

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON HUMAN SERVICES & AGING

Call to Order: By **CHAIRMAN DOROTHY BRADLEY**, on January 10, 1991,
at 8:05 a.m.

ROLL CALL

Members Present:

Rep. Dorothy Bradley, Chairman (D)
Sen. Mignon Waterman, Vice Chairman (D)
Rep. John Cobb (R)
Rep. John Johnson (D)
Sen. Tom Keating (R)
Sen. Dennis Nathe (R)

Staff Present: Taryn Purdy (LFA), Dan Gengler (OBPP) and Faith Conroy, secretary.

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion:

HEARING ON THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES (DHES) BUDGET

Dennis Iverson, DHES Director, provided an overview of the Department, stressing that it is like two separate departments with distinct missions. Environmental policies are becoming more aggressive and more than \$430 million in construction permits are in process in the Air Quality Bureau. He estimated the value of the Department's regulatory and oversight functions at more than \$600 million.

He stressed the importance of providing higher pay and better equipment. He described the proposed budget as adequate, but said there will be some issues with it.

Taryn Purdy, Legislative Fiscal Analyst, distributed and reviewed copies of DHES Director's Office and Centralized Services budget comparisons, modified budgets for a personnel officer, legal services charge system, support staff, newborn PKU screening and safe drinking water. **EXHIBIT 1-4**

SEN. KEATING said he wanted to know how much money would be spent on a program, not just differences between the LFA and executive budgets, so the subcommittee could determine whether a program justifies its expenditure.

SEN. WATERMAN asked if it were possible to get copies of budget summaries a day in advance to allow more time for review. **Ms. Purdy** said she would try to have the documents available by the end of the day before discussion takes place.

DIRECTOR'S OFFICE

Bill Opitz, DHES Deputy Director, provided an overview of the Director's Office, which comprises four parts and employs 14 people. The turnover rate in the Environmental Sciences Division approached 33 percent in the last biennium, and the Department hired a personnel officer for recruiting. The Department is seeking approval to continue the position and approval of a medical unit that includes a doctor and a dentist.

SEN. NATHE sought clarification on the differences between the LFA and executive budgets regarding DHES reorganization.

Ms. Purdy explained that only operating expenses in Centralized Services were impacted and that the LFA and executive budgets used the same base to calculate personal services and the number of full-time equivalent (FTE) employees.

Referring to page B-14 of the LFA budget analysis, **Ms. Purdy** noted that the dental unit was transferred to the Director's Office from the Health Services' Preventative Health Bureau. The proposed medical director would serve as an adviser to the director, who, by law, no longer has to be a medical doctor.

She said the medical director's position was not included in the LFA budget and the executive budget proposes to fund the position with approximately \$50,500 in General Fund money and just under \$17,000 from the Maternal and Child Health Care block grant.

She said the executive budget originally eliminated the administrative officer position, which had been vacant since last March, but later agreed to include the position.

The 1989 Legislature directed the Department to fund its legal services charge system by having programs directly pay their share of the costs. Previously, the legal unit was financed by the General Fund, with any charges to the programs deposited to the General Fund. The modified budget calls for a contingency for programs financed by the General Fund.

Dan Gengler, Office of Budget and Program Planning, said the executive budget fully funds all known federal grants to avoid an over-reliance on the budget amendment process. The amount of federal grant money available to the state can be targeted. A number of other grants have been awarded to the Department since the executive budget was put together so Department officials will be making budget requests based on the anticipated funds.

Mr. Gengler said the LFA and executive budgets generally used the

same methods to calculate indirect costs, and differences are due to the executive budget assuming reorganization of DHES and proposed program expansions.

SEN. KEATING asked if there was much difference in the inflation factors used in the executive and LFA budgets and if the differences would be highlighted. **Mr. Gengler** said in some situations and agencies there will be major differences, but in the Department of Health, figures won't be that much different. The LFA analysis will highlight the differences.

SEN. KEATING asked if there is much difference in vacancy savings in the LFA and executive budgets. **Mr. Gengler** said the two budgets use the same basis for vacancy savings.

Mr. Opitz told the subcommittee the Department would prefer to have two half-time doctors and an administrative assistant with contract monies to develop dental policy issues. Three people have applied for the dentist position, but hiring will be postponed until the Legislature makes a decision. There had been four and three-fourths FTE positions in the Health Planning Bureau. One FTE was proposed for the medical adviser position in the Director's Office, while the proposal for 1992-93 was for two and one-quarter FTE in the health planning unit, which will become part of the Health Services Division administration.

SEN. NATHE asked why the Department needed a dentist and whether the money should be spent on a half-time doctor instead, noting that he believed it is more appropriate for county public health nurses to provide school dental services.

Mr. Opitz stressed the importance and cost-effectiveness of prevention, noting that the dentist assists in screening clinics at schools and works with local dentists. Doctors and dentists also like to talk to their peers.

SEN. NATHE asked what the state dental program comprised. **Mr. Opitz** said the state is involved in the fluoride rinse program and screenings by local dentists.

SEN. KEATING asked if that dental officer carried out the policies and regulations of the Board of Dentistry or just Health Department policies. **Mr. Opitz** said the dentist is knowledgeable of what the dental board is doing and works with the Dental Association. He said the department had looked at having an administrative assistant instead of a dentist, but prefers a dentist.

CHAIRMAN BRADLEY asked **Mr. Hoffman** to explain how he arrived at the legal services charge system's modified budget proposal.
EXHIBIT 2

Mr. Hoffman provided a brief financial history of the legal unit, stressing that the monies are not contingency funds. He estimated

about 50 percent of the legal charges could be charged back to other federal programs using the services.

Mr. Hoffman explained that 80 percent of the money for the dentist program comes from the Maternal Child Health Care block grant, which specifies dental services for children, and 20 percent comes from the General Fund for services for the elderly. The grant money would have to be reallocated to a service within the bounds of the grant if the dental position is not funded.

Mr. Hoffman said 70 percent of the indirect costs that come into the agency are federally funded and about 30 percent comes from state funding sources, including the General Fund. There are no vacancy savings in the LFA or executive budgets.

CENTRALIZED SERVICES DIVISION

Mr. Hoffman provided an overview of the Centralized Services Division. EXHIBIT 5

Tape 2

Mr. Hoffman noted that federal grants awarded to the Department account for proposed budget increases. Department officials will seek additional budget increases when notified of additional federal grant awards.

Mr. Hoffman introduced the department's bureau chiefs.

Chuck Stohl, Support Services Bureau Chief, testified. EXHIBIT 6

Sam Sperry, Vital Records-Statistics Bureau Chief, testified. EXHIBIT 7

Doug Abbott, Public Health Laboratory Bureau Chief, testified. EXHIBIT 8. He noted there was a \$50,000 difference in supplies between the LFA and executive budgets.

John Hawthorne, Chemistry Laboratory Bureau Chief, testified. EXHIBIT 9

Ms. Purdy referred the subcommittee to page B17 in the LFA budget analysis, noting that lab income provides a significant portion of the support for both labs and that the LFA and executive budgets assume increases in lab income. She added that the Department will be reviewing the fees charged to ensure they accurately reflect test costs. **Ms. Purdy** noted that General Fund money is used to finance services that cannot be recovered through fees. The LFA and executive budgets are based on different assumptions regarding vital statistics income in the Records and Statistics Bureau.

Mr. Gengler said the executive budget proposes an additional staff position for the Chemistry Lab to provide additional

testing required by the Safe Drinking Water Act, and an additional staff position for the Public Health Lab is under discussion.

Ms. Purdy noted proposed increases in travel to finance an additional trip to Washington, D.C. **EXHIBIT 3**

Ms. Purdy said the contingency fee referred to by **Mr. Abbott** is included in the executive budget, but not the LFA budget. The options are to not include the contingency fee in the budget, put it in at \$50,000 per year, or go with past appropriation policy, which was to have one \$50,000 biennial appropriation. She noted that the amount is for additional spending authority in case additional testing is needed.

Ms. Purdy also reviewed remaining program and funding issues contained in **EXHIBIT 3** and said the executive's modified budget addition would add one FTE to the newborn PKU testing budget. The comparison sheet inadvertently omitted \$47,000 for equipment. Additional personnel also would be added to the Public Health Laboratory budget to handle increased water testing.

SEN. KEATING asked if one-time expenditures from the last biennium were included in the LFA's budget. **Ms. Purdy** explained that a large equipment purchase last biennium had been zero-based for the 1992-93 biennial budget and that the current adjustment to the budget was for increased maintenance contracts. Modifications were continued in the executive and LFA budgets to cover permanent increases in testing by the labs.

SEN. KEATING asked whether the contingency fund for the laboratory was actually just spending authority. **Ms. Purdy** said yes. The spending authority would be used only if necessary and language could be added to restrict spending authority.

SEN. NATHE asked if the state was buying a lot of equipment for tests that could be performed by other labs around the state. **Mr. Abbott** said lab consolidation had been considered during past sessions. But each time, significant duplication wasn't found, and surveys show equipment at other labs are at maximum use.

SEN. NATHE asked where the money was coming from to buy equipment to comply with the Safe Water Drinking Act. **Mr. Hoffman** said equipment purchased for the lab for the last six years has been fully funded by fees, not the General Fund.

REP. COBB asked about the turn-around time on lab tests, and whether the labs could charge higher fees to cover test costs for people not charged a fee. **Mr. Abbott** said turn-around time has been a problem because of the inability to retain and hire trained staff. **Mr. Hoffman** noted that the reason the department can't hire trained staff is because pay levels are not comparable to private industry. **Mr. Abbott** said people are charged fees based on their ability to pay and the labs are restricted from

charging more than the test actually costs. The General Fund covers the difference and estimated more than 60 percent of the patients served are low-income people. **Mr. Hawthorne** said turn-around time is slowed in the chemistry lab because analyses are not easy to perform and the bureau doesn't have adequate staff.

SEN. NATHE asked what would happen if restrictions were lifted so that the lab could charge more than cost for tests. **Mr. Hoffman** said he believes the labs could become self-supporting if allowed to hire enough staff and needed equipment, and that the amount of General Fund money needed to finance the labs could be reduced. However, he predicted there would be opposition if the state's labs were allowed to compete with private industry.

SEN. WATERMAN asked if **Mr. Hawthorne's** request for additional personnel is in anyone's budget. **Ms. Purdy** said it is in the executive's budget as a modification in the safe drinking water section.

Paulette Kohman, Director of the Montana Council for Maternal and Child Health, testified that Montana should add a Cooperative Center for Health Statistics to the Bureau of Vital Statistics, to be staffed by an epidemiologist. **EXHIBIT 10**

REP. JOHNSON asked if the existing Bureau of Vital Statistics could handle this. **Mr. Sperry** said it was difficult to say because he was not sure he understood the concept being discussed. However, in general, additional staff and resources would be needed. **CHAIRMAN BRADLEY** said the issue will come before the subcommittee through a separate appropriations bill, and recommended discussion be postponed on the matter until that time.

CHAIRMAN BRADLEY recommended the subcommittee use the LFA funding base when considering appropriation policy issues. Computer network charges and inflation would be decided by Appropriations Committee policy and factored in later.

CHAIRMAN BRADLEY offered clarification on the number of FTEs in the executive budget. She said the budget summary indicates 11 but the number is actually 13.

CHAIRMAN BRADLEY said the subcommittee will vote on two FTEs and assumes the legal position is included. The question to be resolved later is whether the position will be in the Department of Natural Resources and Environment (DNRE) or Health if reorganization does not take place.

CHAIRMAN BRADLEY said one of the two positions to be voted on is the administrative officer slot, which is vacant, and the other is the medical director. She referred to program issues on **EXHIBIT 1**. Other votes involve the legal services charge system and whether the personnel officer position should be approved. The final vote will be on personal services, operating expenses

and fund sources. **CHAIRMAN BRADLEY** suggested the subcommittee vote for the LFA, to be adjusted accordingly for both years, 1992 and 1993.

Ms. Purdy said the original budget modification funded the personnel officer with indirect charges in the Health Department. When the person was moved to DNRE under proposed reorganization, the position was to be funded with fees in air quality, solid hazardous wastes and other state special revenue. She suggested the subcommittee vote on whether to have the position and then decide funding once the issue of reorganization is resolved.

