



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Department of Commerce, Community,  
and Economic Development**

DIVISION OF CORPORATIONS, BUSINESS AND  
PROFESSIONAL LICENSING

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April 4, 2018

The Honorable Senator Anna MacKinnon  
Co-Chair, Senate Finance Committee  
State Capitol Room 532  
Juneau, AK 99801

Dear Senator MacKinnon,

During the Senate Finance Committee hearing on April 3, we were asked to follow up on questions concerning the board sunset extension bills.

**What is the status of the fee regulation project?**

*HB274, Extend the Board of Psychologists and Psychological Associates*

The Board of Psychologists and Psychological Associate Examiners and Division Director Janey McCullough determined together to delay implementing a regulations project to reduce fees. Since the lion's share of revenue received is during renewal season (only 24 new licensees in 2017), they decided that it would be best to wait until closer to their renewal in June 2019 so that the most up-to-date financial data is used. If the division adopted regulations immediately to change fees, the additional effort would add expense to the program and create confusion for licensees.

**What is the status of the fee regulation project?**

*HB278, Extend the Board of Certified Real Estate Appraisers*

The board has been working on an existing regulations project and has requested that the division wait to promulgate fee regulations so the two projects could be combined and save costs. The division expects to release this package for public comment by April 10.

**Why was the fee analysis showing the division's proposal much higher than the board's?**

*HB278, Extend the Board of Certified Real Estate Appraisers*

During the fee-setting process, the division submits a draft proposal as a starting point for discussion with each board. The fee analysis reviewed in committee demonstrates comparisons between current fees, the division's proposal to the board, and the counter-proposal made by the board to the division. In this particular case, both the board and division agreed to accept the board's proposal, which is noted at the top of the document. This is the proposal that will be submitted for public comment next week.

**How does the division plan to resolve the “chain of custody” concern raised in the FBI audit? What is the timeframe for completion?**

*HB275, Extend the Board of Massage Therapists*

Director McCullough has been working with Kathryn Monfreda (Chief, Criminal Records & Identification Bureau, DPS) and Margaret Brodie (Director, Health Care Services, DHSS) to determine what statutory and budgetary changes would be required to utilize LiveScan electronic fingerprinting services, thereby eliminating the FBI's concern.

In the meantime, the division fingerprinting instructions require that applicants have their fingerprints taken by the Department of Public Safety or by a company or agency authorized by DPS. The division is determining additional procedures that could mitigate any risk associated with this issue until the budgetary and statutory authority is available to implement the solutions utilized in other departments.

**Why was Ms. Brollini's complaint deemed “non-jurisdictional” by division investigators?**

*SB279, Extend Alaska Real Estate Commission*

The division is consulting with the Department of Law to ensure proper jurisdiction, will re-review the complaint, and will notify Ms. Brollini of the outcome or if additional information is required. If all necessary information is received timely from all parties, we expect to complete this review within 30 days.

**What are the true, complete costs of licensing programs? Are there any “hidden” expenses?**

*Not bill-specific*

The full schedules of revenues and expenditures for all professional licensing programs are provided online and to board members on a quarterly basis. In addition to any direct expenses, board members receive additional detail on indirect allocation methodology and a breakdown of indirect expenses, which are included herein. There are no “hidden” expenses.

We believe this completes the follow up from the questions posed to the department. If you or any members of the committee have further questions or require additional information about anything provided here, please contact special assistant Micaela Fowler at 465-2503.

Sincerely,

*MF for Sara Chambers*

Sara Chambers  
Deputy Director

cc: Janey McCullough, Director, CBPL  
Greg Francois, Chief Investigator, CBPL  
Micaela Fowler, Special Assistant, DCCED  
Sharon Walsh, Executive Administrator, REC

