set at an appropriate level, we analyzed the reserve balances for each profession as of June 30, 2017. Projections of a profession's reserve balance are accepted indicators of a profession's long-term ability to sustain operations. A negative reserve balance indicates fees are not high enough to cover the profession's costs. On the other hand, an excessively positive reserve balance that significantly exceeds the target indicates that fees might be too high. For our purposes, we define excessively positive as having six months or more than the target reserve. For example, if a profession's target reserve is set at three months of expenditures, but it actually has nine months of reserves, then we would consider the reserves excessive. Our analysis revealed the following:

- **10 of 44 professions had revenue and reserves that covered their costs without accumulating excessive reserves.** These professions had reserves that were within six months of the targets established by DOH.
- **20 of 44 professions have accumulated excessive reserves, indicating their fees are too high.** These professions have reserves that are nine months to six years more than their target, indicating their licensing fees were higher than necessary to cover their costs and provide reasonable reserves. These excess reserves added nearly \$13 million more than necessary to the account. This means 73,000 healthcare professionals are paying higher fees than the amount their professions need to cover costs and maintain reasonable reserves.
- **14 of 44 professions have reserves that are either negative or significantly below targets, indicating their fees are too low.** Because several of these professions have run deficits for multiple years, the total reserve balances for these professions as of June 30, 2017, were \$29 million below the target reserve level set by DOH. Although the agency increased the fees in eight professions with negative reserves during 2017 and 2018, projections still show that none will fully cover their costs through 2023. To ensure these professions cover their costs and repay their reserve deficit, DOH would have to increase the fees for these professions, affecting more than 166,000 healthcare professionals.

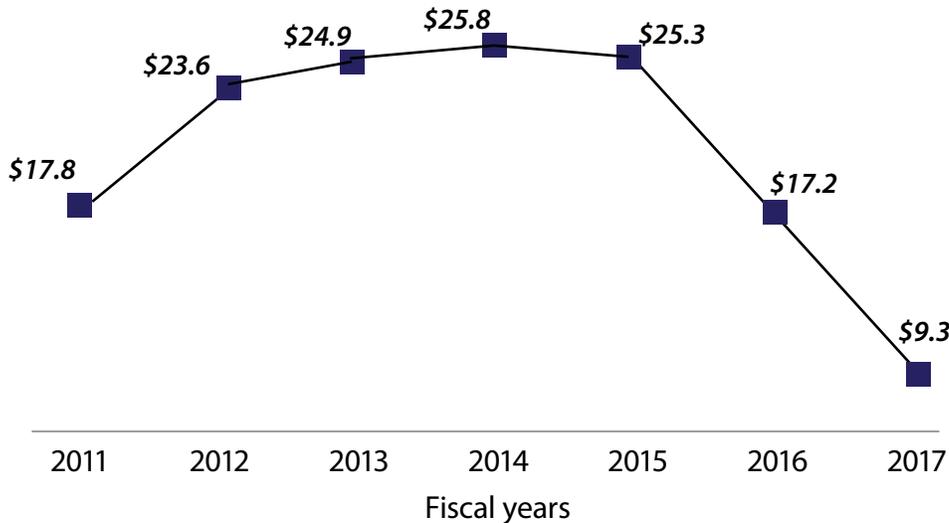
See **Appendix C** for the detailed financial status of every profession.

California has established minimum reserves for some of its professions. As of July 1, 2016, each has positive reserves.

## Professions with fees that are too low have outweighed those that are too high, causing total reserves for the Health Professions Account to decline significantly

Exhibit 2 shows the reserves in the account dropped by nearly \$16 million in the last biennium, ending fiscal year 2017 with about \$9 million. This amount covers less than two months of licensing expenses for all professions, far less than the five months DOH targets.

**Exhibit 2 – Reserves for the Health Professions Account have declined in recent years**  
*Dollars in millions*



Source: Agency Financial Reporting System (AFRS) data.

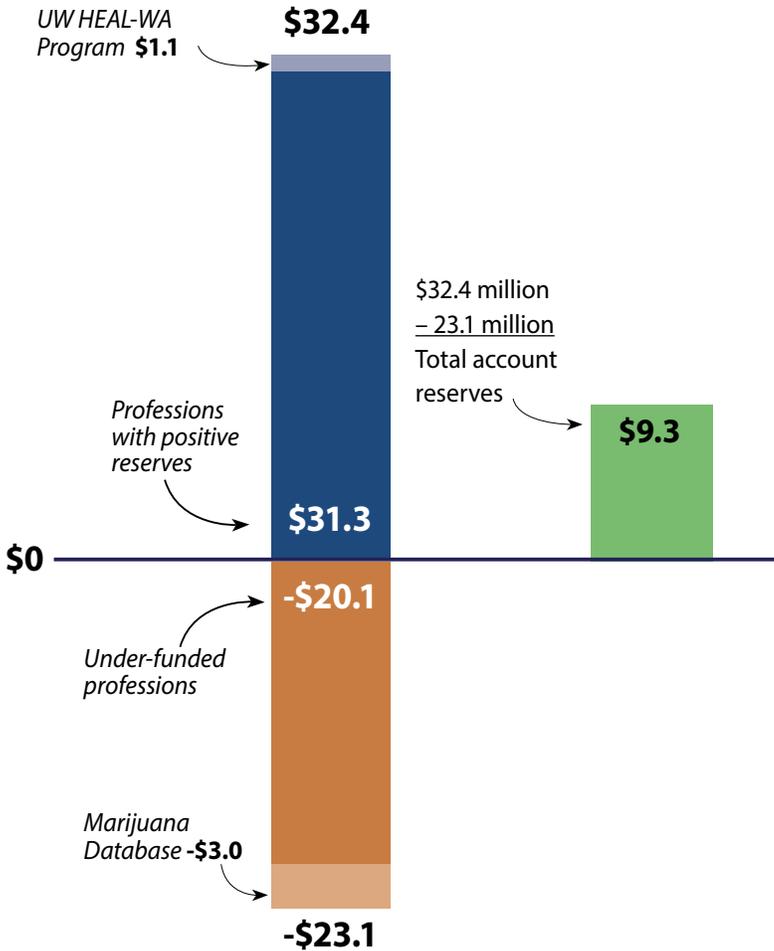
Much of this decline is the direct result of professions that do not cover their costs and therefore have declining or negative reserves. As we discuss in more detail on page 16, some of this decline in the account's reserves in the 2015-2017 biennium can also be attributed to a \$3 million legislative fund sweep used to pay for the medical marijuana authorization database.

To prevent reserves in the overall account from declining further, DOH has not reduced fees for some of the professions identified on page 8 that have excessive reserves. Instead, the agency has used the excess reserves from these professions to partially offset professions that have insufficient fee revenues and reserves to cover their own licensing costs.

**Exhibit 3** shows that, as of June 30, 2017, 31 professions had positive reserves totaling \$31.3 million and the University of Washington HealWA program (discussed in more detail on page 17) had \$1.1 million in reserves, for a total of \$32.4 million in positive reserves. However, because 13 professions had negative reserves totaling \$20.1 million and the Legislature transferred \$3 million out of the account to pay for the medical marijuana authorization database, the account is only left with \$9.3 million in available funds. This means the 31 professions with positive reserves might not have access to their reserves for unanticipated expenses such as a costly disciplinary case.