Mr. Hoffman said the position was already filled through a budget amendment five months ago. **CHAIRMAN BRADLEY** clarified that the personnel officer position would be the 14th FTE.

Mr. Opitz further explained to **SEN. WATERMAN** that the administrative officer position was previously authorized but remained vacant. The personnel officer position had not yet been authorized, but the person was already hired.

REP. JOHNSON asked if subcommittee members were considering the budget as if reorganization had not taken place.

CHAIRMAN BRADLEY said yes. Additional information about various funds would be available from **Ms. Purdy**. **CHAIRMAN BRADLEY** reminded subcommittee members that budget modifications have a mixture of funding sources, not only the General Fund.

CHAIRMAN BRADLEY said the subcommittee would start with the LFA budget funding base and 11 FTEs, and that the legal position would be included.

EXECUTIVE ACTION ON DHES DIRECTOR'S OFFICE

CHAIRMAN BRADLEY called for a motion on the addition of one FTE in the Director's Office for a medical director.

DISCUSSION: **SEN. KEATING** asked if the medical director position is included in the FTE positions discussed earlier. **Ms. Purdy** said it is in the executive budget, not the LFA budget. The executive budget does not include the administrative officer position as does the LFA budget.

SEN. KEATING asked if the subcommittee would be increasing the General Fund by \$100,000 for the biennium if the medical director position were approved. **Ms. Purdy** said the General Fund would remain at about \$160,000 in the executive budget and that \$50,000 per year would be added to the \$102,000 LFA budget, so that the two would be virtually the same.

Motion: **SEN. NATHE** moved that the subcommittee approve 14 FTE in the Department of Health and Environmental Sciences Director's Office and that one of the 14 FTE be the medical director.

AMENDMENTS: REP. COBB amended the motion, moving that the medical director's position be funded as part of the budget.

VOTE: The motion PASSED 5-1, with REP. COBB voting no.

REP. COBB explained after voting against his own motion that he had made the motion to help speed up proceedings.

CHAIRMAN BRADLEY asked for a second motion on the vacant administrative officer position in the executive budget.

MOTION: REP. JOHNSON moved that the position be included.

DISCUSSION: CHAIRMAN BRADLEY explained that the position was a local liaison and efforts to fill the position failed. The LFA policy is to exclude positions that have been vacant more than six months. The fiscal analyst didn't realize the position had been vacant for six months and included it in the LFA budget. The question was, had the Department justified the position. She noted that the Department failed to convince the executive at first, then the position was added to the executive budget.

Ms. Purdy said she would draft language to clarify that the Director's Office would have 14 FTE if the subcommittee approves the administrative officer position.

VOTE: The motion FAILED on a tie vote, 3-3. REP. COBB, SEN. NATHE and REP. JOHNSON voted no.

CHAIRMAN BRADLEY asked for a motion on the modified budget addition for the legal services charge system.

SEN. KEATING asked if the subcommittee was still dealing with General Fund dollars.

CHAIRMAN BRADLEY said yes. Half of the cost of the legal unit must be charged against Department Divisions financed by the General Fund.

MOTION: REP. COBB moved that the subcommittee approve the legal services charge system.

VOTE: The motion PASSED unanimously.

CHAIRMAN BRADLEY asked for a motion on the request to continue the personnel officer position.

Ms. Purdy explained that the position was not in the LFA or executive budgets but would be added through the modified budget. She noted the position was created through a budget amendment after the last legislative session.

HOUSE HUMAN SERVICES & AGING SUBCOMMITTEE

January 10, 1991

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MOTION: SEN. KEATING moved to approve the personnel officer position.

VOTE: The motion PASSED, 4-2, with REP. COBB and REP. JOHNSON voting no.

CHAIRMAN BRADLEY asked for a motion on personal services.

MOTION: REP. COBB moved to adopt the LFA personal services figure for 1992-1993, to be adjusted for actions previously taken by the subcommittee.

VOTE: The motion PASSED unanimously.

CHAIRMAN BRADLEY asked for an identical motion for operating expenses.

MOTION: REP. COBB moved that the subcommittee adopt the LFA operating expenses figure for 1992-1993, to be adjusted for actions previously taken by the subcommittee.

VOTE: The motion PASSED unanimously.

CHAIRMAN BRADLEY said a motion was needed for fund sources.

MOTION: SEN. KEATING moved to accept the LFA's fund sources.

VOTE: The motion PASSED unanimously.

CHAIRMAN BRADLEY said Central Services would be the first item on the agenda at the next hearing.


Mr. Hoffman distributed information on indirect costs for prior review. EXHIBIT 11-13

ADJOURNMENT

Adjournment: 11:40 a.m.



REP. DOROTHY BRADLEY, Chairman



FAITH CONROY, Secretary

HOUSE OF REPRESENTATIVES
HUMAN SERVICES SUBCOMMITTEE

ROLL CALL

DATE 1/5/91

NAME	PRESENT	ABSENT	EXCUSED
REP. JOHN COBB			
SEN. TOM KEATING			
REP. JOHN JOHNSON			
SEN. DENNIS NATHE			
SEN. MIGNON WATERMAN, VICE-CHAIR			
REP. DOROTHY BRADLEY, CHAIR			

HR:1991
CS10DLRLCALHUMS.MAN

EXHIBIT 1
DATE 1-10-91
HB

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	11.00	11.00	12.00	1.00-	11.00	12.00	1.00-
Personal Services	393,560	465,464	457,677	7,787	464,850	457,038	7,812
Operating Expenses	105,544	138,810	113,386	25,424	140,469	113,565	26,904
Equipment	1,250	0	0	0	0	0	0
Total Expend.	\$500,354	\$604,274	\$571,063	\$33,211	\$605,319	\$570,603	\$34,716
<u>Fund Sources</u>							
General Fund	213,500	162,581	101,989	60,592	162,694	101,801	60,893
State Revenue Fund	5,697	0	0	0	0	0	0
Federal Revenue Fund	55,370	93,087	70,094	22,993	93,632	69,927	23,705
Proprietary Fund	225,787	348,606	398,980	50,374-	348,993	398,875	49,882-
Total Funds	\$500,354	\$604,274	\$571,063	\$33,211	\$605,319	\$570,603	\$34,716

LFA Current Level Analysis Reference: page B-14
Executive Budget Summary Reference: page 73
Executive Budget Narrative Reference: page 5

---Exec Over (Under) LFA---

Current Level Issues

Reorganization Issues
1. The executive budget transfers 1.0 FTE legal staff to the proposed Department of Natural Resources and Environment.
Proprietary Income (1.0) (\$24,195)(\$24,196)

2. Difference in indirect charges \$17,885 \$18,054

Appropriation Policy Issues
1. Difference in the funding base \$3,495 \$3,597
2. Difference in computer network charges \$4,301 \$4,302
3. Inflation (\$257) \$951

Program Issues
1. Medical Director - The executive budget includes 1.0 FTE medical director to advise the department director on medical issues.
General Fund 1.0 1.0 \$50,558 \$50,516
MCH Block Grant \$16,852 \$16,839

2. Vacant Position - The executive budget deletes 1.0 FTE due to extended vacancy.
Proprietary Funds (Indirect Charges) (1.0) (1.0)(\$35,428)(\$35,347)
The adjusted Executive Budget includes this position.

Total (1.0) (1.0) \$33,211 \$34,716

Executive Budget Modified Additions

1. Legal Services Charge System \$82,897 \$82,897
General Fund
2. Personnel Officer 1.0 1.0 \$26,612 \$26,553

EXHIBIT 2
DATE 1-10-91
HB

Exhibit # 2
1/10/91
H Serv. Subc

MODIFIED BUDGETS

Department of Health and Environmental Sciences

Personnel Officer

This budget modification continues 1.0 FTE personnel specialist added via budget amendment in fiscal 1990. The position would assist in handling increased workload resulting from program expansion and staff turnover. The FTE, which would be funded with proposed solid waste management and air quality fees and the environmental quality protection fund, would assist in personnel matters and serve as payroll backup. This position is added to the proposed Department of Natural Resources and Environment in the Executive Budget.

<u>Object of Expenditure</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
FTE	1.00	1.00
Personal Services	\$25,743	\$25,743
Operating Expenses	<u>810</u>	<u>810</u>
Total	\$26,553	\$26,553
 <u>Funding</u>		
State Special Revenue	\$26,553	\$26,553

MODIFIED BUDGETS

Department of Health and Environmental Sciences

Legal Services Charge System

Beginning in fiscal 1992, the Legal Unit is to be funded from charges made to the programs using its services. This modification adds \$82,897 of general fund each year of the 1993 biennium as a contingency to pay for legal service costs charged to agency programs supported by the general fund.

<u>Object of Expenditure</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Operating Expenses	\$82,897	\$82,897
 <u>Funding</u>		
General Fund	\$82,897	\$82,897

5301 DEPT HEALTH & ENVIRON SCIENCES
02 CLNTRAL SERVICES
00000

DATE : 01/08/91
TIME : 21/29/24
CURRENT LEVEL COMPARISONS

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	60.50	56.50	60.50	4.00-	56.50	60.50	4.00-
Personal Services	1,449,092	1,504,711	1,589,127	84,416-	1,504,462	1,588,882	84,420-
Operating Expenses	703,833	808,782	711,702	97,000	804,994	706,386	98,608
Equipment	244,947	33,927	0	33,927	1,927	0	1,927
Total Expend.	\$2,397,872	\$2,347,420	\$2,300,909	\$46,511	\$2,311,383	\$2,295,268	\$16,115
<u>Fund Sources</u>							
General Fund	598,318	684,091	636,226	47,865	686,065	635,162	50,903
State Revenue Fund	932,017	869,370	793,810	75,560	830,122	787,748	42,374
Federal Revenue Fund	161,643	171,753	170,237	1,516	170,896	170,182	714
Proprietary fund	705,894	622,206	700,636	70,430-	624,300	702,176	77,876-
Total Funds	\$2,397,872	\$2,347,420	\$2,300,909	\$46,511	\$2,311,383	\$2,295,268	\$16,115

LFA Current Level Analysis Reference: page B-17
Executive Budget Summary Reference: page 73
Executive Budget Narrative Reference: page 13

Current Level Issues

- Reorganization Issues
1. The Executive Budget transfers 4.0 FTE staff and \$5,000 in operating expenses to the proposed Department of Natural Resources and Environment.
Proprietary Income (Indirect Charges)
2. Difference in indirect charges

- Appropriation Policy Issues
1. Difference in the funding base
2. Difference in computer network charges
3. Difference in inflation

Program Issues

1. The Executive Budget includes travel to negotiate indirect cost rates and procedures
Proprietary Funds (Indirect Charges)
2. The Executive Budget includes \$50,000 each year in the public health laboratory as a contingency should reimbursable testing costs exceed the appropriation
Laboratory Testing Fees
3. The Executive Budget includes laboratory equipment not included in LFA current level
Laboratory Testing Fees
4. The Executive Budget includes equipment in the Support Services Bureau not included in current level

Total

(4.0) (4.0) \$46,511 \$16,115
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---Exec Over (Under) LFA---

FTE Amount

(4.0) (4.0) (\$89,416) (\$89,416)
\$46,722 \$47,372

(\$5,026) (\$4,001)
\$9,722 \$9,722
(\$1,418) (\$1,489)

\$2,000 \$2,000

\$50,000 \$50,000

\$32,000

\$1,927 \$1,927

EXHIBIT 3
DATE 1-10-91
HB
Exhibit #3
1/10/91
H. Serv. Subc

Adding Issues

Due to including a higher funding base, the Executive Budget includes \$6,394 in fiscal 1992 and \$5,523 in fiscal 1993 more vital statistics income than LFA current level

\$6,394 \$5,523

Executive Budget Modified Additions

Support Service Staff

\$48,788 \$48,788

Newborn PKU Testing

\$31,007 \$31,007

Safe Drinking Water

\$42,182 \$42,182

EXHIBIT 4
DATE 1-10-91
HB _____

EXHIBIT
1-10-91
Henn. Serv. Sec.

