2017

Chapter 4
Budgeting and Analysis

A health director or program manager's main task is to provide leadership in developing and enabling health policies to protect the public and ensure a minimal acceptable level of health services. Though the health department may have an administrative manager, the health director is still responsible for running a fiscally sound agency. Most states realize that a minimal population mass is necessary to provide sufficient staff for a reasonable range of public health programs, whose performance is measurable by specific outcome objectives. In many states 100,000 is the minimum population size for a health district supervised by a director trained in public health. In rural areas, several counties and small cities may be grouped into "health districts."

Fiscal management includes all those activities necessary to ensure that an agency stays within its allotted monetary resources. This requires an accounting system to track expenditures and revenues. The system should provide periodic summaries of accounts (whether weekly or monthly), and show when the funds in any "line item" or program are out of balance, either by showing a likely deficit or unexpected excess at the end of the accounting period. Budgets (funds) are provided to local health departments annually. A major problem for most agencies is that the money usually comes from multiple sources such as cities, counties, states, the federal government, private foundations and earned revenue. Each of these revenue sources may have a different fiscal year. Your fiscal manager, or administrator (if the same), has to combine these different funds into comprehensive spending plans and track expenditures from month to month. Also, he or she must be sure that while the different funds contribute to specific programs that they can be tracked individually by an external auditor as well as by program staff. This is essential to demonstrate to the funding source that you spent the money in accord with the objective(s) for which it was given. For additional clarification See this Excel Spreadsheet examples of budgeting alternatives in Virginia, which will be similar to those in other states.

Good management requires that the various funds be placed into a single account, with codes to identify each program and the source of funds contributing to that program. This process starts with local government funds. They are transferred to your account as "line item" funds for personnel, rent, contracts, supplies, or major equipment, not as funds for specific programs. These funds are then distributed a functional division such as nursing or health education. While this example from one of my prior health departments is a couple of decades old, many health departments still do not provide such an explicit fiscal analysis by program (i.e. an activity - STD, within a program - nursing). The funds received from various sources are compiled into a budget to accomplish the department's objectives for the current fiscal year. The objectives contribute to the operating division's (e.g., nursing) and department's overall goals set during planning sessions the previous year, as described in the chapter on planning. The fiscal manager works with division heads and staff to figure out the cost of doing business, while the director helps them to develop an annual detail budget. He or she helps to determine how many people are necessary to staff a clinic, provide a specific service, and care for a specific number of clients by developing a line item budget (note that the line item budget focuses on individuals and items within the budget not on programs.) Working with the fiscal manager, division and program directors review organizational alternatives to accomplish the objectives. It may be cheaper and more effective to provide services at a site more accessible to your clients if transportation is a problem. It may be more efficient to be co-located with another agency such as a hospital or a social service agency. A new building might reduce overhead costs of heating, air-conditioning, waste disposal, or computer linkage. A different site might provide parking and be an inducement to new staff when competing with other groups for the same people. Each of these considerations has a fiscal impact. This PowerPoint show describes budgeting in a local health district as a model (Dr. Nelson, Director in Chesterfield County, VA).

Developing an audit trail: for personnel as an example. Staff may be paid by a central agent such as your local government or by the health department itself. At a minimum, the department has to account for attendance, perform semi-annual evaluations, and ensure proper and timely pay raises or disciplinary action that may demand leave without pay. Each pay action must have an "audit trail" to validate it and ensure any change is allocated to the proper fund. Updating your data system may be part of an integrated fiscal management program. Except in the most up-to-date health departments, there is still excessive and unnecessary paper work. Many good fiscal management systems are available for either stand alone or networked computer systems.

The personnel system is a major administrative system within a health department. Because 75-85% of the average department's funds pay people, it is the one function that must be integrated into a fiscal management system. Purchasing is a major cost-center. Another major function of the fiscal management system is that of purchasing supplies and equipment. You need to be able to track purchases from the time they were ordered, through the bidding process (if used), and to purchase and finally timely payment. Failure to pay bills on-time incurs additional charges better spent for services. In many agencies, an order goes to your supporting government's purchasing office. For all practical purposes the funds needed to pay for an item are encumbered once the order is placed. Encumbrance means that although the funds may still be in the department's bank account, it has been obligated and represents a debt to be paid. It cannot be spent twice. Many administrators and health directors, discharged for bad fiscal management, foundered on the shores of a bad supply system. Do not assume that other agencies will treat your money carefully, or that their management systems are either foolproof or efficient. Money provided to operate the department is your responsibility if you are the director. This includes checking the performance of administrators in the department, and means you must have a basic grounding in fiscal management.

You do not earn interest on money in your budget. That interest is earned somewhere else. Often the fiscal office that provides your funds expects expenditure delays and anticipates a certain amount of interest to keep its own budget in line. Each department must develop an expenditure tracking system. There is nothing more frustrating to field staff than trying to work without proper supplies and equipment. Just as you need to track the department's spending it is necessary to track supplies. The fiscal management system should have a subsystem to order supplies based on a specified stock level. The fiscal manager and his staff should decide how many supplies the field staff use weekly, or monthly, on the average. They need to determine how long it takes for supplies to reach the department after they are ordered. Then add six weeks. If it takes six weeks for supplies to reach you after they are ordered, plan to have at least one month's supplies on hand for the ensuing month, plus six weeks supplies for the average order to receipt time, plus a further six weeks for back orders. This may mean having four months' supplies on hand at the beginning of each month. These figures should be adjusted based on experience. Remember that supplies are money that has been spent. With too many supplies on hand you may have trouble with cash flow (too much need for money and not enough in the bank). Without enough supplies, you will have to make emergency orders that usually cost more, again depleting assets below the level planned when the budget was submitted. To reduce the cost of supplies, provided you have sufficient storage, a year's supply of non-perishable items may be ordered at one time to take advantage of reduced cost. Another way to arrange bulk purchases is through combined purchasing with similar agencies. Many local governments band together to purchase boxcar loads of items, reducing costs significantly. Several health departments have reduced costs by combining purchases of drugs, syringes, and other clinical supplies with local hospitals. There are many innovative ways of reducing costs. This is where skilled administrators can have a major impact on stretching available financial resources.