# FY17 CBPL Indirect Allocation

FY 2017 CBPL COST ALLOCATIONS

Name	Activity Code	Direct Expenses	3rd Party Reimbursement	Total Revenues	Direct Expenses	Percentage of board compensated personnel by department	Division providing personnel services by department	Department Personnel Services Personnel services by department %	Indirect Expenses (Total non-POH Allocation)	Percentage of direct personnel services %	Total Indirect Expenses	Total Expenses	2017		
													Activity Code		
Acupuncture	ACU1	\$ 26,813	\$ -	\$ 26,813	\$ 13,100	5	13,100	240	\$ 4,807	5	\$ 4,807	\$ 0	22,814	\$ 4,286	
Aerospace Engineer	AEL1	20,121	\$ 13,378	\$ 33,499	\$ 21,699	598	21,699	8,248	\$ 21,318	598	\$ 88,095	\$ 323,420	\$ 80,058	(495,441)	
Aerospace Trainer	ATH1	11,215	\$ -	\$ 11,215	\$ 9,085	100	9,085	46	\$ 248	100	\$ 248	\$ 0	5,777	\$ 5,777	
Aerospace Petrolers	AUD1	86,110	\$ -	\$ 86,110	\$ 42,470	50	42,470	23,946	\$ 1,864	50	\$ 978	\$ 0	5,220	\$ 864	
Almuni & Headresses	BAH1	302,163	\$ -	\$ 302,163	\$ 333,117	211,490	211,490	2,747	\$ 2,747	211,490	\$ 14,091	\$ 0	42,747	\$ 85,220	
Behavior Analysts	BEV1	30,980	\$ -	\$ 30,980	\$ 3,300	1,026	3,300	78	\$ 8,958	1,026	\$ 4,515	\$ 0	308,740	\$ 41,857	
Chiropractors	CHI1	210,640	\$ 1,373	\$ 210,640	\$ 60,445	10,320	60,445	666	\$ 2,982	10,320	\$ 1,347	\$ 0	22,913	\$ 14,372	
Collective Bargain	COB1	30,120	\$ -	\$ 30,120	\$ 25,970	207	25,970	379	\$ 1,250	207	\$ 22,082	\$ 0	12,333	\$ 12,333	
Construction Peons	CPI1	11,079	\$ -	\$ 11,079	\$ 2,827	1,279	2,827	48	\$ 322	1,279	\$ 784	\$ 0	2,414	\$ 2,414	
Construction Contractors	CON1	1,287,523	\$ -	\$ 1,287,523	\$ 687,297	304,288	10,191	10,772	\$ 225,251	10,191	\$ 111,716	\$ 0	438,867	\$ 1,294,264	
Home Inspectors	HEV1	8,798	\$ -	\$ 8,798	\$ 7,288	3,431	7,288	365	\$ 3,834	3,431	\$ 2,461	\$ 0	3,116	\$ 13,600	
Dental	DEY1	804,060	\$ -	\$ 804,060	\$ 188,000	128,903	188,000	3,673	\$ 138,962	128,903	\$ 47,835	\$ 0	186,547	\$ 21,478	
Orthopedic Surgeons	DTN1	8,840	\$ -	\$ 8,840	\$ 1,681	730	1,681	56	\$ 648	730	\$ 397	\$ 0	10,429	\$ 1,442	
Driver & Entry Models	DMY1	12,079	\$ -	\$ 12,079	\$ 2,969	2,097	2,969	97	\$ 1,638	2,097	\$ 992	\$ 0	3,833	\$ 3,833	
Electrical Engineers	DOF1	31,313	\$ -	\$ 31,313	\$ 3,321	1,061	3,321	248	\$ 950	1,061	\$ 2,053	\$ 0	8,748	\$ 17,038	
Electrical Administrator	EAD1	18,670	\$ -	\$ 18,670	\$ 2,707	7747	2,707	316	\$ 1,961	7747	\$ 29,614	\$ 0	14,732	\$ 44,366	
Extraneous Services	EUT1	250	\$ -	\$ 250	\$ 438	18	438	98	\$ 412	18	\$ 570	\$ 0	1,008	\$ 1,008	
Geologists	GEO1	1,440	\$ -	\$ 1,440	\$ 890	381	890	74	\$ 468	381	\$ 318	\$ 0	1,883	\$ 891	
Guardians/Converstors	GCO1	8,861	\$ -	\$ 8,861	\$ 8,861	510	8,861	90	\$ 631	510	\$ 1,468	\$ 0	1,007	\$ 1,007	
Healthcare Workers	GUY1	484,489	\$ 223	\$ 484,489	\$ 274,644	242,658	274,644	2,460	\$ 8,204	242,658	\$ 70,022	\$ 0	120,878	\$ 386,123	
Marine Pests	MAN1	213,440	\$ -	\$ 213,440	\$ 57,519	3,156	57,519	808	\$ 1,022	3,156	\$ 3,714	\$ 0	18,098	\$ 78,218	