MODIFIED BUDGETS

Department of Health and Environmental Sciences

Support Staff

This budget modification maintains 2.0 FTE added via budget amendment in fiscal 1990 due to increased workload associated with federal reporting and accounting requirements. The positions would be in addition to 2.0 FTE added to the Centralized Services Division by the 1989 legislature for this purpose. The Executive Budget adds these positions in the proposed Department of Natural Resources and the Environment. The figures below do not include \$15,000 of general fund included in the Executive Budget for one-time moving expenses associated with the proposed reorganization.

<u>Object of Expenditure</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
FTE	2.00	2.00
Personal Services	\$47,045	\$46,938
Operating Expenses	<u>1,850</u>	<u>1,850</u>
Total	\$48,895	\$48,788
<u>Funding</u>		
Proprietary Income	\$48,895	\$48,788

MODIFIED BUDGETS

Department of Health and Environmental Sciences

Newborn PKU Screening

This budget modification adds 1.0 FTE in the Public Health Laboratory to perform repeat testing in the Newborn PKU Testing program to assure that quality assurance standards necessary for receipt of the maternal and child health block grant are met. The modification, which adds 1.0 FTE microbiologist and related expenses, would be funded with fees charged for the testing. Please note that the operating expenses are for indirect charges to fund centralized services and are subject to change based upon committee action.

<u>Object of Expenditure</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
FTE	1.00	1.00
Personal Services	\$26,650	\$26,641
Operating Expenses	4,351	4,366
Equipment	<u>47,237</u>	<u>-0-</u>
Total	\$78,238	\$31,007
<u>Funding</u>		
State Special Revenue	\$78,238	\$31,007

EXHIBIT 4
DATE 1-10-91
HB Human Serv. Sub.

MODIFIED BUDGETS

Department of Health and Environmental Sciences

Safe Drinking Water

This budget modification continues funding 1.0 FTE and related laboratory expenses added through budget amendment in fiscal 1991 for the Safe Drinking Water laboratory certification program. This FTE, which the department says is needed to handle changes in federal regulations and additional federal testing requirements, would be funded with fees charged for laboratory testing. The 1989 legislature added 1.0 FTE to the chemistry laboratory due to additional water testing requirements.

<u>Object of Expenditure</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
FTE	1.00	1.00
Personal Services	\$27,838	\$27,773
Operating Expenses	<u>14,403</u>	<u>14,409</u>
Total	\$42,241	\$42,182
<u>Funding</u>		
State Special Revenue	\$42,241	\$42,182

EXHIBIT 5
DATE 1-10-91
-E-

Exhibit
#5
1/10/91
Human Serv.
Subc.

TESTIMONY FOR JOINT APPROPRIATIONS SUBCOMMITTEE
CENTRALIZED SERVICES DIVISION FY 1992-1993
JANUARY 9, 1991

OVERVIEW:

MADAM CHAIRMAN AND MEMBERS OF THE COMMITTEE, FOR THE RECORD BY NAME IS RAY HOFFMAN, ADMINISTRATOR OF THE CENTRALIZED SERVICES DIVISION, DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES.

THE CENTRALIZED SERVICES DIVISION PROVIDES A WIDE VARIETY OF SUPPORT SERVICES FOR THE DEPARTMENT. THE DIVISION CONSISTS OF THE FOLLOWING AREAS;

1. DIVISION ADMINISTRATION IS RESPONSIBLE FOR OVERALL DIVISION MANAGEMENT, CONTRACT NEGOTIATIONS, FISCAL OFFICER FOR GRANTS AND CONTRACTS, BUDGET NEGOTIATIONS AND FISCAL TRACKING.
2. SUPPORT SERVICES BUREAU PROVIDES ADMINISTRATIVE SUPPORT FOR THE DEPARTMENT AND CONTROL OF THE CENTRALIZED ACCOUNTING FUNCTION.
3. VITAL RECORDS AND STATISTICS BUREAU OPERATES THE MONTANA VITAL STATISTICS SYSTEM AND THE CENTRAL TUMOR REGISTRY.
4. PUBLIC HEALTH LABORATORY BUREAU PROVIDES SCIENTIFIC TESTING AND SERVICES IN SUPPORT OF NATIONAL AND STATE DISEASE PREVENTION AND CONTROL.
5. CHEMISTRY LABORATORY BUREAU PROVIDES ANALYTICAL TESTING AND CONSULTATIONS TO OTHER DHES PROGRAMS AND IN SOME CASES THE GENERAL PUBLIC.

pg 13 agency narrative

THE DIVISION CONSISTS OF 60.50 F.T.E. AND A REQUESTED BUDGET OF \$2,554,589 IN FISCAL YEAR 1992 AND \$2,471,472 FOR FISCAL YEAR 1993. THE FUNDING OF THE PROGRAMS CONSISTS OF GENERAL FUND, FEDERAL GRANTS, FEE FUNDS, BLOCK GRANT AND INDIRECT COSTS ASSOCIATED WITH ADMINISTRATIVE CHARGES TO ALL DEPARTMENT PROGRAMS.

DURING THE CURRENT BIENNIUM THE DEPARTMENT PROCESSED IN EXCESS OF 40 BUDGET AMENDMENTS ADDING \$6,777,618 OF ADDITIONAL FUNDING. THIS SIGNIFICANT INCREASE IN ADDITIONAL OR EXPENDED PROGRAMS HAS PLACED A TREMENDOUS BURDEN ON THE CENTRALIZED SERVICES DIVISION FOR ADDITIONAL SERVICES ASSOCIATED WITH PAYMENT OF CLAIMS, PURCHASING OF EQUIPMENT AND SUPPLIES, CONTRACT DEVELOPMENT AND NEGOTIATIONS AND FINANCIAL REPORTING. BECAUSE OF THE ADDITIONAL SERVICES THE DIVISION HAS REQUESTED MODIFICATION TO ITS EXISTING BUDGET.

THE ONLY DIFFERENCE BETWEEN THE EXECUTIVE BUDGET AND THE LEA RECOMMENDATION FOR THE DIVISION ADMINISTRATION BUDGET IS IN THE AREA OF TRAVEL. BECAUSE OF THE MULTITUDE OF GRANTS THE DEPARTMENT ADMINISTERS, AS FINANCIAL OFFICER I AM CALLED UPON TO NEGOTIATE WITH THE FEDERAL GOVERNMENT THE AMOUNT OF FUNDS MONTANA WILL RECEIVE, WHICH IS CURRENTLY IN EXCESS OF \$40,000,000. THE FEDERAL

GOVERNMENT, AT TIMES, REQUIRES FACE TO FACE NEGOTIATIONS EITHER IN DENVER OR WASHINGTON D.C.. THE EXECUTIVE HAS ALLOWED A TOTAL OF \$6,135 FOR TRAVEL WHILE THE LFA HAS RECOMMENDED \$1,025. THE EXECUTIVE BUDGET WILL ALLOW THREE TRIPS TO DENVER AND ONE TRIP TO WASHINGTON D.C.

AS YOU PROCEED WITHIN THE DEPARTMENT OF HEALTHS BUDGET YOU WILL NOTE THE DEPARTMENT IS RESPONSIBLE FOR A WIDE VARIETY OF FEDERAL PROGRAMS AND FEDERAL FUNDING SOURCES. I HAVE ATTACHED A LISTING THAT SHOWS THE CURRENT FEDERAL FUNDS RECEIVED BY THE DEPARTMENT. EACH GRANT HAS SPECIFIC REQUIREMENTS OF HOW THE FUNDS ARE TO BE SPENT, ACCOUNTED FOR, AND THE DIFFERING LEVELS OF STATE PARTICIPATION (MATCHING) IF REQUIRED BY FEDERAL REGULATION.

ONE OF THE MOST CONFUSING FUNDING SOURCES IS INDIRECT COSTS. CURRENT THE AGENCY IN CONJUNCTION WITH THE EXECUTIVE AND THE LFA ARE ATTEMPTING TO RECONCILE THE DIFFERENCES BETWEEN THE TWO BUDGETS. HOPEFULLY AN AGREEABLE APPLICATION OF HOW INDIRECTS ARE ARRIVED AT, APPLIED AND FUNDED WILL BE REACHED. UNTIL THAN A WIDE VARIATION EXISTS BETWEEN TO TWO BUDGETS.

AT THIS TIME I WOULD LIKE TO INTRODUCE:

MR. CHUCK STOHL - SUPPORT SERVICES BUREAU CHIEF
MR. SAM SPERRY - VITAL RECORDS/STATISTICS BUREAU CHIEF
MR. DOUG ABBOTT - PUBLIC HEALTH LABORATORY BUREAU CHIEF
MR. JOHN HAWTHORNE - CHEMISTRY LABORATORY BUREAU CHIEF

WHO WILL GIVE YOU PRESENTATIONS ON THE INDIVIDUAL BUREAUS.

IF I CAN BE OF FURTHER ASSISTANCE YOU MAY CONTACT ME AT 444-4255.

119191

EXHIBIT 5
DATE 1-10-91
RE Human Serv. Sub

1/10/91

Human Serv
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DATE 1-10-91
JTB

SUPPORT SERVICES BUREAU
DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Madam chairman and members of the subcommittee, my name is Charles Stohl, I am the chief of the Support Services Bureau of the Department of Health and Environmental Sciences.

You have a handout that shows the composition of the Support Services Bureau with the associated duties and responsibilities. These handouts give a breakdown of services by each unit of the Bureau.

This bureau provides all of the support services to the Department. We are responsible for the accounting, financial reporting, budgeting, and records maintenance for all funds received and expended by the Department. We are also responsible for data processing services, word processing services and obtaining all goods and services that are required by the Department.

The budget modification for support staff listed in the legislative fiscal analysts budget book will require \$21,265 and one FTE in each year of the biennium to be added to the Support Services Bureau's budget. (a total of \$42,530 and one FTE for the biennium). The funding for this position is from indirect costs. This position is needed to help process the additional workload created by the increasing amount of federal funds and the increasing number of federal grants that the Department has received. Each new grant, or increase in a current grant, generates more paper work and record keeping requirements. Without this position we will not be able to keep up with the increasing workload and federal reporting requirements. This would put the federal funds in jeopardy of being lost or paid back. Due to the increasing demands for automation and data processing capabilities more staff is also needed in this area. If more federal grants are added in the next biennium I will need more support staff to process the additional workload created by the new grants.

The executive budget proposal that you have for the next biennium reflects the proposed Agency reorganization. This bureau will lose four current level positions that are funded by indirect costs, four positions that are funded by direct grant funds and one position that was added by budget amendment and funded by indirect costs, for a total of nine positions. These nine positions, their funding and their support functions have been transferred to the new Department of Natural Resources and Environment in the Executive's reorganization plan. The positions that remain in the Department's budget should be sufficient to provide support services for the reorganized Department of Public Health.

SUPPORT SERVICES BUREAU

PROGRAM GOALS

PROVIDE SUPPORT SERVICES FOR THE DEPARTMENT OF HEALTH AND
ENVIRONMENTAL SCIENCES
(PROPOSED DEPARTMENT OF PUBLIC HEALTH)

PROGRAM OBJECTIVES

TO PROVIDE FINANCIAL ACCOUNTABILITY
TO MAINTAIN CENTRAL ACCOUNTING RECORDS
TO PRODUCE EXPENDITURE REPORTS FOR ALL FEDERAL GRANTS
TO PROVIDE CENTRAL PROCUREMENT/PURCHASING FUNCTION
TO PROVIDE CENTRAL MAIL FUNCTION
TO PROVIDE CENTRAL AUDIT FUNCTION
TO PROVIDE CENTRAL CASHIER FUNCTION
TO PROVIDE WORD PROCESSING SERVICES
TO PROVIDE DATA PROCESSING SERVICES
TO PROVIDE FILM LIBRARY SERVICES

The Support Services Bureau contains the following units:

- (1) Financial Unit.
 - (a) Financial reporting section
 - (b) Accounts receivable section
 - (c) Accounts payable section
 - (d) Cash Receipts section
 - (e) Purchasing and receiving section
 - (f) Mail section
 - (g) Audit section
- (2) Word Processing Unit.
- (3) Data Processing Unit.
- (4) Film Library Unit.