**Exhibit 3 – Health Professions Account reserve status**

*Fiscal year ending June 30, 2017; Dollars in millions*



Source: DOH financial data.

Because the Legislature appropriates expenditures and monitors reserves at the account level instead of by profession, it is easier for one profession's reserves to offset another's costs. Appropriating at the profession level would help ensure each profession is accountable to pay for itself and make the process more transparent.

California accounts for all professions in separately appropriated accounts. This keeps one profession from spending another's reserves.

In addition, professions are unaware of the financial statuses of other professions. DOH said it gives each profession a board report that shows its financial status. Unless requested, the agency does not make each profession's financial status available to other professions, nor does it share how each profession's financial status rolls into the account total. Consequently, professions do not see the complete picture unless they request financial information for other professions. For this reason, some stakeholders said they assumed professions' reserves were being used by other professions, but they did not know the extent of it.

### **Based partly on concerns from stakeholders, DOH has made policy decisions to forgo necessary fee adjustments**

DOH has the ultimate authority to set fees, but under state law it has an obligation to hear and consider public feedback as part of the fee-setting process. Past attempts to increase fees for some healthcare professions resulted in significant concerns from employers, unions and associations that represent the professions. For example, some of these stakeholders said that the level of proposed fee increases would deter some people from entering the professions, and cause others to seek careers elsewhere. Based on this opposition, DOH ultimately set the fees for some professions at amounts that were lower than needed. In the case of chemical dependency professionals, for example, DOH had recommended a needed 50 percent fee increase to bring revenues more in line with expenditures. The agency ultimately approved an increase of only 30 percent because of stakeholder concerns that such a large increase would detrimentally affect the number of individuals willing to enter the field and retain a license.

### **In the past, DOH has considered alternative funding sources for some professions that have negative reserves with mixed results**

DOH has the authority to waive fees when it benefits public safety. However, because licensing fees are the only source of funding for the account and one profession's reserves cannot be used to pay for another's licensing activities, the agency must find an alternative funding source to replace the waived fees.

DOH's attempts to secure alternative funds have been met with mixed results. For instance, while the Legislature provided additional funding for the midwives profession, the profession ended 2013 with a negative balance which has continued to decline.

In another instance, DOH officials told us during the 2017-2019 biennium budget process they discussed with OFM the possibility of obtaining state funding for home care aides. DOH was concerned about the effect of higher fees on the availability of professionals since home care aides are considered low-wage, high-demand professionals. However, citing concerns with the certainty and availability of public funds, DOH ultimately did not submit a formal decision package for additional funding. It also did not raise the fees for home care aides despite their profession's large reserve deficit.

## **During the audit, DOH implemented a cost-recovery policy, which formalizes some fee setting practices**

GAO and the Government Finance Officers Association recommend agencies review fees every one to two years, and adjust fees as needed to assure that each profession fully recovers its costs and maintains reasonable reserves.

DOH has taken some steps to formalize how it addresses the solvency of the underfunded professions. During the audit, it adopted a policy that is designed to:

- Require fees for all professions be set at a level that covers projected expenditures and establishes sufficient reserves within six years
- Review the fees for all professions on an annual basis to identify professions whose fees are not sufficient to meet that standard
- For professions identified as having insufficient fees, DOH will develop a plan to address the shortfall. This might include increasing the fees, exploring options for reducing the licensing costs, or requesting a subsidy from the Legislature.

DOH has also developed procedures to help ensure fees are as low as possible. These procedures require the agency to work with the professions to assess options for reducing expenditures while preserving patient safety and access to care before it increases fees.

## **However, the new policy does not require DOH to take timely action to ensure fees are set at the appropriate level**

While many professions' fees for applications and renewals were adjusted in the past two years, 12 professions' fees have not changed in four to 10 years. Of these 12 professions, only two are appropriately funded at their current fee levels. Ten of them are either over- or under-funded, which suggests a fee change is needed. Fees for examinations have also had infrequent changes. Only one profession has had its examination fees adjusted since the 1990s. A review of the actual costs to administer the exams for this profession (denturists) showed that fees do not closely reflect the cost of administering the exams.

If DOH followed fee-setting guidance issued by GAO and the Government Finance Officers Association, it would minimize the use of some professions' reserves by others whose fees do not fully cover their costs. However, the agency's policy does not adopt this recommended guidance. Instead, it allows professions up to six years to fully cover their costs and replenish negative reserves.

Moreover, while the policy allows DOH to seek alternative funding from the Legislature when professions do not cover their costs, it does not require the agency to increase fees if it fails to obtain this funding. Nor does it require fee reductions for professions that have excessive reserves. Taken together, the six-year time horizon and the absence of any requirements to adjust fees that are too high or too low would prolong some professions' use of other professions' reserves, contrary to state law.

## **Are the licensing and disciplinary costs charged to the healthcare professions consistent with state law and government guidance?**

### **Answer in brief**

State law requires and government guidance suggests expenses charged to each profession should only be for services that benefit the profession. All direct costs reviewed appropriately benefit the healthcare professions. However, healthcare professions' revenues paid for some smaller charges, including the state's medical marijuana database, which they did not receive a benefit from. Finally, DOH does not have policies or procedures requiring stakeholder involvement in the allocation methodology process to ensure charges to the professions are proportionate to the actual benefits the professions receive.

### **State law requires and government guidance suggests the expenses charged to each profession should only be for services that benefit the profession**

As outlined on page 7, state law and government guidance require DOH to charge fees to cover the cost of licensing and disciplinary activities of each profession while providing a reasonable reserve. State law requires that licensing fees only include costs that help ensure the competency and qualifications of the healthcare professionals being licensed. GAO guidance on user fees also states that user fees should be used to pay only for services that directly benefit the users. In the case of licensing fees, the users are the healthcare professionals licensed by DOH.

Some examples of costs that clearly benefit the professionals include salaries and benefits of financial staff that provide budgeting services to the professions and investigative staff that investigate complaints made against providers. However, other DOH costs, such as food safety programs, do not benefit the licensing activities of the healthcare professions and therefore are not included in the fees. This literature also recommends users be consulted when determining which costs should be included in fees.

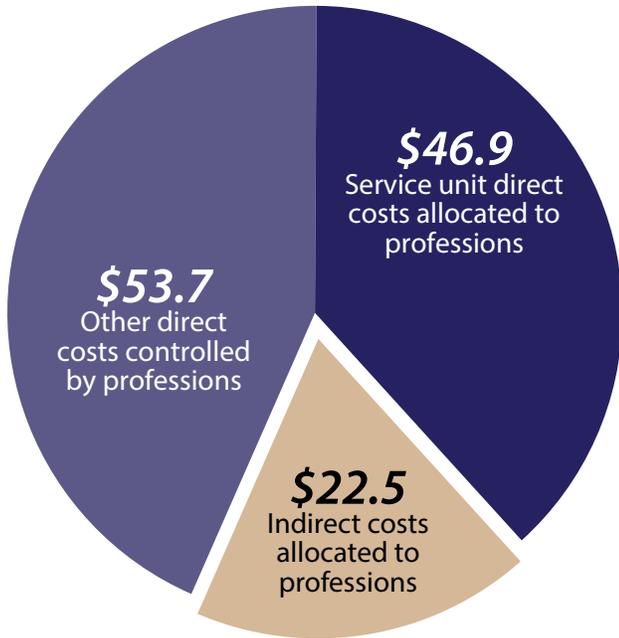
### **All direct costs reviewed appropriately benefit the healthcare professions**

In 2017, the healthcare professions were charged about \$123 million for licensing and disciplinary services. Direct costs account for 82 percent of these costs. Direct costs include expenses incurred and managed by the professions themselves (such as travel or training for board or committee members), and expenses for service units, which are provided by DOH and allocated to the professions.