Foreign Passes Crdit	FRC1	88,200	\$ -	\$ 88,200	\$ 1,294	30	1,294	30	\$ 496	30	\$ 270	\$ 0	1,961	\$ 88,309	
Mental & Family Therapy	MFT1	65,306	\$ 1,000	\$ 65,306	\$ 67,375	42,625	67,375	178	\$ 4,208	42,625	\$ 4,208	\$ 0	12,874	\$ 11,131	
Massage Therapists	MAI1	220,019	\$ -	\$ 220,019	\$ 153,485	40,363	153,485	1,027	\$ 1,346	40,363	\$ 25,840	\$ 0	30,118	\$ 224,342	
Administrative Administrator	MEC1	12,475	\$ -	\$ 12,475	\$ 18,717	208	18,717	1,027	\$ 1,027	208	\$ 17,852	\$ 0	1,027	\$ 22,333	
Medical Technicians	MED1	1,810,154	\$ 3,887	\$ 1,810,154	\$ 941,313	21,736	941,313	1,027	\$ 2,990	21,736	\$ 204,011	\$ 0	424,291	\$ 1,549,274	
Memory Booster	MOR1	36,080	\$ -	\$ 36,080	\$ 4,185	4,185	4,185	456	\$ 476	4,185	\$ 5,000	\$ 0	1,048	\$ 26,279	
Nursing Assistants	NAT1	9,095	\$ -	\$ 9,095	\$ 41,481	1,490	41,481	29	\$ 169	1,490	\$ 1,097	\$ 0	2,022	\$ 43,809	
Nurse Aids	NUA1	200,196	\$ -	\$ 200,196	\$ 222,581	108,182	222,581	1,027	\$ 4,836	108,182	\$ 11,977	\$ 0	43,208	\$ 210,773	
Nursing	NUR1	2,647,164	\$ 1,040	\$ 2,647,164	\$ 2,646,994	1,226,984	2,646,994	557,820	\$ 11,083	\$ 896,189	1,226,984	\$ 22,469	\$ 0	11,487,773	\$ 26,612
Nursing Home Administrators	NHA1	12,620	\$ 81	\$ 12,620	\$ 12,701	4,722	12,701	92	\$ 426	4,722	\$ 3,232	\$ 0	3,232	\$ 4,949	
Optometry	OPT1	100,020	\$ -	\$ 100,020	\$ 10,018	6,162	10,018	403	\$ 2,999	6,162	\$ 1,7816	\$ 0	35,354	\$ 82,923	
Physicians	PH1	4,000	\$ -	\$ 4,000	\$ 444	616	444	7	\$ 42	616	\$ 117	\$ 0	982	\$ 1,249	
Physical/occupational Therapy	PHI1	128,275	\$ -	\$ 128,275	\$ 128,000	62,840	128,000	4,340	\$ 144,640	62,840	\$ 78,070	\$ 0	222,016	\$ 491,858	
Physical Therapists	PHT1	84,868	\$ -	\$ 84,868	\$ 64,641	20,640	64,641	398	\$ 705	20,640	\$ 24,640	\$ 0	177,308	\$ 48,206	
Physician Counselors	POD1	181,206	\$ -	\$ 181,206	\$ 192,200	46,117	192,200	9,142	\$ 212	46,117	\$ 22,718	\$ 0	58,087	\$ 18,181	
Physiology	PSY1	171,930	\$ 8,874	\$ 171,930	\$ 169,454	220,871	169,454	47,427	\$ 246	220,871	\$ 62,298	\$ 0	111,728	\$ 332,987	
First Execs	REC1	287,181	\$ -	\$ 287,181	\$ 323,115	82,115	323,115	2,308	\$ 8223	82,115	\$ 95,501	\$ 0	168,180	\$ 408,275	
Real Estate Appraisers	APP1	272,680	\$ 6,827	\$ 272,680	\$ 278,417	91,688	278,417	8,423	\$ 1016	91,688	\$ 11,647	\$ 0	18,000	\$ 288,208	
Social Workers	CBW1	57,424	\$ -	\$ 57,424	\$ 54,866	25,076	54,866	544	\$ 3,320	25,076	\$ 27,981	\$ 0	45,869	\$ 100,634	
Storage Tank Workers	UST1	195	\$ -	\$ 195	\$ 3,011	1,472	3,011	14	\$ 79	1,472	\$ 1,988	\$ 0	1,103	\$ 6,878	
Veterinarians	VET1	238,430	\$ -	\$ 238,430	\$ 70,000	23,780	70,000	1,518	\$ 2,842	23,780	\$ 30,110	\$ 0	53,987	\$ 121,052	
No longer account holders or no longer account holders by board															
Total CBPL		\$ 1,004,156	\$ 0	\$ 1,004,156	\$ 1,004,156	5	1,004,156	5	\$ 10,079	5	\$ 10,079	\$ 0	1,402,824	\$ 4,802,481	
														\$ 283,001	