Each of these units provides a service to the Department and to the general public.

- (1) Financial Unit.
 - (a) Financial reporting unit
 - (1) This section is responsible for:
 - (a) maintaining the Departments accounting system.
 - (b) producing federal expenditure reports.
 - (c) producing financial reports.
 - (b) Accounts receivable section
 - (1) This section is responsible for:
 - (a) billing all persons that owe the Department money for any work performed or licenses issued.
 - (b) maintaining records of all accounts receivable transactions.
 - (c) pursuing collection of aged accounts receivable.

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(c) Accounts payable section

(1) This section is responsible for:

- (a) paying all of the bills of the Department.
- (b) maintaining control of contracts and payments on contracts.
- (c) maintaining accounting records of all payment transactions.

(d) Cash Receipts section

(1) This section is responsible for:

- (a) the receipt and deposit of all cash received by the Department.
- (b) maintaining records of all cash receipts.

(e) Purchasing and receiving section

(1) This section is responsible for:

- (a) procuring all supplies, equipment and services needed by the Department.
- (b) documenting receipt of all supplies and equipment received by the Department.
- (c) maintaining records of purchase transactions.

(f) Mail section

(1) This section is responsible for:

- (a) overseeing the processing of all outgoing mail and freight.
- (b) processing and delivery of all incoming mail, freight, and supplies.

(g) Audit section

(1) This unit is responsible for:

- (a) establishing a system to assure that all required audits are received.
- (b) reviewing audits received from subcontractors to assure that the audits meet all requirements.
- (c) initiating action to recover funds if an audit shows that funds were spent in error.

(2) Word Processing Unit.

(1) This unit is responsible for:

- (a) assisting the agency's operating units to produce large volume documents:
- (b) assisting operating units with daily output if the units cannot keep pace with the workload.

(3) Data Processing Unit.

(1) This unit is responsible for:

- (a) coordinating agency data processing.
- (b) reviewing requests for new equipment and software.
- (c) writing computer programs.
- (d) assisting in the trouble shooting problems that other units have with their computers or programs.
- (e) operating the Departments data processing network.

(4) Film Library.

(1) This unit is responsible for:

- (a) scheduling films for use by Department personnel and by other health professionals.
- (b) maintaining the Departmental film library and equipment.

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PERFORMANCE INDICATORS

	ACTUAL FY90	PROJ. FY91	PROJ. FY92	PROJ. FY93
CLAIMS PAID	9,777	11,244	12,930	14,870
NO WARRANT TRANSFERS	792	911	1,047	1,205
ACCOUNTS RECEIVABLE	4,523	5,201	5,981	6,878
CASH RECEIPTS	39,281	45,173	51,948	59,741
ENCUMBRANCE ESTIMATES	609	700	805	926
JOURNAL VOUCHERS	1,076	1,237	1,422	1,636
PURCHASING (APO'S)	2,657	3,055	3,513	4,040
PURCHASING (PO'S)	44	50	58	66
PRINTING	1,205	1,385	1,593	1,832
BIDS	200	229	264	303
PRINTING (PO'S)	39	45	52	59
CENTRAL STORES ORDERS	684	787	905	1,040
OTHER PURCHASE TRANS.	2,160	2,484	2,857	3,285
CONTRACTS	540	621	714	821
FILMS SCHEDULED	1,826	2,099	2,414	2,776

BUREAU OF RECORDS AND STATISTICS

Testimony Before the Joint Appropriations Subcommittee

(for FY92 & FY 93 - January 10, 1991)

Exhibit # 7
1/10/91
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The Bureau of Records and Statistics has three major responsibilities:

1. The operation of the Vital Statistics System for the State of Montana.
2. The providing of service to the public regarding birth and death certificates.
3. The operation of the central Tumor Registry.

I would like to briefly describe for you the functions of each of these areas in order to give you an idea of the importance of each one to the general public as well as to the public health of the people of the state.

1. The operation of the Vital Statistics System for the State of Montana.

Working under a legislative mandate to establish and maintain a statewide system of vital statistics, the department ensures complete and accurate registration of birth, death and fetal death; and the complete and accurate reporting of marriages, divorces and medically induced abortions. These duties require that the bureau design, print, inventory and distribute for local use birth certificate packets, death certificate packets, fetal death certificate packets, and reporting forms for marriage, divorce, adoption and induced abortion.

The bureau must also provide extensive data processing services for these records as they are received in the department monthly. The records must be checked to ensure that they meet the legal requirements established. Then these records must be coded and queried for complete or more accurate information. Finally these records undergo data entry and verification; and are microfilmed for backup storage and other purposes.

The bureau must also provide training in the proper completion of these documents for hospital staff, coroners, physicians, midwives, clinic staffs, county clerks of court, attorneys, and local registrars.

These activities require that the bureau provide intense, individual attention to 3,000 forms per month. These activities further require extensive utilization of computers and also require rather large expenditures for mail, telephone, microfilming, storage, and travel.

2. The providing of service to the public regarding birth and death certificates.

The birth certificate in the United States is becoming very important to individuals in ways that could not have been foreseen 10 years ago. Parents of newborns are required to obtain Social Security Numbers for their infants - a thing they cannot do without a legally acceptable copy of the birth certificate. It is almost impossible to obtain a passport without a birth certificate. Access to welfare systems require birth certificates. Initiation of Social Security benefits and other pension plans require birth certificates. Many jobs in the country demand a birth certificate as verification of citizenship. This list is longer and continues to grow. As the birth certificate becomes more and more a legal document that is essential to people's lives, the demands on government regarding the security of, protection of and rapid access to these records is escalating.

The bureau currently maintains 1 million birth records for persons born in Montana. This volume increases about 11,500 records per year. Until recently the bureau has had to perform manual searches and use photocopying techniques and perform manual corrections on these records. About eight years ago the bureau embarked on a three-phase project to automate the birth records of the state. The first phase involved the conversion of the paper documents to magnetic storage. The second phase involved systems analysis and software development. The third phase involved the implementation of the automated system. We anticipate the implementation of the automated system within the next two months.

The death certificate in Montana is beginning to become subjected to increased legal use. Also the needs of public health research and monitoring are demanding increased detailed handling of death certificates. The bureau currently maintains 1/2 million death records; and this volume increases about 6,500 records per year. Automation of Montana's death records is one of our main objectives over the next five years.

3. The operation of the central Tumor Registry.

Medical record abstracts for cancer patients in Montana are filed with the department at the point of diagnosis. The records are entered into the Registry database and each patient is followed over the years to monitor health status and effectiveness of treatment; and to determine survival rates specific to Montana. These activities require a sophisticated computer system and large expenditures for mailing.

The Registry currently maintains records on 30,000 cancer patients and this volume is increasing at about 3,300 records per year. This database is of extreme importance to the development of cancer control plans in Montana and to a better understanding of cancer in this state.

BUDGETARY CONCERNS

The LFA recommendation of \$125,353 for the bureau for FY92 represents actual FY90 expenditures adjusted for inflation. The FY90 appropriation was \$135,318. In effect, the bureau did not use about \$15,000 of its FY90 appropriation because we were able to utilize federal funds for necessary machine purchases for the birth certificate automation project. These purchases will be subjected to maintenance contract costs and to anticipated increases in the Department of Administration's service subscription fees over the coming biennium. Furthermore, the implementation of this automated birth record system is requiring utilization of a specially produced safety paper on which to issue certified copies. This safety paper is going to increase our costs for Supplies and Materials. As noted in my overview, the bureau is experiencing increasing costs for mailing and we are told to expect an increase in U.S. postage rates in the immediate future. Finally, the requirements of federal contracts regarding necessary travel to national meetings with the Centers for Disease Control each year are costing us more than anticipated in FY90.

Accordingly, we are requesting that the \$15,000 of our FY90 Operating Budget Appropriation be restored to our FY92 and FY93 Operating Budget Appropriation at \$7,500 per year.

Handwritten note: The amount of the budget request is \$15,000. This is the amount of the budget request for the FY92 and FY93 Operating Budget Appropriation at \$7,500 per year.

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TESTIMONY FOR BUDGET SUBCOMMITTEE, JANUARY 1991

PUBLIC HEALTH LABORATORY

My Name is Dr. Douglas Abbott, Chief of the Public Health Laboratory.

The Public Health Laboratory provides scientific services in support of national and state disease prevention and control programs. We provide state-wide disease surveillance and health risk data for local, state and federal agencies through clinical, environmental and reference laboratory testing. We also conduct epidemiological testing and outbreak investigation to control communicable diseases. The laboratory also tests every newborn child in the state for congenital metabolic diseases including galactosemia, phenylketonuria (PKU) and congenital hypothyroidism. Environmental testing in the laboratory includes analysis of public and private water supplies for bacterial contamination. Along with the direct scientific services, we also provide consultation and training programs, as well as laboratory approval, certification and registration programs for laboratories and lab personnel in the state.

There are three issues the Department would like to address in the budget.

Newborn Screening

The proposed budget for this coming biennium includes increases to the base budget in the Newborn Screening program of \$ 109,245 for the biennium. This increase includes the addition of one FTE costing about \$31,000 per year. The Department is concerned that new stringent standards of quality assurance cannot be met with existing staff levels and that inability to meet these standards could endanger the lives of newborn infants for whom the department is required to screen for inborn errors of metabolism. The state would also be exposed to substantial monetary liabilities should an error in the screening occur. Along with the FTE the Department also has requested authorization to purchase some new laboratory equipment for the new born screening laboratory to cost \$47,000 in FY92. This will allow the laboratory to buy a rapid flow analyzer to augment the current testing methodology giving more quantitative results in the initial laboratory screening tests allowing more rapid final diagnosis.

In your LFA budget book this budget modification is listed as being for the Chemistry Laboratory but it is actually in the Public Health Laboratory.

The Newborn Screening Program is a fee supported service and these increases will be paid for out of fees charged for the services.

Safe Drinking Water Program

The Department is also requesting the continuation of the Safe Drinking Water budget amendment for the Public Health Lab that was approved this fall after the deadlines for the executive budget submissions. This budget amendment includes one FTE and associated operating costs necessary to implement the federally mandated increases in the Safe Drinking Water Program. The costs for this include \$ 27,774 per year for one FTE and \$ 24,000 per year for supplies, communications, and certification travel for a total of \$103,548 for the biennium. The cost for this program is covered by fees charged for the services.

There is some confusion in your two budget books about the laboratory costs for the Safe Drinking Water program. The increase to base in your executive budget book covers only the Chemistry laboratory's portion of the increased Safe Drinking Water Program. The modified request in the LFA book asks for continuation of the budget amendment in the Public Health Laboratory except that the dollar figures are incorrect.

Laboratory Contingency Fund

The Department also requests that the Laboratory Contingency Fund be continued this biennium. This extra spending authority in the amount of \$50,000 for FY92 and \$50,000 for FY93 serves as a safety net for the Public Health Laboratory and the Department's Chemistry Laboratory to handle public health emergencies such as unanticipated out breaks of diseases or environmental contamination problems. The contingency fund is used to cover operating costs for these emergencies if the laboratories have insufficient spending authority to handle the increased load. The continuation of the Contingency Fund this biennium will be especially vital if the base budget is funded on FY90 expenditures as in the LFA recommendation rather than on FY91 as in the executive budget. In FY90 the Public Health Laboratory for the first time in two years actually spent less than budgeted because the particular disease and environmental problems that year for a change were a little under the projections. If the costs in the next biennium meet our projections we will definitely need the contingency fund.

The contingency fund is supported by fees that are charged for the services provided.
The Contingency Fund is supported by fees that are charged for the services provided.

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TESTIMONY ON THE
CHEMISTRY LABORATORY BUREAU
BEFORE THE JOINT APPROPRIATIONS SUBCOMMITTEE
1991

Madam Chairperson and members of the Committee, I am John Hawthorne, Chief of the Chemistry Laboratory Bureau in the Department of Health and Environmental Sciences.