Service unit costs are allocated to the professions for services that most professions use, such as credentialing, call center, legal services and the renewal unit. Service unit costs are allocated by DOH and not controlled by the professions, so the audit’s analysis of direct costs focused on service unit charges to the professions. **Exhibit 4** shows all professions’ direct expenses in blue, split between service unit direct costs allocated to the professions of \$46.9 million and direct costs that the professions control of \$53.7 million. Exhibit 4 also shows \$22.5 million of indirect costs that are allocated to the professions.

**Exhibit 4 – Costs charged to healthcare professions**

*Dollars in millions; Account total costs \$123.1 million for biennium ending June 30, 2017*



Source: Agency Financial Reporting System (AFRS).

**Healthcare professions’ revenues paid for some smaller charges, including the state’s medical marijuana database, which they did not benefit from**

When determining how much to charge all of its programs (including the professions) for indirect costs, DOH uses federal grant criteria because about half of its revenue comes from federal sources. Federal regulations direct state agencies to develop indirect cost allocation plans to help ensure federal grants only pay for costs that benefit them. However, any costs deemed allowable on the federally approved plan must also meet state restrictions on DOH’s use of professions’ licensing fees. Both GAO guidance and previous performance audits published by the Washington State Auditor’s Office recommend using multiple cost allocation factors to achieve a more precise approximation of each user’s actual benefit.

## DOH charges healthcare professions for four indirect costs that do not clearly benefit their licensing activities

Indirect costs, commonly referred to as overhead costs or central services, are support services charges that benefit multiple departments, programs or funds, such as accounting, payroll, or human resource salaries and benefits; information technology services; and operating and maintenance costs. Because the amount of these costs cannot be easily tracked and calculated for each activity, these costs have to be allocated.

Because DOH uses criteria applicable to federal grants and awards to allocate indirect costs to each program, it develops an indirect cost allocation plan and submits it to the federal Department of Health and Human Services annually. The plan includes three categories of indirect costs, each with a specific rate: central administrative costs; division-specific costs (Health Services Quality Assurance Division for the healthcare professions); and pass-through costs.

When determining which costs to allocate to each profession using the indirect rate, DOH staff said they focus on those expenses that benefit the agency as a whole and services available to all programs in the agency. Auditors reviewed program descriptions for nine offices included in the central administration indirect cost allocation plan to determine if the professions' licensing programs benefited from them. Based partly on conversations with their assigned representative from the Attorney General's Office and their review of state law, auditors determined DOH can only spend licensing fees on licensing activities that help regulate the competencies and qualifications of the professions. This includes activities that help establish standards of care and any disciplinary actions. Auditors also discussed with agency staff the indirect costs that DOH charges the professions.

The audit found that the majority of the indirect costs reviewed benefit the professions' licensing activities and are appropriately charged to the professions. However, the audit identified four indirect services that did not clearly benefit all professions' licensing activities. The total cost to DOH for these services was about \$2 million in fiscal year 2017. If these four costs had not been included in the cost allocation plan, professions would have paid about \$450,000 less in fiscal year 2017. These four indirect services are:

- **Foundational Public Health Services, in the Office of the Secretary of Health** – *About \$268,000 in fiscal year 2017* – This program focuses on basic public health services provided by the government, as well as health data, performance measurement, and coordination with local government health entities. These activities are unrelated to licensing or disciplining some healthcare professionals, and as a result, they do not provide a clear benefit to all professions. DOH should identify and charge only the benefitting professions.
- **Office of the State Health Officer** – *About \$931,000 in fiscal year 2017* – This office's mission is "leadership and oversight of policy development and implementation" with an emphasis on public health issues like epidemics. These activities are unrelated to licensing or disciplining some healthcare professionals, so they do not clearly benefit all professions. DOH staff said that the State Health Officer provides input on regulatory policies like the rule-making process for prescribing opioids. DOH should identify and charge only the benefitting professions.

- **Grant Services, within the Office of Financial Services** – *At least \$565,000 for fiscal year 2017* – This unit provides grant and contract management services for DOH. Because professions do not receive grants, not all of these costs benefit the professions. Costs related to grants and costs related to other types of contracts are not discretely tracked and accounted for by DOH. Agency staff said that while professions do not require grant management services, it all evens out because the professions benefit far more than other divisions from central services like revenue. This reasoning may support using a more complex allocation model to charge programs more precisely for the service benefits they receive, but it does not support allocating all of these combined costs to professions when they do not all benefit the professions.
- **Health Systems Transformation and Innovation** – *About \$276,000 in fiscal year 2017* – “Health systems transformation” is DOH’s term to describe the statewide efforts of agency and public health staff working to make healthcare more accessible and more affordable. This unit helps coordinate the agency’s response to the Affordable Care Act. These activities are unrelated to licensing or disciplining healthcare professionals, and as a result, they do not provide a clear benefit to the professions. In addition, based partly on conversations with our assigned representative from the Attorney General’s Office, auditors concluded that state law does not allow DOH to spend licensing fees on efforts to improve access to healthcare professionals throughout the state.

**About \$800,000 a year is paid out of the Health Professions Account to maintain the state’s medical marijuana database, which the professions do not use**

In 2015, the Cannabis Patient Protection Act required the Health Professions Account to pay all costs associated with implementing and administering the medical marijuana authorization database. Its total cost for fiscal years 2015 through 2017 was roughly \$3 million. The 2017 Supplemental Budget repays this transfer using 2018 and 2019 funds from the Dedicated Marijuana Account.

While the costs through fiscal year 2017 will be repaid, professions will continue to pay to maintain the database. The Legislature dedicated revenue from medical marijuana card fees (\$1 from each card) to help fund the maintenance of the database. However, these card fees are expected to generate about \$80,000 in revenue for fiscal year 2018, which is only a small portion of the \$800,000 annual maintenance costs for the database. This means the professions will pay the balance using reserves from the account.

Through discussions with DOH staff and associations that represent the professions, auditors determined that the database does not benefit the professions’ licensing activities. Therefore, the professions’ funds should not pay for any portion of the database maintenance.

## **Healthcare professionals who use the University of Washington’s medical library system have paid \$1.1 million more than needed**

The University of Washington (UW) medical library, also known as HealWA, gives healthcare professionals online access to current clinical information and educational resources. State law specifies 17 professions that are currently eligible to use the service. DOH contracts with UW to provide this service and charges eligible professions a per-licensee annual fee to cover the program’s administrative costs. State law caps this fee at \$25.

In 2008, DOH set the fee at \$25 for each licensee. This fee resulted in collections that exceeded the actual cost for the system, so a reserve balance began to accumulate. To address the overcharge, DOH reduced the fee to \$16 for each licensee in November 2012. However, as of June 30, 2017, a balance of \$1.1 million remained and the agency expects it to grow to \$3.6 million by 2023. While DOH officials said they maintain these excess funds because UW told them the costs of the program are higher, these costs have not yet been passed on to the agency and the excess funds remain.

