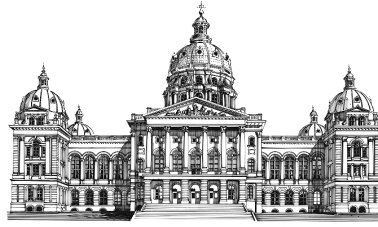


Iowa Legislative Fiscal Bureau

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Interdepartmental Billing

ISSUE

Examines the practice of billing State agencies for services provided by other State agencies.

AFFECTED AGENCIES

All Agencies

BACKGROUND

In addition to providing services to the citizens of Iowa, State agencies provide services to other State agencies. Many of these services are funded through a direct appropriation to the service-providing agency; others are funded through a form of repayment from the service-receiving agency. The authority for interdepartmental billing is established through various means including:

- Code of Iowa. The authority for agencies to charge one another may be written in the statute. For example, Section 11.5B, Code of Iowa, allows the Auditor of State to charge specific agencies for the cost of audits.
- Appropriations Acts. Agencies may be authorized to charge other agencies through language contained in appropriations acts. For example, HF 2545 (FY 2000 Administration and Regulation Appropriations Act) specifies that the Department of Inspections and Appeals may charge State agencies for services provided.
- Historical Agreements. Previous agreements, verbal or written, between agencies may determine which services and the rate services are billed.
- Administrative Rules. Administrative rules may be the authority to bill other agencies for certain services. For example, the Department for the Blind's fee for interpreting services is set in Rule 429, Chapter 2.4(216A).

The approach to funding services by administrative agencies has varied as there is a lack of uniformity regarding:

- How the services are funded. Some of the services are paid by interdepartmental billing and others are paid by direct appropriations to the service-providing agency.
- How payments are classified in the budget system. Payments may be deposited in a revolving fund or in General Fund categories including: refunds and reimbursements, intrastate transfers, intrastate reimbursements, or other.
- The amount of billings each year.

Some concerns that arise due to lack of uniformity include:

- It is difficult to track interdepartmental billings in the budget system. There does not appear to be consistent logic for why some services are funded through an appropriation and others are funded through charges paid by the service-receiving agency.
- Oversight of service-providing agency budgets is difficult. It is difficult to determine what portion of the budget is for overhead and what portion is necessary to provide services.
- Service-providing agencies could charge service-receiving agencies without authority, circumventing the legislative appropriations process.
- Some agencies are exempt from billing for the services they receive. As a result, the service-providing agency passes that cost on to agencies that are not exempt, including agencies receiving federal funds. Federal audits of these practices have led to the State having to refund the over-billing.

CURRENT SITUATION

Attachment A includes information compiled by the Department of Management and includes the following information:

- The service-providing agency
- The authority to bill another agency
- The methodology for billing: the service provided and how the cost is determined.

ALTERNATIVES

The General Assembly may wish to consider the following alternatives:

1. Appropriate funds for all administrative services to the agency receiving services. The agency which provides the service would be paid by the agency receiving the services.

Revolving funds could be established for all services or revolving funds could be abolished entirely. If all services were to be funded through intrastate transfer refunds and reimbursements, or intrastate reimbursements, clear guidelines would need to be adhered to regarding classification.

This alternative would reduce the potential for a service-providing agency to retain excess money in its budget, whether revolving funds or transfers were used for payment. However, it is possible that a service-providing agency could prioritize which agencies to provide service to, based on the service-receiving agency's ability to pay.

2. Appropriate funds for all administrative services to the agency that provides the service. Eliminate all payback provisions, including revolving funds and intrastate transfers, refunds and reimbursements, and intrastate reimbursements.

While this procedure would avoid paperwork and moving funds from agency to agency for redeposit into the General Fund, it would also eliminate cost controls. It may allow for excess in service-providing agency budgets when actual costs are not associated with and charged to a certain agency.

In addition, it would aggravate the problem of administrative agencies having to absorb reductions for other agencies. For example, the Department of General Services pays rent for other agencies, the Department has had to absorb budget cuts when anticipated rent increases for other departments are not fully funded.

3. Designate an agency board or council such as Executive Council or the Administrative Rules Committee to oversee and approve all interdepartmental billings.
4. Leave the system as is but provide clear guidelines regarding how to classify and track payments made by service-receiving agencies to service providers or require departments to report on all services and amounts for which they bill.
5. Set mandatory standard rates for services and require all departments to pay their share or provide an appropriation to the service-providing agency for agencies exempt from being charged.

BUDGET IMPACT

Table 1 is a breakdown of billing in FY 2000 by the service-providing agencies. The LFB asked each department to report the amount charged to other agencies. **Table 1** lists the departments that responded and the amounts they provided. The LFB is continuing collection of data from departments and billing amounts for FY 2000.