The first chemistry laboratory in the Department of Health was an industrial hygiene lab for the collection and analysis of workplace related samples, mostly from Montana's mineral industry. The scope of its functions has expanded to meet the needs of the state and the passage of environmental laws has broadened that scope considerably.

The Chemistry Laboratory analyzes a wide variety of materials including water, air, soils, hazardous wastes, food stuffs, and body fluids for an ever widening variety of contaminants. These contaminants include metals such as lead and arsenic, minerals such as nitrate, fluoride and sulfate, and organic compounds such as insecticides, herbicides, solvents and preservatives. The demand for organic analyses, in particular, has skyrocketed. A few years ago, we were testing for less than a dozen organic compounds; today there are literally hundreds of compounds of interest. To accomplish our analytical task, we rely heavily on modern instrumental techniques.

There are two proposed increases to base, from the Executive budget, that I would like to address. First, changes in the Safe Drinking Water Act mandate additional testing of organic compounds by June of 1992. Among those contaminants are carbamate pesticides such as aldicarb and carbaryl. The only EPA approved method of analysis of

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WITNESS STATEMENT

NAME Paulette Kohman BILL NO. BHES
ADDRESS 2030 11th Ave Suite 10, Helena 59601 DATE 1-10-91
WHOM DO YOU REPRESENT? MT Council for Maternal & Child Health
SUPPORT Center for Hlth Statistics ⁴⁴³⁻¹⁶⁷⁴ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: Re: Bureau of Vital Statistics

The Mt. Council for Maternal & Child Health is a non-profit public policy research, education & advocacy organization. We have studied the current status of Health Statistics collection, analysis and dissemination in Montana, and have concluded that MT should add to the Bureau of Vital Statistics a Cooperative Center for Health Statistics, staffed by an Epidemiologist.

~~There~~ Two bills have been requested of the Legislative Council, LC#173 which provides for such a center, and LC# 1423 which provides, independently, for an Epidemiologist in the Dept.

Statistics on the health of Montanans are collected in a variety of agencies, but the storage and analysis is so fragmented that data is not easily transferred between ~~the~~ local and state agencies and is not analyzed by epidemiology-trained personnel.

Federal law provides for support of such agencies, and the Robert Wood Johnson Foundation also provides grant funds for states to establish such programs. The total leverage of state funds to support a Center for Health Statistics could be as high as 1:6, made up first of a 1:1 match with Federal Medicaid funds and a 1:3 match of that total with RWS Foundation funds. Further information will be provided to the Council.

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TABLE OF CONTENTS**Section 430: How to Develop and Negotiate an Indirect Cost Rate**

- ¶430 How to Develop and Negotiate an Indirect Cost Rate
- ¶431 The Role of Federal Cost Principles
- ¶432 How an Organization Obtains an Indirect Cost Rate
- ¶433 The Cognizant Agency
- ¶434 Types of Indirect Cost Rates
- ¶435 Procedures for Developing Indirect Cost Rates
- ¶438 Common Problems Faced By Grantees
- ¶439 Sources of Information and Assistance

1430 How to Develop and Negotiate an Indirect Cost Rate

“Indirect cost” is an accounting term used to describe a process of assigning (or charging) costs that are common to two or more of a grantee’s projects or operations. As a general rule, the cost of building occupancy, equipment usage, procurement, personnel administration, accounting, and other overhead activities are charged to grants and contracts as indirect costs. The term “indirect costs” is something of a misnomer; these costs are not indirect. They are not substantially different from direct costs. If one wanted to incur the time and bookkeeping expense, all indirect costs could be treated as direct. Some grantees, such as voluntary health and welfare organizations, treat occupancy and other types of costs as direct. Other organizations, such as universities, traditionally treat these same costs as indirect.

Grantees must be consistent in treating costs as direct or indirect under grants. Once a decision is made by a grantee to treat a cost either as direct or as indirect, it must be treated that way for all projects and principal activities of the organization, regardless of the source of funding. From a grantee’s point of view, the determining factor for treating a cost as direct or indirect should be practicability and the potential for reimbursement as a charge to an outside funding source.

Reimbursement of Indirect Costs

Some grantor agencies view indirect costs with suspicion. The Department of Health and Human Services (HHS) was required by Congress to take steps to ensure that funds appropriated for research were not “diverted” to pay for uncontrollable institutional overhead. This point of view is not unique to federal agencies. Most state funding agencies either do not reimburse or provide only a minimal allowance for indirect costs. The same is often true of private sponsors.

The reasons for this attitude range from a misunderstanding of the nature and need for indirect costs to the belief that indirect costs camouflage institutional waste, inefficiency and luxury. Indirect costs are necessary and legitimate, and they are now more widely accepted by the federal government.

For example, HHS has a longstanding policy to fully recognize an institution’s indirect costs in awarding grants. There are some exceptions to this policy, notably training grants. In practice, the policy sometimes is violated by federal grants officials seeking to maximize the number of grant awards possible under a limited appropriation. The National Science Foundation also has revised its former, more limited, reimbursement policies, and most other federal granting agencies recognize indirect costs more than they have in the past. Finally, Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations* and Circular A-21, *Cost Principles for Educational Institutions*, restrict federal agencies from placing arbitrary administrative limitations on the reimbursement of any element of costs, including indirect costs. In fact, this restriction is aimed at reducing the indirect cost limitations now imposed by federal grantor agencies. But while

formally recognizing overhead, OMB, at the urging of the federal awarding agencies, is likely to issue more definitive costing procedures to curtail the potential for abuse and manipulation by grantees.

On the other hand, federal agencies may give greater attention to grantees' overhead operations to ensure that federal monies are being used frugally. Thus, a grantee may expect a greater accountability on how it spends federal funds, but given this accountability, a grantee has a greater probability of recovering indirect costs—at least on federal awards.

1431 The Role of Federal Cost Principles

In the past, a single set of federal cost principles provided guidance to federal agencies and grantees and contractors that receive federal funds on how to determine the portion of an organization's costs that could be charged to a federal grant or contract. These principles were intended primarily for contracting with commercial organizations. The principles enunciated basic tenets, leaning heavily on the precepts of "generally accepted accounting principles." These tenets have carried over into the current sets of cost principles under the headings "Purpose," "Scope" and "Basic Considerations," and the general paragraphs on direct and indirect costs in each.

Over the years, however, there has been a trend toward more specificity. For example, an additional section in the cost principles, "General Standards for Selected Items of Costs," lists approximately 50 cost items and states whether they are allowable or unallowable as charges to federal awards, as well as prior approval and documentation requirements.

The federal government makes grants to a variety of organizations that vary in purpose, services provided, organizational structure, and accounting and costing practices. This diversity has led to the need for specialized guidance, particularly in the indirect cost area. Thus, OMB has issued separate "cost principles" for colleges and universities (OMB Circular A-21); state and local governments (OMB Circular A-87); and non-profit organizations (OMB Circular A-122). The General Services Administration (GSA) has published cost principles for profit-making organizations (Federal Acquisition Regulations 1-15.2). GSA also has incorporated the OMB circulars in its procurement regulations.

These separate cost principles are consistent in their basic philosophy and requirements, and the language is either identical or very similar. The cost principles:

- are confined to the subject of cost determination and make no attempt to dictate the extent of federal participation in the costs of a grant;
- do not dictate organizational philosophies or objectives other than to require the exercise of sound management practice; and
- do not require an organization to deviate from the generally accepted accounting practices of its industry or sector.

However, the requirements are critical to the acceptance of a grantee's charges to federal awards. The cost principles state that:

- sound management practices must be used;
- prudence in incurring a cost chargeable to a federal grant must be exercised;
- relative benefit must be "approximated through the use of reasonable methods" (i.e., a reasonable basis reflecting use or level of service);
- costs applicable to one award or activity may not be charged or shifted to another award or activity; and

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- costs charged to a federal grant must be necessary. Necessary costs that are common to two or more federal awards or to a federal award and other awards or activities of an organization may be charged to the federal award only in proportion to the relevant benefit received from those costs.

These criteria must be observed by a grantee as it computes that portion of its indirect costs chargeable to federal grants.

¶432 How an Organization Obtains an Indirect Cost Rate

When claiming indirect costs, a grantee should assess the money it is likely to recover and the costs of getting its indirect costs approved by the federal government. More than one organization has been misled by its own or a consultant's overly optimistic expectations into spending more money in preparing a proposal and negotiating an indirect cost rate than it could possibly recover. On the other hand, many organizations that are not recovering indirect costs, or are recovering less than they are entitled to, would reap substantial financial benefit by getting an approved indirect cost rate.

Before an organization can charge indirect costs to a federal grant, it must give evidence that the amount it seeks to charge is proper. The evidence is an indirect cost rate approved by a cognizant (or lead) federal agency (see ¶433) or, where no cognizant agency is designated, by the awarding agency. The indirect cost rate is the end product of an organization's indirect cost proposal (as described in ¶435 of the *Handbook*). Indirect cost proposals range from the very simple and easy to prepare to the very complex and difficult. The degree of complexity and difficulty depends upon the following factors:

- the complexity of the organization (e.g., its physical and financial size, the number and variety of programs and activities it conducts or administers, the number of locations in which it conducts its operations, etc.);
- the aggregate level of federal funding and the types of federal awards the grantee organization receives;
- the dollar amount of the federal grant(s) to which the rate applies and the amounts of federal and organizational cost sharing;
- whether a grantee seeks to recover all the indirect costs to which it might be entitled; and
- the sophistication of the grantee's accounting system and whether the system accumulates cost data in its normal operations.

The federal official who approves the rate will require evidence to ensure that the indirect cost rate will not result in an overpayment of costs by the federal government. The proposal need only be as complicated (or simple) as is necessary to provide that assurance. In making the assessment, the federal official will draw on knowledge of and experience with other grantees, their accounting practices and their general range of costs and rates. For example, if an organization with a small amount of federal funds (e.g., a single grant of \$10,000) wishes to claim only a small portion of those indirect costs that might be charged to the grant under the federal cost principles (e.g., 1 percent), its proposal need only establish the reasonableness of the 1-percent rate and would be quite simple. At the other extreme, a large organization (e.g., a university that conducts major research activities and receives substantial federal funding) that wishes to claim the maximum amount of indirect costs to which it is entitled would need to prepare a detailed, comprehensive proposal.

As a third example, an organization with grants that allow no indirect costs or only a minimal amount (e.g., HHS training grants) need not prepare a rate proposal unless it is specifically requested by the cognizant (or awarding) agency.

The ease or difficulty a grantee will experience in preparing a rate proposal depends on the sophistication of its accounting system. The larger and more complex an organization is, the more important its accounting practices become. Regardless of size, a grantee with a working accrual accounting system that records costs by object class and function, takes periodic inventories, makes periodic space studies, and has an annual audit of its books and financial statements should not experience difficulty in preparing a rate proposal and getting an indirect cost rate approved. On the other hand, an organization without a reasonably informative accounting system or with lax accounting practices is likely to encounter some difficulty and expense in preparing an acceptable indirect cost proposal and having its proposed rate approved. Before an organization makes a final decision on whether it is worthwhile to seek recovery of its indirect costs, it should contact one of the federal offices responsible for negotiating indirect costs that are listed in ¶439.

1433 The Cognizant Agency

Many organizations receive a grant from a federal agency and grants and contracts from other sources. From both the grantee's and the federal government's perspectives, multiple grant funding has more in its favor than against. But one of the serious problems associated with multiple grant funding is the propensity of the different funding agencies to set administrative requirements that are inconsistent (or incompatible), causing inefficiency, duplication of effort and unnecessary cost. The seriousness of the problem varies with the size and program diversity of an organization.

The Office of Management and Budget has attempted to minimize this problem by revising its Circular A-102 and issuing a government-wide common rule for state and local grant administration (§313). Another method that is employed by the federal agencies is to designate one agency as the cognizant federal agency that represents all of them in dealing with a grantee in specified areas of common interest. These areas include audit and common costs (e.g., indirect, fringe benefit, computer, patient care). The concept has been endorsed officially through OMB Circulars A-128 and A-87 (for audits and common costs of state and local governments respectively), Circular A-88 (for audits and common costs of colleges and universities), and OMB's cost principles for non-profit institutions (Circular A-122), all of which provide for cognizance, at least for common costs.