## **DOH does not have policies or procedures requiring stakeholder involvement in the allocation methodology process to ensure charges to the professions are proportionate to the actual benefits the professions receive**

When establishing or revising methods for allocating central services, GAO guidelines on federal user fees suggest agencies seek feedback from those who will pay for those services. However, DOH has not sought feedback from professions on its indirect cost allocation methodology to ensure charges reflect the professions’ use of services. The agency does not have a policy requiring review of all costs charged to the licensing programs to ensure the costs benefit those programs and their efforts to ensure the competency and qualifications of the professionals.

In addition, program managers at DOH, who serve as liaisons to the professions, told us the professions are not consulted when changes occur in the stated allocation methods for service unit costs. For example, DOH changed the stated allocation plan for two expenses, but did not inform the professions of the change. For one expense, DOH changed its basis for allocating credentialing costs from a detailed service usage method to a weighted average of the service usage method and the prior allocation method. As a result, some professions will be charged up to \$1.3 million more a year than they would have under the stated method. For the other expense, DOH changed its basis for allocating costs for tort claims from only those professions with claims to charging all professions based on total expenditures, costing some professions up to \$15,500 a year.

# State Auditor's Conclusions

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This audit demonstrates that, contrary to state law, revenues for some healthcare professions have been covering the costs of licensing other professions. The Department of Health can make changes to address this issue, but the Legislature should consider a broader policy question as well.

The agency currently finds itself in a no-win situation. While some professions do pay more than the cost to license and discipline those in that profession, other professions likely will never have fees that fully cover their costs.

Consider low-wage or high-demand professions like home care aides and chemical dependency professionals. There is significant need for these types of professionals. However, the wages these professionals earn create the risk that fees that fully cover their licensing costs - as required by law - may drive people away from those professions. State law gives DOH the ability to waive fees in these situations, which is an important tool in mitigating the problem.

Because the law does not identify an alternative source of funding to make up the difference, the agency is in the position of having to make up the lost revenue through its own budget. The Legislature should reexamine this area by developing clear parameters for the types of professions that should receive fee waivers and establishing an alternative source of funding to replace the revenues that are lost when fees are waived.

At the same time, DOH must create clear policies and processes to set licensing fees at an adequate level. This can help blunt the effect of pressure from some stakeholders when the agency proposes fee increases.

# Recommendations

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## For the Department of Health

To address the issues with professions' fees being significantly higher or lower than needed to cover costs and provide reasonable reserves (see page 7 and following pages), we recommend the Department of Health:

1. Review and adjust fees for each profession with sufficient frequency to ensure they fully cover costs that provide sufficient but not excessive reserves, and that they do so for that profession only
2. Publish the financial status of every profession
3. Establish a consistent fee-setting process that fully conforms to statutory requirements and incorporates leading practices

To address the issues with costs being charged to professions that do not benefit them (see page 13 and following pages), we recommend the Department of Health:

4. Require by policy that licensing programs not be charged for costs that do not benefit them. The policy should also require the Department to work with profession boards, commissions and program managers in making these determinations.
5. Fund any charges found not to benefit the professions' licensing functions using revenue from allowable sources, to ensure compliance with state law that licensing fees pay only to support the licensing programs. Develop and implement a plan to decrease the surplus for the University of Washington's medical library, known as HealWA. After decreasing the surplus, ensure the fee reflects current contract costs.

## For the Legislature

To address the issues with professions' reserves being used to pay for other professions' costs (see pages 9 and 10), we recommend the Legislature consider:

6. Appropriating at the profession level instead of the account level to prevent one profession from spending another's reserves
7. Finding alternative funding for professions that do not fully cover costs, but would see a critical loss of needed healthcare professionals if fees were increased
8. To address the issues with professions' reserves being used for costs that do not benefit them (see page 14), we recommend the Legislature consider finding alternative funding for the ongoing maintenance costs of the medical marijuana authorization database, such as the Dedicated Marijuana Account, so that healthcare professions do not pay for costs that do not benefit them.

# Agency Response

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## STATE OF WASHINGTON

November 20, 2018

The Honorable Pat McCarthy  
Washington State Auditor  
P.O. Box 40021  
Olympia, WA 98504-0021

Dear Auditor McCarthy:

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) performance audit report, "Aligning Healthcare Professional Fees with Licensing Costs."

We agree the Department of Health could develop a more consistent fee-setting model by developing better-defined processes and including them in our policies. We also recognize that we can take more aggressive action on fee increases and decreases. However, we are confident in our approach to setting fees based on projected revenues and expenditures. While this may give the appearance that fees are set too low or too high for the majority of professions, as SAO notes, there are other factors that may impact a fund balance, such as unexpected disciplinary costs or keeping reserves high in expectation of fiscal impacts that might not materialize. We will look for opportunities to enhance transparency on fund balances and fee-setting processes in the future.

We appreciate that SAO acknowledges the majority of direct costs charged to professions are appropriate. We believe that all costs charged are appropriate, with the exception of the medical marijuana database charges that the Washington State Legislature mandated be paid from the Health Professions Account. The appropriate account for the medical marijuana database is the Dedicated Marijuana Account.

We appreciate that SAO recognizes the Department of Health appropriately charges the majority of indirect costs to the professions. However, we would suggest that we appropriately charge all indirect costs to the professions. DOH certainly respects that SAO has the authority and responsibility to make an independent assessment of DOH's practices with respect to professional licensing fees, and needs to interpret the laws that DOH administers to make this assessment. However, we do not agree with SAO's interpretation of the department's fee authority or its conclusion that the department charges the professions for some indirect costs that do not benefit them. The department is concerned that SAO reached this conclusion by adopting a concept that narrowly interprets "benefit" to professions as only those activities related specifically to licensing and disciplining health care professions without reference to statutory authority to support such a narrow interpretation. Instead of applying this narrow interpretation of "benefit," SAO should have used the department's broad statutory authority to regulate the professions and recover the costs of doing so from the professions.

The Secretary of Health has extensive express and implied authority and obligations with respect to the regulation of health professions. This includes the ultimate authority and responsibility to interpret, implement and administer the laws governing the regulation and administration of health professional licensing programs. This applies also to laws pertaining to fees. Each professional licensing program is to bear all its own costs, and the secretary is directed by law (RCW 43.70.250(2)) to set fees "at sufficient level to defray the costs of administering that program." If a particular activity falls under the secretary's

duties or powers to regulate the health professions, then its cost must be recovered from the professions. The department is in the best position to assess whether each program engages in work related to the regulation and administration of professional licensing programs. Given the department's expertise, SAO should have accorded greater weight to the department's reasonable position on indirect costs.

