

## 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?
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**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*
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**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*
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**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**

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