In the common cost area, the cognizant agency concept is operating for colleges and universities and state and local governments under the authority of Circulars A-88 and A-87, respectively, and for non-profit institutions and hospitals through informal arrangements among the individual federal agencies.

In the indirect cost area, the cognizant agency approves (or disapproves) a grantee's indirect cost rate(s) on behalf of all the federal agencies that provide funds to that organization. Once the cognizant agency approves the rate, it must be accepted by the other agencies in determining the amount of indirect costs applicable to their grants and contracts.

In carrying out this function, the cognizant agency receives a grantee's indirect cost proposal, reviews it for acceptability and attempts to reach an agreement with the organization on the rate(s) which both find acceptable. The cognizant agency has wide discretion in its reviews. It may request a full or limited audit by a federal audit agency, conduct a review of a grantee's records, accounting system, and general operations, or it may draw upon its experience with and knowledge about an organization and reach agreement without an on-site evaluation. Based on the cognizant agency's confidence in the reliability of a proposal as a true indicator of a grantee's operations, it may reach agreement quickly by telephone or through negotiations in person. Upon agreement, the cognizant agency will formalize the accepted rate(s) in an indirect cost rate agreement and distribute it to other federal grantor agencies.

The cognizant agency may provide technical assistance to a grantee organization, (e.g., it may provide guidance on how to prepare a proposal). The amount of technical assistance available

varies among the cognizant agencies. Some agencies, such as the Departments of Health and Human Services, Labor and Commerce, are particularly helpful; they provide counseling, publish instructions and conduct workshops on indirect cost.

As a general rule, the cognizant agency is the agency that provides the largest amount of funds to a grantee over a certain period of time, although other factors may be considered, such as available expertise and physical proximity of grantor agency staff to a grantee. Changes in cognizance rarely are made because of short-term fluctuations in funding levels.

- *Colleges and universities.* HHS is the cognizant agency for the majority of the large and approximately 400 of the small universities and colleges that charge indirect costs. The Department of Defense is cognizant for several major universities and colleges, and the National Science Foundation is cognizant for some smaller schools. A listing of the cognizance assignments are contained in the HHS booklet, *A Guide for Colleges and Universities*, OASC-1, which is available from HHS.

- *State and local governments.* HHS is the cognizant agency for all state and some city central service cost allocation plans. For individual departments of state governments and some larger local governments, cognizance assignments generally have been based upon two factors: the preponderance of federal funds and the functional responsibility of the recipient. The preponderance of federal funds has generally governed in cases of a general purpose government, while functional responsibility has generally governed special purpose governmental units. For example, local school districts and state education departments would fall under the responsibilities of the Department of Education. Following passage of the Single Audit Act of 1984, OMB initiated a process whereby cognizance for both audit and indirect cost of larger governmental agencies was assigned to a single federal agency. The list of cognizant agency assignments was published in the Dec. 23, 1985, *Federal Register* and is reprinted in its entirety in ¶457 of the *Handbook*.

- *Hospitals.* There are no officially designated cognizant agencies for hospitals. In practice, HHS acts as the cognizant agency for all hospitals to which it awards research grants. Most of these hospitals are affiliated with medical schools.

- *Non-profit institutions.* There are no officially designated cognizant agencies for non-profit institutions. In practice, cognizance has been assumed, through informal mutual agreement among federal agencies, by the agency providing the preponderance of funds to a given grantee. As a general rule, the cognizant agencies for non-profit institutions are assigned as follows:

- Research-oriented organizations: HHS, NSF and DOD
- Economic development agencies: Commerce
- Community-based organizations: HHS and Labor
- Health-oriented organizations: HHS, NSF
- Art and culture-oriented organizations: National Endowment for the Arts
- Humanities-oriented organizations: National Endowment for the Humanities

1434 Types of Indirect Cost Rates

There are three types of indirect cost rates: provisional/final; predetermined; and fixed with carry-forward. The majority of large colleges and universities and virtually all state and local governments use the fixed rate with carry-forward. Small colleges and universities use either the fixed rate with carry-forward or the predetermined rate. Most hospitals and non-profit institutions use the provisional/final rate or the fixed rate with carry-forward. *The distinguishing difference between the rates lies not in how they are developed or the type of costs they represent, but rather in whether and how they are adjusted to reflect a grantee's actual costs.*

An indirect cost proposal is prepared in advance of the period in which it is to be used. It is an estimate of both the direct and indirect costs that an organization expects to incur during a forthcoming period of time (e.g., its next fiscal year). Because it is an estimate, it needs to be adjusted at the end of that period to reflect the grantee's actual cost. Federal agencies generally allow an organization six months after the end of its fiscal year to submit its adjusted proposal. The same proposal usually serves two purposes: to adjust the prior year's projected rate(s) to actual rates and to establish the upcoming year's projected rate(s).

Knowing the actual cost, three alternatives are available to the grantee:

1. The initial rate can be modified and adjustments made to the grants (and contracts) to which it was applied—a retroactive adjustment. This is a procedure that must be followed if a provisional/final rate is used.
2. The initial rate and the grants and contracts to which it was applied can remain undisturbed; adjustments can be made against the rate(s) for the forthcoming period. This procedure is followed under the fixed rate with carry-forward.
3. The difference is ignored; no adjustment is made. This occurs when a predetermined rate is used.

The advantages and disadvantages to the three types of indirect cost rates are discussed below.

Provisional/final rates require retroactive adjustments, which cause additional work and inconvenience. The more grants an organization receives, the greater the work and inconvenience. In addition, if the grantee's final (actual) rate is less than the provisional rate, it will owe the government a refund. The grantee must ensure that it has cash available to make the payment. On the other hand, if the final rate is higher than the provisional rate, the organization may not be able to recover costs from the government if the awarding agency has expended all of its appropriated funds. This situation does not occur often, but it does happen.

Predetermined rate usage is restricted both by legislation and business conditions. The U.S. General Accounting Office (GAO) views the predetermined rate in the same light as cost-plus-percentage of cost contracting, which was outlawed by Congress. Congress authorized predetermined rates on research grants and contracts with colleges and universities [Public Law

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87-638 (76 Stat. 437)]. They are now widely accepted for other types of grants awarded to colleges and universities and state and local governments. They also have been accepted for use at non-profit institutions whose federal funding is obtained exclusively through grants. However, predetermined rates cannot be used legally for federal contracts and should not be used for non-profit institutions that have both grants and contracts.

A predetermined rate is firm; it cannot be adjusted. Therefore, before the federal government approves the use of a predetermined rate, it must be assured that the grantee's actual rate is equal to or less than the predetermined rate, or that any overpayment that may occur when the rates are converted to dollars will be immaterial. However, a grantee that agrees to recover less indirect costs than it is entitled to under federal cost principles may find the predetermined rate attractive because there is no after-the-fact adjustment and it knows how much indirect cost it will recover.

The fixed rate with carry-forward has all the attributes of the other two rate types, but none of their disadvantages. An organization can adjust its estimated rate to an actual rate. It does not need to recover (or pay back) retroactive adjustments as it would with a provisional/final rate or commit itself to an underrecovery of costs as it would with a predetermined rate. The one drawback is that the grantee cannot recover any monies due (as a result of its estimated rate being less than its actual rate) until the new rate goes into effect—usually a year or more after the end of the grantee's last fiscal year. The same is true for the pay-back, should the estimated rate be greater than the actual rate. Because of the length of time it takes to effect the adjustment to reflect actual cost, fixed rates with carry-forward are used only with grantees that are relatively stable and have a long-term relationship with the federal government. A grantee cannot use this type of rate if its level of operations and/or federal support fluctuates significantly from year to year or will terminate before the carry-forward can be accomplished.

If a grantee meets the requirements for more than one of these rate types, the one which is used is decided by both the grantee and its cognizant agency. For large grantees, the government is likely to prefer the fixed rate with carry-forward, or if the grantee is willing to accept a rate that is less than actual, a predetermined rate is chosen. For small grantees, the government is likely to prefer the provisional/final rate or, again, if the grantee is willing to accept a rate that will not result in a material overpayment by the government, a predetermined rate is preferred.

435 Procedures for Developing Indirect Cost Rates

Various approaches or methods are available to grantees for computing indirect cost rate(s). These approaches are described in the cost principles in the HHS "OASC" instruction manual series under the following terms: short form; long form; simplified method; and multiple distribution base method.

These methods apply the same basic formula—indirect costs divided by direct costs equals the indirect cost rate—the difference in the methods is one of refinement. As a general rule, the less refined the process (i.e., the simpler the approach), the less likely the resulting rate will approximate the grantee's actual rate, and, in most instances, the more likely it will be less than the actual rate. On the other hand, the small amount of effort and supporting documentation required for the simpler methods, when compared with the amount of indirect costs a grantee is likely to recover, may justify a less refined approach. For example, it is not cost effective for a grantee to spend \$1,000 to prepare a refined proposal if it will recover only \$500 in indirect costs against its grants.

For example, assume the following facts about a grantee:

Program A	expenditures (non-federally supported)	\$ 300
Program B	expenditures (non-federally supported)	400
Program C	expenditures (100 percent federally supported grant)	<u>500</u>
Total direct costs		\$1200
Overhead:		
	Use charge on building	\$ 100
	Operation and maintenance of building	200
	General and administrative costs	<u>100</u>
Total overhead cost		\$400
Total cost for fiscal year		\$1600

The simplest way for the grantee to compute its rate is:

$$\$400 \div \$1200 = 33\frac{1}{3} \text{ percent}$$

Applying this rate to the direct cost incurred for the federal grant, the amount of indirect cost potentially recoverable is $\$500 \times .333$, or \$167. Assume that the work performed under the federal grant requires twice as much space as the other programs, as follows:

Program A	150 square feet
Program B	350 square feet
Program C	<u>1000 square feet</u>
Total	1500 square feet

In this situation, it may be beneficial to the grantee to make a more refined computation. It could distribute (allocate) the use charge on the building (\$100) and the operation and maintenance cost (\$200) to Programs A, B, and C on the basis of the square feet used by each. It would then distribute the general and administrative cost on the basis of direct cost. The computation:

	Total	Program A	Program B	Program C
Use charges and O&M	\$300			
150 ÷ 1500 × \$300		\$30		
350 ÷ 1500 × \$300			\$70	
1000 ÷ 1500 × \$300				\$200
General and administrative	\$100			
\$300 ÷ \$1200 × \$100		\$25		
\$400 ÷ \$1200 × \$100			\$33	
\$500 ÷ \$1200 × \$100				\$42
Total indirect costs	\$400	\$55	\$103	\$242
Total direct costs	\$1200	\$300	\$400	\$500
Indirect costs rates	33.3%	27.5%	25.8%	48.4%

Because of the refinement, the grantee's indirect cost entitlement has increased from \$167 to \$242. If, for example, the federal grant limits indirect costs to 20 percent of direct costs or the cost of the study necessary to support the space figures (in square feet) was more than \$75 (\$242 - \$167), there would be no financial benefit of using the refined method. However, there might be other managerial benefits that would make it worthwhile.

Differences in Procedures

As noted in ¶431, the cost principles used by the federal agencies contain common concepts. They differ most in the details of developing indirect cost rates. There are differences because each set was designed to be compatible with a particular type of organization that differs from other types of organizations in purpose and administrative structure. A hospital is nothing like a university, and a suitable description of the cost pools for one would be only marginally useful to the other. At the next lower level of detail (i.e., allocation of the individual indirect cost pools to the direct cost activities they benefit), there are more common features. For example, one widely accepted technique for distributing the operation and maintenance costs of a building to the functions carried on within it is the same for all types of organizations, namely square feet used. The same is true for costs associated with the personnel office (number of employees), the purchasing office (number or dollar-volume of requisitions), the accounting office (number of transactions or checks written), etc.

The following is a brief description of the methods and cost pools prescribed in the cost principles for the major types of grantee organizations.