SAO's narrow definition of "benefit" to professions led it to conclude that activities and services provided by the state health officer, Foundational Public Health Services, Health Systems Transformation and Innovation, and Grant Management Services do not benefit professions. We disagree. The department believes that the four indirect costs at issue fall in the framework of the secretary's authority to interpret, implement and administer the laws governing the regulation and administration of health professional licensing programs. These programs are available to each profession and provide important services, data and support to providers and their practices as explained below:

**The Office of the State Health Officer (OSHO)** is the agency's senior adviser on medical and public health issues and provides input to regulatory policies during our policymaking process (e.g., opioid prescribing rule-making process, agency policy development, etc.). OSHO's work includes subjects relevant to the boards and commissions funded by the Health Professions Account. Epidemiologists in this unit review data analyses in legislative reports generated by commissions and work with regulators on communicable disease outbreak and infection issues impacting health care providers. Health care providers have a role in protecting public health and rely on OSHO for policies and guidance on public health issues, such as epidemics, and up-to-date data. OSHO guidance informs DOH investigations of provider complaints and determinations on what disciplinary actions are necessary. OSHO provides information and policy input to the secretary, department staff, and the boards and commissions as they develop standards of practice, rules, legislation and other policies to regulate and benefit health professionals. This role represents a key component in regulating health professions. OSHO's work has touched many professions and may do so at any time, which is why an indirect model of payment is warranted.

**Foundational Public Health Services (in the Office of the Secretary)** provides health care professionals with health data and coordination activities to assist in providers' work with patients. These activities help ensure health care professionals have the information and support necessary to understand the boundaries of their credentials to ensure they abide by standards of care for the protection of public health. Information and support from these services set the foundation to protect public health and is used to quantify if disciplinary action is necessary when investigating complaints of health care professionals.

**Health Systems Transformation and Innovation** connects professions and commissions to ensure both have the most up-to-date data and information for health care professionals to protect public health. These services also help ensure adequate levels of health care staffing to protect the public. For example, it works with commissions to increase the number of nurses in areas where there are shortages to ensure adequate standards of care for patients.

**Grant Management Services** provides many services, including ensuring timely contract payments, which includes contracts through the commissions. This work is critical to ensuring other services mentioned above can function fluidly to provide timely data and information in the pursuit of protecting public health. Other services that are provided by the Grant Management Office are available to the professions at any time the need may arise. Failing to make these services available would require the agency to acquire additional services when the need arises, delaying the response time. This would not be an effective way to manage the needs for professions and could potentially hinder our ability to protect public health.

The Honorable Pat McCarthy

November 20, 2018

Page 3 of 3

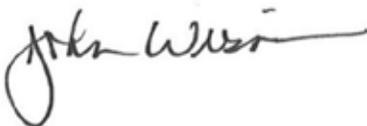
While we recognize that the costs of these services benefit many programs in our agency, we believe we are proportionately charging the services provided to health care professions through the application of our indirect cost rate method. The intent of the federal indirect cost rate method, per 2 CFR 200.56, is to allow a mechanism to allocate costs when the costs are “not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.”

We appreciate that SAO recognizes in its final report that federal guidance requires all costs to be applied consistently, as referenced in 2 CFR 200.403, which prevents us from exempting the professions from certain indirect costs. We disagree with SAO’s conclusion that we should exempt the professions from certain indirect costs during the development of cost methodologies — namely the cost for services of the state health officer, Foundational Public Health Services, Health Systems Transformation and Innovation, and Grant Management Services.

The cost of itemizing services such as these would likely be far more expensive than using the indirect cost rate. In reviewing costs for grants management and revenue services, for example, the analysis determined the cost to support the health professions would have been higher than the application of the indirect rate even before applying the additional administrative burden to track costs to this detailed level. We take careful consideration when developing our indirect cost rate methodology to ensure costs are proportionately applied throughout the agency in a consistent manner. Our plan is then carefully reviewed by the U.S. Department of Health and Human Services (HHS), the federal agency responsible for reviewing, negotiating and approving our indirect plan before we begin using it.

In summary, thank you for the opportunity to review and respond to the performance audit report. It has helped us think about how we can develop better processes to review fees more consistently and provide additional transparency throughout the process. We remain concerned about the narrow interpretation of “benefit” to professions. We believe SAO should instead apply the department’s broad statutory authority to regulate the professions and recover the costs of doing so from the professions. We do not believe that SAO’s conclusion about costs that benefit professions recognizes or takes this authority into account, and therefore, does not adequately represent costs that are applied to professions.

Sincerely,



John Wiesman  
Secretary  
Department of Health



David Schumacher  
Director  
Office of Financial Management

cc: David Postman, Chief of Staff, Office of the Governor  
Kelly Wicker, Deputy Chief of Staff, Office of the Governor  
Drew Shirk, Executive Director of Legislative Affairs, Office of the Governor  
Pat Lashway, Deputy Director, Office of Financial Management  
Scott Merriman, Legislative Liaison, Office of Financial Management  
Keith Phillips, Director of Policy, Office of the Governor  
Inger Brinck, Director, Results Washington, Office of the Governor  
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor  
Scott Frank, Director of Performance Audit, Office of the Washington State Auditor

## OFFICIAL STATE CABINET AGENCY RESPONSE TO PERFORMANCE AUDIT ON ALIGNING HEALTHCARE PROFESSIONAL FEES WITH LICENSING COSTS – NOVEMBER 20, 2018

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This management response to the State Auditor’s Office (SAO) performance audit report received on October 29, 2018, is provided by the Office of Financial Management and Department of Health (DOH).

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### SAO PERFORMANCE AUDIT OBJECTIVES:

The SAO sought to answer these questions:

1. Has the Department of Health set licensing fees for healthcare professions to reflect the costs of licensing those professions?
  2. Are the licensing and disciplinary costs charged to healthcare professions consistent with state law?
- 

**SAO Recommendations 1-3 to DOH:** To address the issues with professions’ fees being significantly higher or lower than needed to cover costs and provide reasonable reserves as described, we recommend DOH:

- Review and adjust fees for each profession with sufficient frequency to ensure they fully cover costs that provide sufficient but not excessive reserves, and that they do so for that profession only.
- Publish the financial status of every profession.
- Establish a consistent fee-setting process that fully conforms to statutory requirements and incorporates leading practices.

**STATE RESPONSE:** DOH reviews fees annually. We also track each profession’s licensing fee, account balance and projected balance over six years. We will seek ways to provide greater transparency to this process. For example, we have scheduled regular meetings with associations representing health care providers where we are sharing fee and account information. We are reviewing our process for how we share budget information with DOH program managers so this information is more consistently shared at board and commission meetings, where members, the public and providers will also have an opportunity to hear this information. We are developing one-page fact sheets for each profession that show the account balance and cost drivers and will share these with providers and associations. We agree that we could develop a better-defined process, especially with respect to having a timeline for taking action when we see fees are not sufficient to support a program. This will be an addition to our cost recovery policy.

### Action Steps and Time Frame

- Develop a schedule to ensure every profession’s fees are reviewed at regular intervals. *By July 1, 2019*
  - Include the defined scheduled review of fees in agency policies. *By July 1, 2019*
- 

**SAO Recommendations 4-6 to DOH:** To address issues with costs being charged to professions that do not benefit them, we recommend the Department of Health:

- Require by policy that licensing programs not be charged for costs that do not benefit them. The policy should also require the Department to work with profession boards, commissions and program managers in making these determinations.

- Fund any charges found not to benefit the professions' licensing functions using revenue from allowable sources, to ensure compliance with state law that licensing fees pay only to support the licensing programs.
- Develop and implement a plan to decrease the surplus for the University of Washington's medical library, known as HealWA. After decreasing the surplus, ensure the fee reflects current contract costs.