Another function of your fiscal system is to keep track of expenditures for utilities such as light, heat, water, and telephones. Capital assets, whether fixed in place such as buildings and built in equipment, or rolling stock such as trucks, trailers, boats, back hoes. Your fuel supplies should be tracked carefully also. All these assets have costs for which the department is accountable. The fiscal management system must have the capability to identify all non-

consumable equipment such as tables, chairs, computers, laboratory equipment, and nursing bags. Federal and state auditors expect each item to be labeled and available for inspection during periodic audits. It is simplest to check a sample drawn from a database than check each piece on a typed list. Each item should have indestructible labels attached and be counted annually. Each item has a predetermined useful life that serves as a basis for annual depreciation, and defines when to order a replacement. Depending on geographic location, utilities have a greater or lesser impact on the budget and require greater or lesser fiscal control. Heating in northern states is important in the winter while air conditioning is essential in states along the Gulf of Mexico. Capital expenditures for building require program analysis to determine where to house staff, and how well the facility will support their activities. Buildings with more than one floor should have ramps or elevators that can take wheel chairs. Clinical facilities need to have space for examining, interview and changing rooms as well as administrative areas. Rooms should be big enough to train new staff and students. Space used for more than one programs must have a fair share of the cost apportioned to each program. Always plan for 20 percent more space than you think will be needed. Large health departments have routinely assigned the cost of space to the various programs. As the range of services provided by a department grows so does the need to figure out costs. These should include not only personnel time but administrative costs such as space and utilities.

Developing revenues: A department should not only look at proper management of local funds but should explore methods to produce revenue as an efficient and effective form of fiscal management. Frequently, local health agencies are finding that they need to charge (at least some clients) for certain services. Medicaid pays for clinical services (immunization, family planning, STD/TB treatment) and matches federal to state dollars anywhere from 1:1 in the wealthiest to 4:1 in the poorest states. With such federal funds available to defray costs it is not fiscally prudent for a department to pay 100 percent of the cost of providing services. Departments should participate as Medicaid providers, just like physicians, hospitals and drug stores. Revenue from services allows diversion of some of your funds for other pressing needs. Because Medicaid puts an emphasis on MCH programs, by expanding eligibility to at least 180 percent of the poverty level for pregnant women and children up to 5 years of age, there is an opportunity to expand your services using revenue obtained from Medicaid. States participating in the SCHIP program have expanded eligibility to children up to eighteen years of age and 200% of the federal poverty level. Some local health departments still provide home health services. In some communities other than major urban areas, health departments remain the only agencies still providing home health services although improvement to the Medicare program have resulted in development of many private home health agencies. With good money management and better marketing the local health department can maintain its role in the community. Still, in most states, the home health services reimbursement, particularly for management of "activities of daily living" should support not only the home health services but other clinical programs. This requires careful attention to development of good accounting and money management.

Just as fees can support clinical programs, they can also support environmental programs. Most environmental programs are provided to citizens who can afford to pay for services. A person who can afford to build a home can afford to pay for the services necessary to install an individual sewage disposal system or a well. People who eat in restaurants can afford to pay their share of the certification programs used to ensure the food is cooked, stored, prepared and served sanitarily. This is even true for Little-League programs that serve short-order foods in the stands. The restaurant association may agree, as a matter of policy, that all commercial food servers should be trained in food handling and supervised by a certified manager. It is possible to get the support of this association to recommend that its members provide such training and supervision and pay the costs of inspection if the quality control provided by the department is seen as strengthening its leadership in the community. Few states, or localities, that charge fees for inspection of private septic systems or wells charge the full cost. When developing the environmental budget the fiscal manager looks at the number of septic systems installed during past years to develop an average of annual services. This manager also reviews records to determine the actual processes carried out and time taken, including driving time, to figure out manpower costs for installation. Floor space

may be used to apportion facility costs. PCs, printers, modems used in a program can be fully charged to it unless the same equipment is used in other programs. If so a proportionate share of equipment costs should be assigned to the program. Staff support from the administration section, for managing a program's personnel and fiscal management, can be apportioned also. When all this is put together, a program budget can be developed. Once the program's costs are identified they can be discussed with local realtors and builders to let them know who will be affected. The program and recommended fee system can then be reviewed by the city or county manager and, if approved, then discussed with the elected officials and the local advisory board of health. Finally the board of health or elected officials can hold a public hearing for all those who want to express their views. At this point a policy decision can be made whether it is in the public's interest to charge user fees or fund the program from the general tax base. The advantage of user fees is that the costs are borne by those who use them and the program, being self-supported, does not have to depend on the tax system. It is worth noting that in 2012 state & local health departments are starting to develop programs to prevent and ameliorate chronic disease.

Recommended Reading:

1. Turnock, BJ: Essentials of Public Health, 2013, Jones & Bartlett
2. Fallon and Zgodzinski: Essentials Public Health Management, 3rd Ed. 2012, Jones & Bartlett
3. Friedman, Mark. Trying Hard is not good enough. Fiscal Policy Studies Institute. http://www.raguide.org
4. Peters T. J., Robert H. W. Jr: In Search of Excellence. New York, Harper & Row, 1982
5. Peters T. J.: Thriving on Chaos. New York, Alfred A. Knopf, 1987