Colleges and Universities

The short form method is sometimes called the "Section H" form because it refers to that part of OMB Circular A-21 in which it is described. Specifically, the short form:

- can be used by colleges and universities that receive up to \$3 million in federal grants and contracts;
- produces an institutional rate that applies equally to all activities performed by a school;
- is easy to prepare using coarse data that appear in the school's financial statements or are readily available (such as salaries of the deans, department heads, etc.);
- precludes the recovery of depreciation or use charges on plant and equipment;
- treats student-related administrative functions as a direct activity; and
- assumes that all direct activities of an institution (instruction, research, auxiliary enterprises, and student-related administration) benefit from all of the remaining administrative activities.

Most institutions which use this procedure use predetermined rates.

The long form method is used by colleges and universities that are not eligible to use the short form, or by "short form" institutions that seek to recover indirect costs at a rate more reflective of their real costs (i.e., higher than the rate under the short form). The long form groups a school's administrative costs into separate pools (departmental administration, research or sponsored agreement administration, operation and maintenance, depreciation/use charges on plants and equipment, library, student services, and general administration). A description of each pool is provided in OMB Circular A-21. These pools are distributed to each of the school's major activities (instruction, research and auxiliary enterprises). To assess administrative costs, the pools are distributed to the major benefiting individual or group of projects within the activities (e.g., projects performed off campus or on campus in largely autonomous settings). Examples of the short- and long-form approaches are provided in the HHS booklet, *A Guide for Colleges and Universities* (OASC-1).

Hospitals

The indirect cost proposal of a hospital is a by-product and integral part of the cost allocation procedures used to determine Medicare charges. The administrative pools, allocation procedures and format are the same as those used for Medicare. The distribution of costs is comparable to the college and university long form method, but the direct activities and the indirect cost pools are different. The hospital's direct cost activities are the various patient care services, routine care (room and board) and research. Its indirect cost pools are depreciation/use charges on plant and equipment, operation and maintenance of plant, laundry and linen services, housekeeping, medical records, library, personnel housing, and administrative costs. A description of the cost pools is included in HHS cost principles for research and development grants and contracts awarded to hospitals. There is no "short form" method for hospitals. The principles are contained in the booklet, *A Guide for Hospitals* (OASC-3).

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Non-Profit Institutions

Non-profit institutions are more diverse in organizational structure, purpose, operation and size than any other type of grantee. The term non-profit encompasses every kind of non-commercial organization, including: health and welfare organizations; community-based organizations; medical, physical science, and social research institutes; membership organizations; Indian organizations not covered by the Office of Management and Budget's definition of local government; health maintenance organizations; and professional service review organizations. Because of the diversity of these organizations, the cost principles do not specify direct or indirect cost pools. Frequently, however, the indirect cost pools are depreciation/use charges on plant and equipment, operation and maintenance of facilities, and general administration.

The three methods most commonly used by non-profit organizations for computing indirect cost rates are described below.

- *Simplified method.* This method is comparable to the college and university short form. It consists simply of dividing the aggregate cost of a grantee's administrative (overhead) activities by the aggregate cost of all its remaining (direct) activities. The simplified method assumes that all direct activities benefit equally from all the administrative activities of the grantee.

- *Multiple distribution base method.* This method is used when the assumption that all direct activities benefit equally from all administrative activities does not hold true. It is somewhat comparable to the college and university long form. However, because non-profit grantees generally are not as complex as universities, they usually have fewer overhead pools to distribute. This approach is used most often by non-profit grantees that perform direct activities in more than one physical location or perform or administer different activities, such as job training and clinical services.

- *Direct allocation method.* This method is an extension of the procedures usually used by various health and welfare organizations to identify the costs of the various programs and projects they perform or administer. Many of the costs that other types of grantees treat as indirect (e.g., heat, light, power, depreciation/use charges on plant and equipment, telephone, and general supplies) are treated as direct costs by non-profit organizations and are individually distributed to the programs and projects they benefit. The remaining overhead, which consists of the costs of the executive office, accounting, procurement or purchasing, personnel, etc., is accumulated under the category "management and general" (or a comparable term), and constitutes the grantee's indirect cost. The indirect cost usually is assumed to benefit all direct programs and projects. This method results in the lowest indirect cost rate of all of the methods because most of the costs commonly treated as indirect are treated as direct. This method will be found most beneficial by those grantees that receive funding from agencies that shy away from paying indirect costs. It must be used by grantees that maintain accounts and financial statements in accordance with the American Institute of Certified Public Accountants' accounting requirements for voluntary health and welfare

and comparable organizations. Examples of these methods are provided in the HHS booklet, *A Guide for Non-Profit Institutions* (OASMB-5).

State and Local Governments

State and local governments incur administrative costs at two levels. The first is the so-called executive or central administrative level of costs such as central budgeting, accounting (comptroller), personnel (civil service), legal services (attorney general), auditing (state auditor), facilities operations and maintenance, and the motorpool (general services administrations). The second level is the operating departments or agencies (health, roads, social service, education, police, fire, etc.) and consists of the overhead costs incurred at this level (salaries and wages of the department heads and their administrative staffs, the departmental accounting and budgeting offices, etc.). Because of this layering, state and local governments can prepare two types of proposals: a central service cost allocation plan and an indirect cost proposal.

Central service cost allocation plans

Central service cost allocation plans are comparable to the college and university long form because each central service is treated as a separate cost pool and distributed to each operating department or agency it serves. This distribution is accomplished either through billing rates or particular services rendered (e.g., cost per mile for use of a motor vehicle, dollar per audit hour, or computer usage rates) or through an allocation based on an indication of use (e.g., accounting based on the number of transactions or checks written or occupancy based on square feet of space occupied). The costs distributed down to the operating department level through the central service cost allocation plan are subsequently included in each operating department's indirect cost proposal or included where they can be identified with a grant as a direct cost.

Indirect cost proposals

Indirect cost rate proposals of state and local governments are similar to non-profit proposals. Like those of non-profit organizations, there are three basic methods:

- The *simplified method*. This method is simply the sum of the department's own indirect cost and the central service costs distributed to it through the central service cost allocation plan and not charged directly to a grant or program, divided by the total direct costs of the department. This method assumes that all of the department's direct activity benefits from all its administrative activities.
- The *alternate simplified method*. This method extends the same concept to individual divisions within a department. It treats each division independently and computes a separate rate for them using the same concept as the simplified method.
- The *multiple rate method*. This method is comparable to the college and university long form method and is used to distribute costs of each indirect cost pool separately to the direct cost activities they benefit. This method usually is used for a large multi-layered (umbrella agency) department.

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- The *multiple rate method*. This method is comparable to the college and university long form method and is used to distribute costs of each indirect cost pool separately to the direct cost activities they benefit. This method usually is used for a large multi-layered (umbrella agency) department.

Small cities and other governments that receive a relatively small amount of federal funding can use a special simplified technique called the consolidated, local central-service allocation plan. This method is comparable to the college and university short-form method. All of these methods are described further in the HHS booklet, *A Guide for State and Local Government Agencies* (OASC-10).

States have always been required to submit their cost allocation plans and indirect cost proposals for approval by the cognizant agency before using them. In the past, some larger local governments that received significant amounts of indirect costs were sometimes asked by their cognizant agencies to submit cost allocation plans. Generally, smaller local governments that developed rates were permitted to apply them and retain their documentation for audit review. Federal reviews of the application of rates by local governments, however, revealed some improprieties and, in June 1986, the Office of Management and Budget initiated an additional requirement that federal agencies require all local governments "for which they are responsible" to submit cost allocation plans for review and approval.

Negotiation and Appeal

The last step in the rate-setting process is reaching agreement or negotiating with the cognizant agency on a rate. The term implies a hard-bargaining exercise. Negotiation is more likely to be an information-gathering or clarification session in which views are exchanged and concessions given by both sides in a subdued atmosphere. When negotiation begins, the grantee should be prepared to support and defend its proposal. The grantee must be able to defend any assumptions made in preparing its proposal with hard data and facts. Most "negotiations" are conducted by phone. Some are conducted in person, either at the grantee institution or at the cognizant agency office. Most are completed in short order; a few are protracted. Occasionally, neither side is willing to concede enough, and no agreement is reached. When this happens, the cognizant agency will make a unilateral determination and so notify the grantee. If the agency has an appeal procedure, the negotiator will inform the grantee of the appeal procedures. The grantee will have a reasonable period of time to prepare its case and submit it to the appeals officer. In most cases, grantees are given 30 days from the date they are notified of the government's final determination to file an appeal.

¶438 Common Indirect Cost Problems Faced by Grantees

The following are the most common problems that grantees encounter when developing indirect cost proposals:

- *Accounting information.* The most common problem grantees encounter in preparing an indirect cost proposal is the lack of cost information and data about their organization. Many grantees find any method beyond the simple short form difficult to construct. Good records are an essential ingredient in the indirect cost process.
- *Lack of attention in planning.* Another problem is the lack of time and resources that grantees are able (or willing) to devote to preparing a proposal. Preparing a proposal need not be a major undertaking at most organizations, but it does take forethought and attention. The results can be repayment many times over.
- *Controlling costs.* Grantor agencies are cautious about and critical of organizations that show a tendency toward waste, luxury and extravagance. Grantees should be prepared to defend their level of spending.
- *Determining the negotiating official.* The federal government is confusing and intimidating to many grantees. Thus, grantees often are in a quandary over who will approve their rates. The negotiating official is usually in the federal agency that provides the most funds to the grantee. To locate the negotiating official, contact the office that awarded the grant, the regional office or other agency office listed in ¶439 of the *Handbook*, or call the Financial Management Division of the Office of Management and Budget, (202) 395-3993.
- *Recovering indirect costs once the rate is approved.* Having an approved indirect cost rate does nothing for a grantee unless it can use that rate to recover indirect costs. Many funding agencies are reluctant to include all (or any) indirect costs in their awards. The grantee may need to make some hard choices in such instances. However, it is important for grantees to remember that indirect costs are real and necessary to grantee operations and they have to be recovered in some way.
- *The psychological barrier.* This may be the greatest problem. There is an unfounded fear that indirect costs are extremely complex and unfathomable except to a high-priced accounting specialist. To the contrary, the indirect cost process is a logical, step-by-step exercise that most people can perform with some guidance and planning.

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RATE AGREEMENT
STATE AND LOCAL DEPARTMENTS/AGENCIES

MONTANA DEPARTMENT OF HEALTH & ENVIRON. SCIENCES
COGSWELL BUILDING
HELENA, MT 59620

DATE: 11/27/90
FILING REF.: The preced
ing agreement was dated
02/23/90 G31054.89

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions contained in Section II.

SECTION I : RATES

Type	Effective Period		Rate	Location	Applicable to
	From	To			
INDIRECT COST RATES*					
Fixed	07/01/90	06/30/91	15.20%	ALL	ALL PROGRAMS
Prov.	07/01/91	06/30/92	15.20%	ALL	ALL PROGRAMS

*BASE: Direct salaries and wages including all fringe benefits.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are charged to Federal projects as part of the normal charge for salaries and wages. Separate charges for the cost of these absences are not made.

TREATMENT OF OTHER FRINGE BENEFITS

This organization charges the actual cost of each fringe benefit direct to Federal projects. However, it uses a fringe benefit rate which is applied to salaries and wages in budgeting fringe benefit cost under project proposals. The following fringe benefits are treated as direct costs:
FICA, GROUP INSURANCE, WORKER'S COMPENSATION, UNEMPLOYMENT COMPENSATION, STATE RETIREMENT.

SPECIAL REMARKS:

The Department indirect cost pool consists of the Director's Office, the Board of Health, the Administration of the Central Services Division, and the Support Services Bureau, less the Film Library and the Director's salary.

1. Salaries and wages applicable to the employees noted above.
2. Fringe benefits applicable to the employees noted above.
3. Travel applicable to the employees noted above.
4. Contracted Services applicable to the offices noted above.
5. Supplies applicable to the offices noted above.
6. Telephone applicable to the offices noted above.
7. Rent, utilities & general maint. applicable to the offices noted above.
8. Repairs applicable to the offices noted above.
9. Postage applicable to the offices noted above.
10. Merit System costs applicable to the offices noted above.
11. Department allocated share of statewide costs.

