The Florida Senate

Interim Project Report 2001-006 *November 2000*

Committee on Budget Senator Locke Burt, Chairman

ANALYSIS OF COUNTY HEALTH DEPARTMENT CASH ACCOUNTING AND CASH BALANCES

SUMMARY

Florida has provided public health services through County Health Departments since the 1930's and these programs have an exemplary record of quality services to Floridians and the many visitors of this state. The Legislature has stated its intent that the public health needs of the counties be provided through contractual arrangements between the state and each county. A functional system of County Health Department services has been established and includes the following three levels of services:

- Environmental health services;
- Communicable disease control services; and
- Primary care services.

During the Budget Subcommittee on Health and Human Services subcommittee meetings and the resulting budget conference committee process, it became apparent that additional resources beyond the subcommittee allocations would be needed to address Department of Health core budget priorities for Fiscal Year 2000-01. The budget conference committee decided to use $24.9 million of the state portion of County Health Department cash to fund several critical priorities regardless of where the cash balances resided. Over the past three years, the end of year cash balance in the County Health Department trust fund has grown by $36.1 million. The cash to budget ratio has increased from 10.54% to 16.54%.

The findings of this review indicate that the use of County Health Department cash had both negative and positive impacts. Also, operating reserves are required to cover cash flow contingencies and cash management improvements need to be made to improve overall utilization of funding available for health department priorities.

The report recommends several areas for improvement. These include:

1. Other options must be considered to address declared emergency related cash flow requirements such as early releases of general revenue, improved reimbursement processes, and immediate access to working capital funds.
2. The County Health Department Program should be scheduled early in the "Zero Based Budgeting" process to enable a prompt determination of required activities, unit costs and performance.
3. Allocations of fund balances should be changed to allow Medicaid funds remaining in the cash balances to be split on the basis of the federal financial participation ratio which will allow more resources to be credited to the county portion.
4. Update policy and procedure guidelines and manuals. The department should review the financial reports to determine if they can be reduced, simplified or made better through the use of technology.
5. County Health Departments in conjunction with county partners should annually submit a list to the Secretary of the top priorities for which surplus funds would be used. Secretary review and concurrence would be required prior to use.
6. The department should consider segmenting the fund in several portions such as a fixed capital outlay depreciation account, operating account reserves, local emergency fund and local set-asides. A Secretary's local emergency fund should be created including establishing criteria for accessing the fund. In the first year a level of $500,000 should be established from an annual assessment on ending trust fund balances.
7. The department should continue to utilize a minimum of an 8.5% cash to operating budget ratio for the operating reserve for Fiscal Year 2001-02.

BACKGROUND

Florida has provided public health services through County Health Departments since the 1930's and these programs have an exemplary record of quality services to Floridians and the many visitors of this state. Chapter 154 Florida Statutes establishes legislative intent for the operation of County Health Departments. As stated in Chapter 154, it is the intent of the Legislature to promote, protect, maintain, and improve the health and safety of all citizens and visitors of this state through a system of coordinated County Health Department services. The Legislature recognizes the unique partnership which necessarily exists between the state and its counties in meeting the public health needs of the state. To strengthen this partnership, the Legislature has stated its intent that the public health needs of the counties be provided through contractual arrangements between the state and each county. A functional system of County Health Department services has been established and includes the following three levels of services:

a) "Environmental health services" are those services which are organized and operated to protect the health of the general public by monitoring and regulating activities in the environment which may contribute to the occurrence or transmission of disease. Environmental health services shall be supported by available federal, state, and local funds and shall include those services mandated on a state or federal level. Examples of environmental health services include, but are not limited to, food hygiene, safe drinking water supply, sewage and solid waste disposal, swimming pools, group care facilities, migrant labor camps, toxic material control, radiological health, occupational health, and entomology.

(b) "Communicable disease control services" are those services which protect the health of the general public through the detection, control, and eradication of diseases which are transmitted primarily by human beings. Communicable disease services shall be supported by available federal, state, and local funds and shall include those services mandated on a state or federal level. Such services include, but are not limited to, epidemiology, sexually transmissible disease detection and control, immunization, tuberculosis control, and maintenance of vital statistics.