**STATE RESPONSE:** We disagree that costs currently charged to professions do not benefit them. We believe that SAO's standard for determining what may be included in fees is too narrow by focusing only on whether the program's activities are unrelated to licensing or disciplining health care professions. This standard does not account for activities that provide professions with up-to-date health data, necessary information, standards of care and guidance to assist professions in their ability to protect public health.

These activities are critical and provide the following services to help protect public health:

- Policies and guidance on public health issues, such as epidemics and up-to-date data that informs investigations of provider complaints and determinations of any disciplinary actions that may be necessary;
- Input for the development of standards of practice, rules, legislation and other policies to regulate and benefit health professionals;
- Health-related data and coordination activities to assist providers in their work;
- Connection of professions and commissions to ensure both have the most up-to-date data and information for health care professionals;
- Timely contract payments, including those through the commissions; and
- Readily available services for needs that may arise at any time to prevent delays in responding and resolving issues.

The Secretary of Health has extensive express and implied authority and obligations with respect to the general regulation of health professions and is statutorily provided flexibility in exercising that authority to ensure public health is protected. If a particular activity falls under the secretary's duties or powers to regulate health professions, then its corresponding costs must be recovered from the professions. DOH believes that the costs identified in the indirect cost rate methodology fall under this framework and that SAO should review these programs through this broader lens.

We disagree with SAO's conclusion that we should exempt the professions from certain indirect costs, namely the cost for services of the State Health Officer, Foundational Public Health Services, Health Systems Transformation and Innovation, and Grant Management Services. The cost of itemizing services such as these would likely be far more expensive than the indirect cost itself. In reviewing costs for grants management and revenue services as an example, the analysis determined the cost to support the health professions would have been higher than the application of the indirect rate even before applying the additional administrative burden to track costs to this detailed level. We take careful consideration when developing our indirect cost rate methodology to ensure costs are proportionately applied throughout the agency in a consistent manner. Our plan is then carefully reviewed by the U.S. Department of Health and Human Services (HHS), the federal agency responsible for reviewing, negotiating and approving our indirect plan before we begin using it.

Finally, we acknowledge we have maintained excess funds in the Heal-WA account. This is based on input from the University of Washington indicating it expects costs to increase. We will coordinate with the University of Washington to identify additional funding needs for the Heal-WA program and take steps to ensure a plan is in place to address the excess fund balance in the account.

### Action Steps and Time Frame

- Coordinate with the University of Washington to identify specific funding needs for the Heal-WA program. *By Feb. 28, 2019*
  - Develop a plan to address the fee reserves in the Heal-WA account if additional needs are not identified. *By Feb. 28, 2019*
  - If additional needs are identified, DOH with coordinate with University of Washington to submit a decision package for the 2020 legislative session. *By Sept. 2019*
- 

**SAO Recommendations to the Legislature 7-8:** To address the issues with professions' reserves being used to pay for other professions' costs, we recommend the Legislature consider:

- Appropriating at the profession level instead of the account level to prevent one profession from spending another's reserves.
- Finding alternative funding for professions that do not fully cover costs, but would see a critical loss of needed healthcare professionals if fees were increased.

**STATE RESPONSE:** Preventing one profession from spending from the Health Profession Account's fund balance would create significant fee volatility, meaning an individual profession's fee could increase or decrease significantly from year to year. This is because each individual profession would need to generate enough revenue to recover its costs in a biennium rather than DOH's current policy of six years, which allows the department to dampen the impact of revenue and expenditure anomalies and not subject each profession to unpredictable fees. Moreover, this proposal also increases the risk of an individual profession running a cash deficit. Any significant one-time change in expenditures (e.g., unanticipated number of complaints and investigations) or revenues (e.g., a decline in the number of licensees) would need to be recovered in the biennium. Because the process to raise a fee takes approximately one year to implement and then additional time to generate revenue, any significant change in actual expenditures in the first six months of a biennium could not feasibly be addressed until the subsequent biennium, resulting in a cash deficit for the profession.

### Action Steps and Time Frame

- N/A
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# State Auditor's Response

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As part of the audit process, our Office gives a draft copy of the report to any agencies that were audited and offers them the opportunity to respond. The Department of Health's (DOH) response is included in this report. In it, DOH expressed some concerns and areas of disagreement. We summarize these concerns below along with our response.

## **Agency Concern No. 1:**

DOH disagrees with our interpretation of state law concerning how it may spend license fees. DOH believes decisions about the use of licensing fees to pay for the four costs (discussed on pages 15 and 16 of the report) fall under the secretary's authority to interpret, implement and administer the laws governing the regulation and administration of the health professional licensing programs. DOH believes it is appropriate to charge all professions for these costs, since each profession may use these programs if needed and the programs provide important services, data and support to many of the professions' providers and their practices.

## **Auditors' Response:**

We based our interpretation of state law partly on conversations with our assigned representative from the Attorney General's Office. We concluded state law limits the use of licensing fees to licensing and disciplinary activities that help regulate the competencies and qualifications of the professions. It is our interpretation that state law does not allow DOH to spend licensing fees on efforts to manage the supply of healthcare professionals or to improve access to healthcare professionals throughout the state. It is also our interpretation that state law does not allow DOH to charge all professions for services that only some benefit from. While some of the four costs in question may benefit some professions' licensing and disciplinary activities, this is not the case for all costs and all professions. Based on this analysis, we did not change our conclusions.

## **Agency Concern No. 2:**

DOH disagrees with the audit's recommendation to the Legislature (Recommendation No. 6) to appropriate at the profession level instead of the account level to prevent one profession from spending another's reserves. DOH believes this would create significant fee volatility and increase the risk of an individual profession running a cash deficit because of the length of time it takes to increase fees.

## **Auditors' Response:**

State law prohibits DOH from using one profession's fee revenues to pay for other professions' costs. Appropriating at the profession level helps prevent this from happening. Based on this, we did not change our recommendation.

# Appendix A: Initiative 900

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor’s Office to conduct independent, comprehensive performance audits of state and local governments.

Specifically, the law directs the Auditor’s Office to “review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.” Performance audits are to be conducted according to U.S. Government Accountability Office government auditing standards.

In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor’s Office evaluates the relevance of all nine elements to each audit. The table below indicates which elements are addressed in the audit. Specific issues are discussed in the Results and Recommendations section of this report.

I-900 element	Addressed in the audit
1. Identify cost savings	<b>Yes.</b> The audit identifies costs that have been charged to the healthcare professions but do not benefit them, and recommends the Department of Health (DOH) use funds other than user fees to pay for them. While this would be a cost reduction for the professions, the agency as a whole would not see reductions.
2. Identify services that can be reduced or eliminated	<b>No.</b> However, the audit recommends that for healthcare professions where fees do not cover costs, DOH must either increase fees or reduce licensing activities to comply with state law.
3. Identify programs or services that can be transferred to the private sector	<b>No.</b> The benefit of moving any licensing activities to the private sector was outside the scope of the audit.
4. Analyze gaps or overlaps in programs or services and provide recommendations to correct them	<b>Yes.</b> The audit identifies gaps in DOH’s fee-setting processes and recommends adopting a consistent fee-setting process that fully conforms to statutory requirements and incorporates leading practices.
5. Assess feasibility of pooling information technology systems within the department	<b>No.</b> The feasibility of pooling IT systems was outside the scope of the audit.
6. Analyze departmental roles and functions, and provide recommendations to change or eliminate them	<b>Yes.</b> The audit recommends DOH improve communication both internally and with healthcare professionals to make the fee-setting process more transparent.
7. Provide recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	<b>Yes.</b> The audit recommends appropriating at the profession level instead of the account level to promote transparency and compliance with state law. The audit makes additional legislative recommendations to find alternative funding for professions that do not fully cover costs and for the ongoing maintenance costs of the medical marijuana database.
8. Analyze departmental performance data, performance measures and self-assessment systems	<b>Yes.</b> The audit analyzed financial data for healthcare professions in conjunction with past fee adjustments, as well as projections for future financial performance. The audit recommends adopting clear policies to guide the agency’s use of these performance data to adjust licensing fees.
9. Identify relevant best practices	<b>Yes.</b> The audit identified best practices for setting user fees and allocating pooled costs.