SECTION II: GENERAL

LIMITATIONS: The rates in this Agreement are subject to any statutory administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the department/agency or allocated to the department/agency by an approved cost plan were included in its indirect cost pool as finally accepted; such costs are legal obligations of the department/agency and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the department/agency which was used to establish the rates is not later found to be materially incomplete or inaccurate.

ACCOUNTING CHANGES: If a fixed or predetermined rate is in this Agreement, it is based on the accounting system purported by the department/agency to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

FIXED RATES: If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate for a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

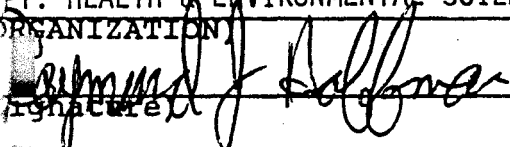
AUDIT: If a rate in this Agreement contains amounts from a cost allocation plan, future audit adjustments which affect this cost allocation plan will be compensated for during the rate approval process of a subsequent year.

USE BY OTHER FEDERAL AGENCIES: The rates in this Agreement were approved in accordance with the authority in Office of Management and Budget Circular A-87, and should be applied to grants, contracts and other agreements covered by this Circular, subject to any limitations in A above. The department/agency may provide copies of this Agreement to other Federal agencies to give them early notification of this Agreement.

OTHER: If any Federal contract, grant or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the department/agency should (1) credit such costs to the affected programs and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to the programs.

THE ORGANIZATION

U.S. HEALTH & ENVIRONMENTAL SCIENCES ORGANIZATION


Signature

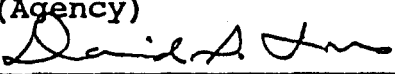
Raymond J. Hoffman
(Name)

Administrator, Centralized Services Div.
(Title)

November 5, 1990
(Date)

BY THE COGNIZANT AGENCY
ON BEHALF OF THE FEDERAL GOVERNMENT
DEPARTMENT OF HEALTH AND HUMAN SERVICES

(Agency)


(Signature)

David S. Low
(Name)

Director, Division of Cost Allocation
(Title)

November 27, 1990
(Date)

HHS Representative Henry J. Bomba
Telephone: (415) 556-1704

**U.S. ENVIRONMENTAL PROTECTION AGENCY
EPA ASSISTANCE AGREEMENT/AMENDMENT
PART I - ASSISTANCE NOTIFICATION INFORMATION**

1. ASSISTANCE ID NO. **V008527-01-7** 2. LOG NUMBER **8-V-17**
3. DATE OF AWARD **JUL 03 1990** 4. MAILING DATE **JUL 12 1990**

5. AGREEMENT TYPE

Cooperative Agreement

Grant Agreement

Assistance Amendment ☒

6. PAYMENT METHOD

☐ Advance

☐ Reimbursement

☒ Letter of Credit **68-13-0804**

Send Payment Request To:

NA

7. TYPE OF ACTION

Increase

8. RECIPIENT

Department of Health & Environmental Sciences
Environmental Sciences Division
Solid and Hazardous Waste Bureau
Cogswell Building
Helena, Montana 59620

9. PAYEE

Same

EIN NO.

81-0302402

CONGRESSIONAL DISTRICT

01

10. RECIPIENT TYPE

State

11. PROJECT MANAGER AND TELEPHONE NO.

Duane Robertson (406) 444-2821

12. CONSULTANT (WWT Construction Grants Only)

NA

13. ISSUING OFFICE (City/State)

Helena, Montana

14. EPA PROJECT/STATE OFFICER AND TELEPHONE NO.

Kathy Chiotti
(406) 449-5414

15. EPA CONGRESSIONAL LIAISON & TEL. NO.

Pat Gaskins (202) 382-5184

16. STATE APPL ID (Clearinghouse)

MT900511-662-X

17. FIELD OF SCIENCE

NA

18. PROJECT STEP (WWT CG Only)

NA

19. STATUTORY AUTHORITY

CERCLA, Sec. 104 As Amended

20. REGULATORY AUTHORITY

40 CFR 31, 32 & 35
Subpart 0

21. STEP 2 + 3 & STEP 3 (WWT Construction Only)

NA

a. Treatment Level

b. Project Type

c. Treatment Process

d. Sludge Design

22. PROJECT TITLE AND DESCRIPTION

CORE Program - CERCLA Implementaion Support

23. PROJECT LOCATION (Areas Impacted by Project)

City/Place

NA

County

NA

State

MT

Congressional District

99

24. ASSISTANCE PROGRAM (CFDA Program No. & Title)

66.802 Hazardous Substance Response Trust Fund

25. PROJECT PERIOD

4/1/88 - 6/30/91

26. BUDGET PERIOD

4/1/88 - 6/30/91

27. COMMUNITY POPULATION (WWT CG Only)

NA

28. TOTAL BUDGET PERIOD COST

\$592,976

29. TOTAL PROJECT PERIOD COST

\$592,976

FUNDS

FORMER AWARD

THIS ACTION

AMENDED TOTAL

30. EPA Amount This Action

313,342

249,986

563,328

31. EPA In-Kind Amount

32. Unexpended Prior Year Balance

33. Other Federal Funds

34. Recipient Contribution

16,491

13,157

29,648

35. State Contribution

36. Local Contribution

37. Other Contribution

38. Allowable Project Cost

329,833

263,143

592,976

Program Element

TFAY9A

FY

90

Appropriation

68-20X8145

Doc. Control No.

TF0045

Account Number

OTFA08L700

Object Class

41.85

Obligation/Deoblig. Amount

\$249,986

39. FISCAL

PART II-APPROVED BUDGET

ASSISTANCE IDENTIFICATION NO. V008527-01-7

TABLE A - OBJECT CLASS CATEGORY
(Non-construction)TOTAL APPROVED ALLOWABLE
BUDGET PERIOD COST

1. PERSONNEL	326,477
2. FRINGE BENEFITS	71,283
3. TRAVEL	28,980
4. EQUIPMENT	18,800
5. SUPPLIES	13,042
6. CONTRACTUAL	33,671
7. CONSTRUCTION	0
8. OTHER	42,780
9. TOTAL DIRECT CHARGES	535,033
10. INDIRECT COSTS: RATE <u>1</u> BASE salaries & fringe (See terms & conditions)	57,943
11. TOTAL (Share: Recipient <u>5</u> % Federal <u>95</u> %)	592,976
12. TOTAL APPROVED ASSISTANCE AMOUNT	\$ 563,328

TABLE B - PROGRAM ELEMENT CLASSIFICATION
(Non-construction)

1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	
11.	
12. TOTAL (Share: Recipient _____ % Federal _____ %)	
13. TOTAL APPROVED ASSISTANCE AMOUNT	\$

TABLE C - PROGRAM ELEMENT CLASSIFICATION
(Construction)

1. ADMINISTRATION EXPENSE	
2. PRELIMINARY EXPENSE	
3. LAND STRUCTURES, RIGHT-OF-WAY	
4. ARCHITECTURAL ENGINEERING BASIC FEES	
5. OTHER ARCHITECTURAL ENGINEERING FEES	
6. PROJECT INSPECTION FEES	
7. LAND DEVELOPMENT	
8. RELOCATION EXPENSES	
9. RELOCATION PAYMENTS TO INDIVIDUALS AND BUSINESSES	
10. DEMOLITION AND REMOVAL	
11. CONSTRUCTION AND PROJECT IMPROVEMENT	
12. EQUIPMENT	
13. MISCELLANEOUS	
14. TOTAL (Lines 1 thru 13)	
15. ESTIMATED INCOME (If applicable)	
16. NET PROJECT AMOUNT (Line 14 minus 15)	
17. LESS: INELIGIBLE EXCLUSIONS	
18. ADD: CONTINGENCIES	
19. TOTAL (Share: Recipient _____ % Federal _____ %)	

PART III-AWARD CONDITIONS

DATE 1-10-91

EDum. Serv. Sub.

a. GENERAL CONDITIONS

The recipient covenants and agrees that it will expeditiously initiate and timely complete the project work for which assistance has been awarded under this agreement, in accordance with all applicable provisions of 40 CFR Chapter I, Subpart B. The recipient warrants, represents, and agrees that it, and its contractors, subcontractors, employees and representatives, will comply with: (1) all applicable provisions of 40 CFR Chapter I, Subchapter B, INCLUDING BUT NOT LIMITED TO the provisions of Appendix A to 40 CFP Part 30, and (2) any special conditions set forth in this assistance agreement or any assistance amendment pursuant to 40 CFR 30.425.

b. SPECIAL CONDITIONS:

(For cooperative agreements include identification or summarization of EPA responsibilities that reflect or contribute to substantial involvement.)

The following terms and conditions are additions and revisions to previously stated conditions. They are a result of the creation of 40 CFR Parts 31, 32 and 35, Subpart O.

1. EPA awards this Cooperative Agreement in accordance with Federal Grant and Cooperative Agreement Act of 1977. This agreement is subject to all applicable Federal assistance regulations in 40 CFR Parts 31, 32, and 35 Subpart O.
2. The recipient must submit a completed MBE/WBE Utilization under Federal Grants, Cooperative Agreements, and other Federal Financial Assistance (SF 334) to the EPA, Region VIII, Grants Management Branch (8PM-GM), 999 18th Street, Suite 500, Denver, CO 80202-2405, within one month following the end of each Federal fiscal quarter (i.e., January 31, April 30, July 31, and October 31) during which the recipient or its contractors award any subagreements to minority or women's businesses.
3. When issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing project or programs funded in whole or in part with Federal money, all grantees receiving Federal funds, including but not limited to State and local governments, shall clearly state (1) the percentage of the total cost of the program or project which will be financed with Federal money, and (2) the dollar amount of Federal funds for the project or program."
4. By accepting this award you are agreeing to comply with the government-wide requirement for implementing the Drug Free Workplace Act of 1988.
5. Pursuant to an EPA Order dated January 24, 1990, the recipient agrees to use recycled paper for all reports which are prepared as a part of this agreement. This requirement does not apply to reports which are prepared on forms supplied by EPA. This requirement applies even when the cost of recycled paper is higher than that of virgin paper.
6. EPA's Small Business Rural Area Business Development Plan required by Small Business Administration Reauthorization and Amendment Act of 1988 requires recipients of EPA assistant agreements to agree to utilize the following affirmative steps:

- a. Placing SBRAs on solicitation lists;
 - b. Ensuring that SBRAs are solicited whenever they are potential sources;
 - c. Dividing total requirements, when economically feasible, into small tasks or quantities to permit maximum participation by SBRAs;
 - d. Establishing delivery schedules, where the requirements of work will permit, which would encourage participation by SBRAs;
 - e. Using the services of the Small Business Administration and the Minority Business Development Agency of the U.S. Department of Commerce, as appropriate; and
 - f. Requiring the contractor, if it awards subcontracts, to take the affirmative steps in subparagraphs a through e of this condition.
7. The authorized budget includes indirect costs based on the State's appropriate fiscal year rate.
- July 1, 1987 - June 30, 1988 = 12.7%
- July 1, 1988 - June 30, 1989 = 17.1%
- July 1, 1989 - June 30, 1990 = 15.2%
- July 1, 1990 - June 30, 1991 = 15.2%
8. The EPA Project Office is changed to Kathy Chiotti.

VISITOR'S REGISTER

Human Services

SUBCOMMITTEE

AGENCY (S) _____

DATE 1/10/91

DEPARTMENT

DHES

PLEASE PRINT !!

NAME	REPRESENTING DO NOT ABBREVIATE !!	SUP- PORT	OP- POSE
Charles Stohl	Health + Env. Sci. (DHES)		
John D. Hawthorne	DHES		
Ray Hoffman	DHES		
Bill Quirk	DHES		
Jean Riley	Petroleum Tank Floor Comp. Board		
Dennis Iverson	DHES		
Sam H. Sperry	DHES		
Doug Arnold	DHES		
Dave Depew	MPFA		
Judith Carlson	Local Healer Dep.		
Paulette Kelman	Mt Council for Mat + Ch ^{ernob} H/Th		
Dan Gengler	OBPP		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.