(c) "Primary care services" are acute care and preventive services that are made available to well and sick persons who are unable to obtain such services due to lack of income or other barriers beyond their control. These services are provided to benefit individuals, improve the collective health of the public, and prevent and control the spread of disease. Primary health care services are provided at home, in group settings, or in clinics. These services shall be supported by available federal, state, and local funds and shall include services mandated on a state or federal level. Examples of primary health care services include, but are not limited to: first contact acute care services; chronic disease detection and treatment; maternal and child health services; family planning; nutrition; school health; supplemental food assistance for women, infants, and children; home health; and dental services.

The Department of Health is required to enter into contracts with counties to fulfill statutory responsibilities for the delivery of public health services. All contracts are negotiated and approved by the appropriate local governing bodies and the appropriate County Health Department directors or administrators on behalf of the department. These contracts may include utilization of federal funds for County Health Department services as long as it is in accordance with federal guidelines. A standard contract format has been developed and is used by the department in contract negotiations. The contract includes the three levels of County Health Department services outlined previously and contains sections which stipulate, for the contract year:

(a) All revenue sources, including federal, state, and local revenue, fees, and other cash contributions, which shall be used by the county health department for County Health Department services;

(b) The types of services to be provided in each level of service;

(c) The estimated number of clients, where applicable, who will be served, by type of service;

(d) The estimated number of services, where applicable, that will be provided, by type of service;

(e) The estimated number of staff positions (full-time equivalent positions) who will work in each type of service area; and

(f) The estimated expenditures for each type of service and for each level of service.

Periodic financial reports are required by Section 154.02 (4) Florida Statutes for this trust fund. The Department of Health is required to segment the fund into state and county portions based on percentage of funding provided by each governmental entity. Uniform annual financial statements are required to include useful and relevant information concerning the operations of the County

Health Departments and shall specifically contain the following information for each county:

(a) The amount of funds expended year-to-date for each type of service within each of the three levels of service;

(b) The revenue and cash balances year-to-date in each County Health Department trust fund;

(c) The units of service and the number of clients served, where applicable, year-to-date for each type of service in each of the three levels of service;

(d) The actual amount of revenue deposited in the trust fund year-to-date by the state and the county, by source, compared to the amount of revenue, by source, from the state and the county that was projected in the contract for the contract year; and

(e) The final report for the contract year shall clearly state the amount of funds remaining in each County Health Department and the percentage of such funds that are credited to the state and the county.

During the Budget Subcommittee on Health and Human Services subcommittee meetings and the resulting budget conference committee process it became apparent that additional resources beyond the subcommittee allocations would be needed to address Department of Health core budget priorities. The Senate original proposal allowed specific County Health Departments, which had balances in excess of certain amounts, to use these resources to fund construction projects. After much discussion during the budget conference committee process it was agreed to use $24.9 million (See Table 1) of the state portion of County Health Department cash to fund several critical priorities regardless of where the cash balances resided. This was the original House position. The critical priorities funded were information system technology improvements which will benefit the entire department, school health programs and County Health Department construction projects for new facilities.

The estimated June 2000 cash balance in the County Health Department Trust Fund was $86.7 million. Reductions were taken from the state share of unspent funds only, county funds were not utilized as part of the reduction. Based on the June 30, 2000 estimate, the use of $24.9 million in state cash would result in a 11.8% overall reserve at that point in time. A reserve level of 8% of the annual budget has been used previously to accommodate cash flow requirements. The issue of appropriate reserve levels and control over the utilization of cash balances is a critical issue because it has both state and local government as well as service delivery implications. Many instances of local health concerns and emergencies are handled by County Health Department management with their own resources based on priorities which have been established locally through contracts with the counties.

The action by the Legislature to utilize these cash balances was not favorably received by most parties with vested interests in County Health Department programs and operations. As a result of this concern it was decided to include a review of County Health Department cash accounting and cash balances as part of the interim project schedule. The issue of proper utilization of County Health Department funds will likely resurface during the 2001 Legislative Session since it was a large funding source for County Health Department construction projects during the 2000 Legislative Session.

METHODOLOGY

The methodology utilized to complete this project included legal research through the internet for statutory requirements related to the program and the trust fund, data collection and analysis, surveys of the County Health Departments and other interested parties, and interviews with Department of Health staff responsible for accounting for County Health Department funds. A listing of all data elements was prepared and provided to the department to guide the preparation of data. Letters were sent to all County Health Department directors/administrators and other interested parties asking for their input and recommendations.