## **Compliance with generally accepted government auditing standards**

We conducted this performance audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with generally accepted government auditing standards as published in Government Auditing Standards (December 2011 revision) issued by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix B: Scope, Objectives and Methodology

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## Scope

The audit included a review of Department of Health's (DOH):

- Process for setting healthcare professional fees. Specifically, the audit reviewed DOH's process for setting fees for:
  - New license/application
  - License renewals
  - Exams
  - Access to the University of Washington's medical library program otherwise known as HealWA
- Costs that are charged to the professions. The audit reviewed the methodologies used to allocate these types of costs to the professions:
  - Shared service unit direct costs that are allocated to the professions
  - Department-wide indirect costs that are allocated to the professions

The audit did not include a review of:

- DOH's facility licensing process. While DOH also licenses healthcare facilities, such as hospitals and clinics, the audit did not review those licensing fee processes.
- Other states' fee setting processes and licensing fee amounts. Regulation, fee collection and complaint investigation vary between states. For instance, the level of scrutiny states place on healthcare professionals varies widely. States also differ in how regulatory costs are paid for. While some states, like Washington, cover all costs through fees assessed to each healthcare profession, other states use general fund money to cover some portion of the costs. States also differ in the number and types of complaints they choose to investigate, which significantly affects the cost of the programs. For these reasons, the audit did not attempt to benchmark Washington's professional licensing fees to those of other states.

## Objectives

Some licensed healthcare professionals have expressed concerns about licensing fees being too high for their professions. To address these concerns, the Legislature mandated that the State Auditor's Office conduct a performance audit to review DOH's fee-setting process for each of the healthcare professions. The Legislature specifically directed the audit to include a review of:

- Each health profession's process for setting application, licensure, renewal, examination, and indirect fees
- The costs of running each health profession program or board
- How any moneys collected as indirect charges levied on a health profession are used by DOH
- Any DOH policies or procedures that have been adopted in an attempt to reduce the fee levels of any of the health professions

The audit addressed the legislative requirements by answering the following questions:

1. Has Department of Health set licensing fees for healthcare professions to reflect the costs of licensing those professions?
2. Are the licensing and disciplinary costs charged to healthcare professions consistent with state law and government guidance?

## Methodology

### Question 1

To establish criteria for setting user fees, auditors:

- Requested all policies and procedures DOH has implemented related to setting fees
- Interviewed staff to learn how DOH calculates revenue and expenditure projections, sets target reserves, and reviews and changes fees in practice
- Reviewed user fee guidance previously published by the federal Government Accountability Office, Government Finance Officers Association, the State Auditor's Office, and other states
- Compared this guidance with DOH's informal fee-setting process and identified gaps

To determine if DOH Health sets licensing fees for healthcare professions to reflect the costs of licensing those professions, auditors:

- Reviewed financial data maintained by DOH
- Identified professions with reserves that were negative, six months below target, or six months above target
- Interviewed department staff to identify reasons for why these professions had reserves that were significantly higher or lower than targeted

### Question 2

To determine whether DOH charged the professions only for direct service unit costs that benefitted them, we reviewed DOH's allocation methods for each of the service units to identify costs that did not appear to benefit the professions.

To determine whether DOH charged the professions equitably for direct costs, we reviewed the cost allocation methodologies to determine if they reasonably reflected each profession's use of these pooled services. We also verified whether the approved allocation methods were used to charge these costs to the professions. In the instances when DOH deviated from its methodology, we calculated the change in costs to the affected professions.

To determine whether DOH charged the professions only for the indirect costs that benefitted them, we:

- Reviewed the agency's indirect cost plan
- Compared this plan to state law, federal guidelines and other leading practices for indirect cost allocation
- Identified costs in DOH's indirect cost plan that did not appear to have a clear link to licensing and disciplining healthcare professionals
- Interviewed agency financial and program staff to learn about any licensing and disciplining benefits provided by these costs. We also interviewed staff at the larger healthcare commissions to learn their perspective on any potential licensing and disciplining benefits from those costs.
- Where DOH could not provide satisfactory explanation of benefits, we estimated how much the professions' costs would decrease if they did not have to pay for those indirect costs.

## Appendix C: Financial Status by Profession

This table shows the actual reserve balance for each profession as of June 30, 2017, as well as the Department of Health’s reserve projections for 2023. It also highlights the professions that were unable to cover their costs with fee revenue in 2016 and 2017. Figures shown in (red) indicate a profession that generated inadequate revenue from licensing fees to cover the profession’s costs. This table was compiled using financial data received from the Department of Health and is unaudited. To address our recommendation to publish the financial status of each profession, the agency could provide a similar table on a regular basis and provide easy access to interested parties.

Profession	2016			2017			June 30, 2017 Fund balance	DOH forecast June 30, 2023 Fund balance
	Revenues	Expenditures	Difference	Revenues	Expenditures	Difference		
Animal Massage Practitioner	\$12,055	\$6,372	\$5,683	\$18,203	\$18,731	(\$528)	(\$74,582)	\$22,938
Applied Behavior Analysis	\$0	\$31,541	(\$31,541)	\$202,492	\$189,852	\$12,640	(\$18,901)	(\$1,269,582)
Athletic Trainer	\$118,427	\$80,982	\$37,445	\$100,331	\$63,896	\$36,435	\$374,375	\$674,627
Chemical Dependency Professional & Trainee	\$896,635	\$1,427,782	(\$531,147)	\$932,567	\$1,401,823	(\$469,256)	(\$875,999)	(\$1,647,545)
Chiropractic Commission	\$1,262,807	\$1,404,879	(\$142,072)	\$1,228,868	\$1,666,656	(\$437,788)	\$1,797,982	(\$333,821)
Counselor - Agency Affiliated	\$529,676	\$829,391	(\$299,715)	\$598,717	\$998,738	(\$400,021)	(\$2,314,532)	(\$866,486)
Counselor - Certified	\$96,804	\$138,091	(\$41,287)	\$88,782	\$138,406	(\$49,624)	(\$1,540,144)	(\$1,570,234)
Dental Commission	\$3,318,293	\$3,277,621	\$40,672	\$3,399,885	\$3,853,126	(\$453,241)	\$4,055,196	\$3,513,941
Dental Hygienist	\$360,148	\$300,421	\$59,727	\$367,461	\$284,545	\$82,916	\$553,386	\$960,987
Denturist	\$321,760	\$297,546	\$24,214	\$280,046	\$265,487	\$14,559	\$452,355	\$356,587
Dietitian Nutritionist	\$125,812	\$77,441	\$48,371	\$112,853	\$87,802	\$25,051	\$316,540	\$636,027
East Asian Medicine Practitioner	\$302,216	\$171,967	\$130,249	\$309,075	\$204,195	\$104,880	\$849,629	\$1,675,504
Genetic Counselor	\$42,590	\$15,831	\$26,759	\$47,155	\$16,120	\$31,035	\$103,670	\$416,577
Hearing & Speech Board	\$514,635	\$374,215	\$140,420	\$406,595	\$353,281	\$53,314	\$1,088,397	\$1,759,484
Home Care Aide	\$1,012,450	\$3,336,978	(\$2,324,528)	\$3,139,751	\$3,682,817	(\$543,066)	(\$5,172,387)	(\$461,174)
Hypnotherapist	\$76,276	\$72,360	\$3,916	\$74,245	\$82,938	(\$8,693)	\$113,452	\$71,629
Marriage & Family Therapist & Associate	\$267,790	\$382,204	(\$114,414)	\$285,613	\$362,724	(\$77,111)	(\$151,229)	(\$311,634)
Massage Practitioner	\$1,128,092	\$1,642,356	(\$514,264)	\$1,404,928	\$1,451,339	(\$46,411)	(\$1,327,841)	(\$3,649,799)
Medical Assistant	\$2,864,448	\$2,916,060	(\$51,612)	\$2,230,325	\$3,254,022	(\$1,023,697)	\$1,425,746	\$7,515,191
Mental Health Counselor	\$892,822	\$1,011,020	(\$118,198)	\$782,012	\$904,931	(\$122,919)	\$723,233	\$244,539
Midwifery	\$93,240	\$176,418	(\$83,178)	\$94,922	\$195,346	(\$100,424)	(\$333,259)	(\$550,499)