Table 1
FY 2000 Billing Amounts by Agency

<u>Service-Providing Agency</u>	<u>FY 2000</u>
Attorney General	\$ 6,709,016
Auditor's Office	2,536,081
Commerce	61,405
Corrections	69,636
General Services	29,437,299
Human Rights	7,880

The primary benefit of any revisions would be the ability to perform oversight. Potential fiscal benefits of charging service-receiving agencies include:

1. A reduction in General Fund requirements. When a State agency is funded largely from federal funds and other funds, reimbursements would be paid from these sources. This is already occurring, but more non-General Fund dollars could possibly be secured.
2. If standard rates for all agencies were established and implemented, the State could eliminate the overcharge and payback to the federal government experienced by several departments as a result of federal audits.
3. Efficiencies within service-providing agencies. If service providers were required to justify the amount charged to other agencies in terms of actual costs they would be forced to become more efficient in providing the services.

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DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
Attorney General	Past practice DOT CH 307.23 DHS CH 13.6 DRF CH 13.5 DPS Ch 80.1	Various. Each department negotiated individually, approximately 30-35 departments. In some cases, a flat rate has been negotiated for a specific annual amount. In some cases, actual expenses for the specific attorney's individual salary, travel, and other support costs is billed to the user department. Note: There is no overhead cost for Attorney General such as departmental accounting and other support costs, central library costs, and other central administration costs in any calculation.
Auditor of State	CH 11.5A 11A.5B	Total estimated costs divided by estimated hours of all FTE positions, less estimated vacation, sick leave, training and other administrative time. Rate includes a calculated direct cost and calculated indirect cost portions. Bill is actual time based on the calculated rate for each staff level. Note: Annual session law typically has language to allow appropriation to go negative during the year until bills are collected at year-end.
Blind	Past Practice	Bills Department of Education approximately \$95,000 for cost of Braille materials. Also has negotiated cost sharing agreements with Department of Economic Development and Vocational Rehabilitation.
Commerce Commission	Past Practice	Negotiated annual rate charged to Lottery for space occupied in Liquor warehouse space in Storm Lake. Also bills for space occupied by the Professional Licensing Division.
Education - Public Television	CH 256.85(6) CH 256.85(7)	Bills other State agencies for Iowa Communications Network room maintenance; satellite downlinks; tape dubs and production services. Room maintenance fees are based upon a percentage of the cost of equipment in a standard ICN classroom. Satellite downlinks and tape dubs are billed based upon a rate card. The rate card is calculated by using actual staff time costs and prorated costs of equipment with added charge for overhead. Production services are based on a rate card but are negotiated based on services requested.
Inspection and Appeals	CH 10A.107	Average hourly rate per class of person is developed at the beginning of the year. Rate includes anticipated salaries, travel, expenses, and indirect costs. Indirect costs added based on departmental Indirect Cost Allocation Plan. Actual hours billed at calculated hourly rate.
General Services - Administration	N/A	Hoover receptionist Blanket Bond

DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
General Services - Building Services	N/A	Request for services Contract services Recycling (RFS) Leasing
General Services - Capitol Complex Maintenance	N/A	Request for services Utilities
General Services - Design & Construction	N/A	Vertical Infrastructure Project management fees
General Services - Mail	N/A	Postage
General Services - Vehicle Dispatcher/Pool Cars	CH 18.119 CH 18.115 (7)	Calculated rate based on actual operations costs, insurance, and depreciation.
General Services - Vehicle Dispatcher-Dept Cars	CH 18.119	Actual costs based on General Services Vehicle Dispatcher costs, depreciation, actual maintenance costs, and actual operational costs.
General Services - Vehicle Dispatcher Risk Mgt	CH 18.119	Accident billing if State employees are at fault are billed actual expenses up to deductible maximum of \$500. Amount refunded to department if recovered from insurance company.
General Services - Buildings and Grounds	Past practice CH 18.3 (7)	Certain specific code sections require Buildings and Grounds to provide service but do not specify billing allowability. Billing for a variety of services including locksmith, space planning, building maintenance, environmental testing, painting, electrical, construction management, restoration, emergencies, architects, and others. Billings vary by specific type of service and by specific agreement with affected departments.
General Services - Printing	CH 18.57	Calculation done based on budgeted cost of operations divided by estimated impressions by types of machines to arrive at rate. No charge on outsourced printing. Note: Three administrative people on appropriation C21 funded 75% by general fund, 25% in revolving rate calculation. Redistributed in payroll cycle through payroll redistribution.
General Services - Rent Revolving	CH 18.16	Statute calls for Rent Revolving Fund, however funds billed to departments are deposited to appropriation for rental payments. Departments are billed amount of agreement to pay rental amount in a specific agreement. No additional overhead billed.

DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
Iowa Communications Network	CH 8D.3 (i)	Modified activity-based costing system calculated to develop a rate per type of service. For each type of service, direct and indirect equipment costs are identified to the service, as well as direct and indirect personnel and support costs. Allocated direct and indirect costs are translated into a rate per hour per type of service.
ICN State Telephone Billing	CH 8D.3 (i)	All bills received from phone companies are redistributed to departments on a 100% basis. No additional indirect or direct costs except phone charges are rebilled.
Iowa Technology Services	Past practice	Rate is developed through consideration of start-up costs, equipment, licensing cost over the life of the project combined with current operational costs. Billing rates vary by types of service but are also altered by past billing practices, agreements, prior negotiations. These variations can differ across funding sources.
General Services-Micrographics	Past practice	Similar system to General Services Printing. Impressions by type of equipment considering total direct costs of operations. Three or four individuals in costs. Estimate of revenues is reduced from C21 appropriation request.
General Services - Mail	CH 18.8	Mail billed on an actual basis plus administrative fee on a flat rate per piece of presorted mail. Administration to fund 0659, actual cost reimbursement to fund 0660. Rate based on estimated direct expenses of mail operation.
General Services - Purchasing	CH 18.9	Budget is reviewed periodically and estimated purchases to be run through General Services Purchasing are calculated. An administrative expense percent is calculated (currently 1%) and charged each time an item covered by General Services Purchasing is made. Exceptions made as to who pays the charge based on type of contract and amount of claim, also TSB under \$5000 no administration paid.
General Services - Building Security Hoover	Departmental agreement	General Services pays monthly direct bill on security services in Hoover Building. Departments in building are billed the total direct cost times the percent of occupancy of the building.
General Services - Supply	CH 18.9	Departments are billed for 100% of billing from BT. These funds are deposited to fund 0659. BT supply is paid 99% of funds collected. Difference between funds bill and funds paid remains in fund 0659 and increase fund equity.
Human Services	CH 216A.177	Deaf services sign language interpreting services to other State agencies. Fees range from \$20 to \$30 per hour depending on type of setting (legal, medical, employment). There is a one hour minimum charge. Fiscal Year 2000 Vocational Rehabilitation \$570 and Human Services \$565.

DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
Inspections and Appeals	N/A	Bills for salary costs of administrative hearings. Detail by department is available.
Personnel - Administration	CH 19A.8 (8)	Total quarterly costs of department not recovered to appropriations under the methodologies and billings described below divided by covered employees in a quarter. Cost per employee times non-general fund percentage of payroll is billed to recover non-general fund percent of covered costs.
Personnel- Workers Comp	CH 19A.32	Departments are classified by type of business using insurance rules. A premium is then calculated based on rate per \$100 of payroll cost. Rate is adjusted by department based on percent of general funding allocated from an appropriation received by the departments to cover departments funded in whole or in part with general funds. Since the appropriation is insufficient to cover general fund liabilities, departments are charged based on a rate adjusted after general fund credit is allocated. Costs covered are estimated Workers Compensation expenditures and some direct costs such as travel.
Personnel-Collective Bargaining	Past practice	Total cost of collective bargaining estimated per year. Departments are billed estimated total costs on a pro-rata basis for employees covered under the various negotiated contracts.
Personnel-STAR Awards (currently inactive)	Past practice	Cost was estimated at \$20,000. All departments above 50 employees allocated a cost based on FTE. Departments under 50 paid a flat \$50 fee. No legislature or Regents. Some departments chose not to participate and did not pay.
Personnel-Workforce Planning Coordinator	Past practice	All departments less CBC, Legislature, Courts, and Regents bill on a pro-rata basis as a percent of their operating budgets for estimated cost of the position and related expenses. Amount of bill is adjusted to limit billing to amount paid in previous years.
Personnel-EAP	Past practice	Two methods possible. Pay actual usage on a bill back basis or pay an amount beginning of year based on a per-capita amount estimated to cover cost of program less actual usage billed in first option.
Personnel-Child Care	CH 19A.8. (8)	Cost of \$4.26 per month per participant based on estimated direct costs of the program. If participant also has flexible spending, no additional charge. One per month fee.
Personnel-Health Flexible Spending	CH 19A.8	Cost of \$4.26 per month per participant based on estimated direct costs of the program.
Personnel-Iowa Mgmt Tng System	CH 19A.12	Costing calculated annually and considers direct costs such as contractor costs, travel and supplies, divided by anticipated numbers in class. Each class may or may not have an overhead factor to pay room rents, VCR rents, RFP costs, publication costs, etc. Per <u>Code of Iowa</u> , no State employee salary is charged. Fund carrying relatively large balance to pay anticipated costs of reservation system upgrade.

DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
Personnel-Combined Charitable Campaign	CH 19A.12A	The <u>Code of Iowa</u> allows up to 5% of contributions to be used for expenses of administration, not to include salary expenses. Over the last five years, revenues are about 400% of expenses. Large fund balance.
Prison Industries	CH 904.813	Currently have a manufacturing system that considers raw materials and an overhead rate for indirect and direct cost. Changing to a more sophisticated manufacturing system that applies raw materials and a direct labor rate by production line. All costs considered, depreciation calculated and used for equipment, trucks, etc. No Anamosa building cost, some for lights. Buildings may have some cost in other locations.
Woodward Warehouse	CH 218.100	Product billed at cost plus 8.5%. A State inventory system is used to cost the goods in the warehouse. Overhead cost is reviewed and recalculated periodically and included 1% General Services administration cost plus salary, equipment, supplies, etc of warehouse staff. Indirect overhead is limited, such as 20% of an accountant's time, no indirect salary above that level.
DRF-Indirect Cost Allocation Plan	CH 421.17(33)	Indirect costs are determined and allocated to departments under the provisions of OMB Circular A-87. Departments allocate indirect costs among funding sources and pay the General Fund indirect costs allocated to non-General Fund funding sources. Indirect billings to non-General Fund funding sources include space, utilities, security, janitorial, payroll, accounting, Treasurer, and other central services that may also have a direct component billing piece.
DRF-Unemployment Billing	CH 967d	Funds paid in total from appropriation and then all non-General Fund funding sources are filled on a percentage basis to recover the portion of the bill not funded by the General Fund.
DRF-Income Offset	CH 421.25(f) CH 421.17 (30)	Direct costs of processing recalculated periodically and converted to a direct charge per warrant offset actually taken. Current rate is \$4 per offset taken. Offsets taken and released are not charged.
DRF-Admin billing	Past practice	Billing to Lottery as a percent of salary for time spent on administrative services by DRF administrators.
DRF-Centralized Collections	CH 421.17 (34g)	Anticipated direct expenses such as salary, supplies, telephones, etc., are compared to anticipated collections. Rate (currently 10%) is then applied against all collections for the year. Depending upon direct cost and collection variances, actual expense collection may be slightly above or below actual cost.
Secretary of State-Liens	Past practice	Charge of \$6 per month per user to access Uniform Commercial Code and Corporation data bases. Rate is determined by a nominal review of the cost of setting up and maintaining users, user access, and running a help desk. Note: same information is available through internet access at no cost, department wants to move to eliminate 3270 access and only provide internet capabilities.

DEPARTMENT CREATING BILLING	STATUTORY AUTHORITY	BILLING METHODOLOGY
Legislature-Bill Packets	Past practice	Departments and other customers pay front-end cost of \$250 to receive bill packets each session. At session end, actual printing costs related to creating the bill packets are determined and all customers are assessed an additional charge. Customers are approximately 1/2 State departments and 1/2 other interested parties such as lobbyists.
Public Safety- Criminal	CH 99E.10.1.d	Contract signed between Lottery and Division of Criminal Investigation to provide investigating criminal violations of the law; investigative services, support personnel, and equipment. Cost is about \$138,000 per year.
Public Safety- Attorney General	28E Agreement	Provides for reimbursement for one special agent to investigate environmental crime.
Public Safety- Public Defense	28E Agreement	Reimbursement for telecommunications line charges providing co-location of disaster centers and law enforcement.
Public Safety- Public Defense	Past practice	Reimbursement for expenses associated with disaster preparedness exercises.
Public Safety- Inspections and Appeals	Federal pass-through grant from Health Care Finance Authority	Reimbursement for expenses incurred in performing fire inspection of health care facilities.
Public Safety- Corrections	28E Agreement	Investigations of activities within the State's penal institutions.
Public Safety-Background Check Racing and Gaming and Human Services	CH 692.2 (6) CH 99D.8A	Based on previous year's activities, estimated number of requests for background checks and the direct cost of time/effort necessary to complete them. Currently flat fee of \$13.00 for mail back, \$15.00 for fax back, and \$50.00 for volunteer record check.
Public Safety- Regents; Judicial Districts; Corrections	Past practice	Billings for terminal connections to the Iowa on-line warrants and articles system to pay for communications costs.
Management-Appeal Board	CH 25.1.2(b)	May impose a processing fee and a fee to reimburse the Office of the Attorney General for costs of claim investigation against the State agency which incurred the liability of the claim. Cost imposed is \$5 per every general claim filed, whether approved or not. Amount apparently has no basis in true cost, but is rather a method used to provide an incentive to process claims promptly and not use the Appeal Board process.