FINDINGS

Overall

Services provided by the various County Health Departments are very similar, however, the demographics of the clients served and other community characteristics make most County Health Departments unique. The delivery of services is a daily challenge for even the most astute directors and administrators. One day there may be an infectious disease outbreak or a food poisoning case, the next it might be a beach closure due to contamination and the next could be a flood or a hurricane. Sometimes they are even called upon to be pied pipers trying to eliminate mice. The Department of Health central office provides financial management services and oversight as well as coordination and policy direction for certain statewide programs. Daily operations are managed locally and the directors and administrators have a significant responsibility to provide quality services within each county. They essentially have two sets of bosses one in Tallahassee and the other

residing with the various Boards Of County Commissioners.

Over the past three years the end of year cash balance in the County Health Department trust fund has grown by $36.1 million. The cash to budget ratio has increased from 10.54% to 16.54%.

Year	1998	1999	2000
Ending Balance	$50.6	$74.7	$86.7
Cash to Budget Ratio	10.54%	14.35%	16.54%

Revenues deposited in the trust fund come from a variety of sources including local governments, state government, the federal government, consumers, non-profits and other fee based sources. In excess of $530,000,000 flows through this trust fund on an annual basis. Some cash receipts will be restricted for a specific purpose while others may be reimbursements for previously provided services such as those from the Medicaid Program. Regulatory fees, specific grants/contracts and set asides from proviso language in the General Appropriations Act are examples of receipts which generally have restrictions. Annually, in the approved operating budget, the Department of Health identifies items which are specifically earmarked to enable the counties to know how funds are to be spent.

For Fiscal Year 1999-00 the following amounts were estimated to be collected by source:

Source	Fiscal Year 1999-00 Estimated Amount
State General Revenue	$ 190,961,812
Other State Funds	$ 51,375,489
State Fees	$ 20,286,276
Federal Funds	$ 84,390,602
Medicaid	$ 45,909,618
County Commission	$ 48,734,782
County Fees	$ 28,212,384
Other Local Contributions	$ 21,403,998
Interest, Refunds/Contracts	$ 43,087,863
Total	**$ 534,362,824**

State General Revenue is the largest source followed by federal funds and then county government. Approximately 70% of County Health Department resources are spent on salaries and 26.6 % are spent on operating expenses. Only seven of sixty-seven counties have specific taxing authority for County Health Department services and support, therefore, most of the county share comes from ad valorem taxes and other local taxes and fees.

The Use of County Health Department Cash Had Both Negative and Positive Impacts

Financial management practices of County Health Department directors and administrators are monitored monthly with special attention paid to negative cash flow and cash to budget ratios which do not meet stated departmental goals. For Contract Year 2000-01 the average trust fund balance requirements were generally 8% of the annual operating budget. If stated goals are not met action plans are required to demonstrate how the standards will be met within a four month period or disciplinary action will be taken by the Secretary of the Department of Health. Disciplinary action could include reduction in pay to termination of employment for the director or administrator. An unexpected use of cash balances, as was enacted by the FY 2000-01 General Appropriations Act, caused much concern on the part of directors and administrators responsible for meeting these standards because it further limited their flexibility in using cash balances.

The response to the survey of County Health Departments was nearly unanimous that the use of this cash did impact local programs and priorities in the current fiscal year. Impacts can be separated into three categories:

- Services to Clients
- Facility Infrastructure
- Administrative Infrastructure

Services to clients - fewer dental services, school health services, decreased contract physician coverage, community outreach/education services, immunization services, sample collection and testing, primary care services, chronic disease prevention projects, direct patient services, HIV/AIDS care, teenage pregnancy prevention, sanitary nuisance response, epidemiology services and a more limited response to emergencies are types of activities which are reported to have been impacted by this reduction.

Facility infrastructure - planned projects such as roof replacements, minor repairs to facilities, parking lot acquisition and repairs, heating/air conditioning systems, electrical system upgrades, security system replacements, health and health examination equipment replacement and phone system upgrades were deferred, scaled back or eliminated.

Administrative infrastructure - such as computer system replacement, clinic filing systems, performance incentives and rewards for employees, vehicle

replacement, annual employee pay raises not fully covered, and office equipment replacement are types of issues which have been deferred or which must be made up with other resources as a result of the reduction.