Profession	2016			2017			June 30, 2017 Fund balance	DOH forecast June 30, 2023 Fund balance
	Revenues	Expenditures	Difference	Revenues	Expenditures	Difference		
Medical Quality Assurance Commission (MQAC)	\$8,493,370	\$8,637,939	(\$144,569)	\$8,690,284	\$9,296,641	(\$606,357)	\$5,938,819	(\$578,950)
Naturopathic Physician	\$461,293	\$555,634	(\$94,341)	\$489,801	\$641,935	(\$152,134)	\$290,670	\$758,589
Nursing Care Quality Assurance Commission (NCQAC)	\$8,968,027	\$9,062,425	(\$94,398)	\$9,461,588	\$9,586,291	(\$124,703)	\$2,751,905	\$16,731,948
Nursing Assistant	\$4,870,523	\$7,241,572	(\$2,371,049)	\$5,870,466	\$7,151,093	(\$1,280,627)	(\$7,119,608)	(\$11,057,091)
Nursing Home Administrator	\$247,240	\$356,723	(\$109,483)	\$244,803	\$375,815	(\$131,012)	(\$142,649)	(\$444,453)
Nursing Pool Operator	\$15,570	\$31,689	(\$16,119)	\$19,055	\$58,568	(\$39,513)	(\$47,944)	(\$101,869)
Occupational Therapist & Assistant	\$371,564	\$387,367	(\$15,803)	\$385,442	\$378,969	\$6,473	\$403,590	\$598,335
Ocularist	\$2,075	\$6,584	(\$4,509)	\$2,075	\$3,254	(\$1,179)	\$2,552	(\$10,922)
Optician & Apprentice	\$146,634	\$139,246	\$7,388	\$145,255	\$164,289	(\$19,034)	\$238,288	\$324,339
Optometrist	\$290,273	\$232,605	\$57,668	\$257,760	\$256,756	\$1,004	\$610,631	\$614,688
Orthotics & Prosthetics	\$56,356	\$30,559	\$25,797	\$53,384	\$46,084	\$7,300	\$316,162	\$364,495
Osteopathic Physician & Assistant	\$914,172	\$935,464	(\$21,292)	\$988,384	\$1,072,085	(\$83,701)	\$1,746,727	\$1,694,503
Pharmacy Commission	\$5,037,123	\$5,691,514	(\$654,391)	\$5,344,918	\$6,166,592	(\$821,674)	(\$1,022,650)	(\$4,586,334)
Physical Therapist & Assistant	\$626,704	\$808,837	(\$182,133)	\$504,568	\$818,915	(\$314,347)	\$615,818	\$543,733
Podiatrist	\$250,510	\$195,642	\$54,868	\$256,135	\$249,650	\$6,485	\$1,022,771	\$1,300,395
Psychologist	\$730,606	\$695,716	\$34,890	\$650,584	\$734,301	(\$83,717)	\$1,333,672	\$637,362
Radiologic Professions	\$542,643	\$401,814	\$140,829	\$561,201	\$411,775	\$149,426	\$669,431	\$2,119,384
Recreational Therapist	\$33,363	\$13,213	\$20,150	\$36,148	\$15,058	\$21,090	\$78,295	\$216,850
Respiratory Care Therapist	\$247,400	\$196,977	\$50,423	\$203,162	\$214,050	(\$10,888)	\$466,662	\$251,561
Sex Offender Treatment Provider	\$115,651	\$69,112	\$46,539	\$113,413	\$86,450	\$26,963	\$542,612	\$693,774
Social Worker & Associate.	\$607,248	\$503,594	\$103,654	\$567,401	\$527,899	\$39,502	\$966,847	\$2,089,517
Surgical Technologist	\$223,486	\$170,576	\$52,910	\$226,553	\$182,023	\$44,530	\$441,184	\$872,757
Veterinary Board	\$1,051,977	\$922,811	\$129,166	\$1,114,162	\$883,433	\$230,729	\$1,009,393	\$3,328,465
<b>Professions subtotal</b>	<b>\$48,540,784</b>	<b>\$55,259,089</b>	<b>(\$6,718,305)</b>	<b>\$52,291,368</b>	<b>\$58,798,701</b>	<b>(\$6,507,333)</b>	<b>\$11,158,265</b>	<b>\$23,548,330</b>

Profession	2016			2017			June 30, 2017 Fund balance	DOH forecast June 30, 2023 Fund balance
	Revenues	Expenditures	Difference	Revenues	Expenditures	Difference		
<b>Other impacts on the Health Professions Account</b>								
University of WA Library – HealWA	\$3,081,486	\$3,095,543	(\$14,057)	\$3,214,876	\$2,991,958	\$222,918	\$1,148,569	\$3,565,422
Medical Marijuana Database	\$0	\$1,406,225	(\$1,406,225)	\$0	\$1,568,096	(\$1,568,096)	(\$2,983,577)	\$372,837
HB 1427 Pain Management Proviso	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$268,780)
Other – Not specified	\$3,423	\$0	\$3,423	(\$6,720)	\$0	(\$6,720)	(\$0)	(\$2,901,036)
<b>Health Professions Account total</b>	<b>\$51,625,693</b>	<b>\$59,760,857</b>	<b>(\$8,135,164)</b>	<b>\$55,499,524</b>	<b>\$63,358,755</b>	<b>(\$7,859,231)</b>	<b>\$9,323,257</b>	<b>\$24,316,773</b>

Note: DOH forecast fund balance figures unaudited by the State Auditor's Office.

Data source: Department of Health.