In addition to the operational impacts, several counties expressed concern about the legislative action and a few counties reduced county contributions to compensate for the state reductions. The most common reaction from counties appeared to be one of caution. Other reactions included apprehension related to reduced services, reluctance to make up for the losses with county resources, and cost shifting issues. Twelve of the responding counties indicated this action would have an impact on the contract negotiations with their counties for this year. Many respondents felt this sent a mixed message to counties and to local administrators. Some thought the spend it or lose it mentality may resurface, which does not appear to support a planned use of funds thus removing efficiency incentives for County Health Department operations.

Several other organizations, associations and officials provided comments related to the reduction. Their responses expressed concern about the level of reductions, the impact on local priorities and the potential breach of trust between state and local government.

Positive impacts included nineteen County Health Departments which were able to construct new facilities or renovate existing buildings. Many of these facilities have been on the agency priority list for several years and were in desperate need of replacement. Overall twenty one County Health Departments benefited from the Legislative decisions to utilize cash balances for statewide construction and school health priorities. Of these, ten County Health Departments covered the project costs from their own cash balances. Additionally, the Department was able to use $8 million of the funds to move forward with critical information technology needs which will eventually benefit the operations and management of the entire department. This system, when fully implemented, would support the delivery of high quality, easily accessible public health services to individuals, communities and the State. Specifically, the new system will automate many existing manual processes, improve the systems management of Children's Medical Services, upgrade technology infrastructure, and re-engineer or replace some existing technology systems.

Operating Reserves are Required to Cover Cash Flow Contingencies

There may be as many opinions about the ideal level of reserve as there are counties in the state. The Department has previously used reserve levels which range from 8% to 12%. The 8% level was established as a method of creating a one month reserve to cover cash flow needs and was simply calculated by dividing 100% by twelve months. A contingency reserve and operating reserves are a core issue. Many factors complicate the analysis of this issue. For example:

- Federal funds are not always available when a grant is awarded;
- Grants and contracts may be cost reimbursable resulting in cash flow problems;
- Allocations of balances and receipts between state, county, local, private and federal sources are controversial;
- Pay package issues are never fully funded leaving each County Health Department at risk of funding the package;
- Medicaid reimbursed services in County Health Departments vary from month to month;

Suggestions for reserve levels varied from one percent to twenty percent. Many reasons were provided as justification for a reserve including cash requirements for natural disasters, local health emergencies, cash flow due to delayed funding, salary appropriation deficiencies, federal grant delays, and to preserve the ability to operate the County Health Departments as a private sector business.

Natural disaster emergencies do occur but may not be frequent or widespread enough to justify a specific set aside in a reserve in each County Health Department. There is a prevalent view at the county and state level that County Health Departments should be individually and solely responsible for providing their own resources for use during a natural disaster. Given the potential enormity of natural disasters such as wildfires, tropical storms and hurricanes, it is unrealistic to expect a County Health Department or even the Department of Health to underwrite the costs of disaster related services for even a short period of time.

Cash Management Improvements Need To Be Made To Improve Overall Utilization Of Funding

From the comments received in the survey it is apparent the County Health Department administrators want and need flexibility with their funding in order to provide quality services to their respective communities within a responsive timeframe. County Health Department directors and administrators made the following

suggestions regarding cash management and how to improve the overall funding:

- Provide performance based funding as a way to reward counties which meet agreed upon goals and objective.
- Change the state fiscal year so that it aligns with the federal fiscal year.
- Segment the fund by major purpose. Although this suggestion has merit, there are drawbacks to having too many accounts and the flexibility limitations associated with those accounts.
- Allow the accrual of fixed capital outlay funds.
- Require annual plans to use cash balances. Currently the annual contracts do require an explanation of the use cash balances, however, it does not appear specific projects are listed in priority order and the Secretary of the Department of Health does not appear to have a direct role in the approval of these priorities.
- Improve financial reporting systems, policies and procedures and provide additional training for financial managers.
- Defining specific reserve levels was suggested however there was not a uniform consensus on the level of reserve.
- Provide monthly releases of funds.

RECOMMENDATIONS

1. Other options must be considered to address declared emergency related cash flow requirements such as early releases of general revenue, improved reimbursement processes, and immediate access to working capital funds.
2. The County Health Department Program should be scheduled early in the "Zero Based Budgeting" process to enable a prompt determination of required activities, unit costs and performance.
3. Allocations of fund balances should be changed to allow Medicaid funds remaining in the cash balances to be split on the basis of the federal financial participation ratio which will allow more resources to be credited to the county portion.
4. Update policy and procedure guidelines and manuals. The department should review the financial reports to determine if they can be reduced, simplified or made better through the use of technology.
5. County Health Departments in conjunction with county partners should annually submit a list to the Secretary of the top priorities for which surplus funds would be used. Secretary review and concurrence would be required prior to use.
6. The department should consider segmenting the fund in several portions such as a fixed capital outlay depreciation account, operating account reserves, local emergency fund and local set-asides. A Secretary's local emergency fund should be created including establishing criteria for accessing the funded. In the first year a level of $500,000 should be established from an annual assessment on ending trust fund balances.
7. The department should continue to utilize a minimum of an 8.5% cash to operating budget ratio for the operating reserve for Fiscal Year 2001-02.

Table 1

Allocation of the Cash Balance Reduction
FY 2000-01 General Appropriations Act Reductions

County	Balance Reductions	Programs Funded	Net Impact
Alachua	(104,503)		(104,503)
Baker	(128,531)	300,000	171,469
Bay	(742,205)		(742,205)
Bradford	(384,744)		(384,744)
Brevard	(424,438)	240,000	(184,438)
Broward	(340,875)	900,000	559,125
Calhoun	(27,664)		(27,664)
Charlotte	(342,044)	477,100	135,056
Citrus	(921,370)		(921,370)
Clay	(163,211)		(163,211)
Collier	(450,059)		(450,059)
Columbia	(22,871)		(22,871)
Dade	(5,512,757)	5,100,000	(412,757)
Desoto	(34,637)		(34,637)
Dixie	(130,478)		(130,478)
Duval	(341,383)		(341,383)
Escambia	(186,699)	100,000	(86,699)
Flagler	(94,789)		(94,789)
Franklin	(204,294)		(204,294)
Gadsden	(42,819)		(42,819)
Gilchrist	(241,805)		(241,805)
Glades	(108,032)		(108,032)
Gulf	(131,557)		(131,557)
Hamilton	(224,606)		(224,606)
Hardee	(25,700)		(25,700)
Hendry	(391,147)	2,500,000	2,108,853
Hernando	(325,598)	266,000	(59,598)
Highlands	(56,397)		(56,397)
Hillsborough	(1,594,937)	500,000	(1,094,937)
Holmes	(19,911)		(19,911)
Indian River	(149,463)		(149,463)
Jackson	(41,909)		(41,909)
Jefferson	(137,316)		(137,316)
Lafayette	(189,318)		(189,318)
Lake	(632,048)		(632,048)
Lee	(128,612)		(128,612)
Leon	(282,023)	200,000	(82,023)
Levy	(168,389)		(168,389)
Liberty	(15,373)		(15,373)
Madison	(176,864)		(176,864)
Manatee	(92,771)		(92,771)
Marion	(160,225)		(160,225)
Martin	(179,091)	1,053,799	874,708
Monroe	(1,526,262)		(1,526,262)
Nassau	(37,216)		(37,216)
Okaloosa	(1,268,676)		(1,268,676)
Okeechobee	(113,752)		(113,752)
Orange	(282,906)		(282,906)
Osceola	(80,221)		(80,221)
Palm Beach	(444,394)	500,000	55,606
Pasco	(1,238,970)		(1,238,970)
Pinellas	(325,558)		(325,558)
Polk	(672,554)	437,680	(234,874)
Putnam	(211,665)	150,000	(61,665)
St. Johns	(358,020)		(358,020)
St. Lucie	(74,122)	300,000	225,878
Santa Rosa	(128,820)		(128,820)
Sarasota	(163,414)	500,000	336,586
Seminole	(89,595)		(89,595)
Sumter	(240,710)	350,000	109,290
Suwannee	(31,490)		(31,490)
Taylor	(146,069)	125,000	(21,069)
Union	(421,718)		(421,718)
Volusia	(223,686)		(223,686)
Wakulla	(280,795)	1,500,000	1,219,205
Walton	(178,110)	1,143,600	965,490
Washington	(274,593)	243,600	(30,993)
TOTAL	(24,886,779)	16,886,779	(8,000,000)

COMMITTEE(S) INVOLVED IN REPORT ***(Contact first committee for more information.)***
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MEMBER OVERSIGHT
Senator Ron Klein