ABL & Corporations	080801005	\$ 8,532,630	\$ 5	\$ 8,532,630	\$ 1	\$ 881,181	\$ 5	\$ 709,110	\$ 3	\$ 184,470	\$ 3	\$ 18,381	\$ 5	\$ 871,895	\$ 20,486	\$ 783,605	\$ 1,782,636	
Interest & Profits CP																		
Revenue Transfer in (Carry Forward)	CFW1	\$ 335,157		\$ 335,157														
Reimbursable Service Agreement Fund	080801007	(\$13,069)		(\$13,069)														
Real Estate Recovery Fund	ZBR1	226,632		226,632		226,632		226,632		226,632		226,632		226,632		226,632		226,632
		36,045		36,045		36,045		36,045		36,045		36,045		36,045		36,045		36,045
Total CBPL		\$ 19,358,640	\$ 0	\$ 19,358,640	\$ 0													

Interest Expense Allocated by License %, interest paid by board / last payment balance currently active Note: does not include Overages

WV1 and CD1 combined for board reports

PP1 and MFT1 combined for board reports

MU1 and MUR1 combined for board reports

080801007

080801005

080801001

DIVISION INDIRECT EXPENSES		Prof Lic
<b>Percentage of direct personal services:</b>		
Business Supplies		28,331
Office Equipment		74,986
State Vehicles		3,300
Storage and Archives		9,189
Legal Support		18,659
Mail postage		27,876
Software Licensing and Maintenance		36,226
Division coding adjustment - conversion		
Division Administrative Expenses - all other		155,076
Division allocated by percentage of direct personal services:		353,643
<b>Percentage of board licenses/total licensees:</b>		
Division supervisors of receiving Personal Services 75%		126,339
Receiving Personal Services 40%		271,829
Investigations Indirect Personal Services		47,052
Division Administration Personal Services		842,333
Professional License Administration Personal Services		463,772
Division allocated by percentage of board licenses/total licensees:		1,751,325
<b>Receiving personal services by transaction %:</b>		
Division supervisors of receiving Personal Services 25%		14,632
Receiving Personal Services 60%		74,745
Division receiving personal services by transaction %:		89,377
<b>Total Division Indirect Expenses</b>		<b>2,194,345</b>
DEPARTMENT INDIRECT EXPENSES		Prof Lic
<b>Percentage of direct personal services:</b>		
Commissioner's Office		151,033
Administrative Services - Director's Office		55,102
Administrative Services - Human Resources		49,516
Administrative Services - Fiscal		52,504
Administrative Services - Budget		41,331
Administrative Services - Information Technology		84,599
Administrative Services - Information Technology - Network & Database		162,792
Administrative Services - Mail postage		7,273
Administrative Services - Facilities - Maintenance		2,462
Department allocated by percentage of direct personal services:		606,612
<b>Percentage of board licenses/total licensees:</b>		
Department administrative services support: Fiscal, IT, Procurement		631,802
<b>Receiving personal services by transaction %:</b>		
Department Personal Services - Fiscal Revenue personal services by transaction %		103,973
<b>Total DEPARTMENT INDIRECT EXPENSES</b>		<b>1,342,387</b>
STATEWIDE INDIRECT EXPENSES		Prof Lic
<b>Percentage of direct personal services:</b>		
Accounting and Payroll Systems		15,431
State Owned Building Rental (Building Leases)		253,176
Human Resources		50,621
IT Non-Telecommunications		98,605
IT Telecommunications		66,435
Risk Management		1,491
Statewide allocated by percentage of direct personal services:		485,759
FY16 TOTALS BY METHODOLOGY		Prof Lic
<b>Percentage of direct personal services:</b>		
		1,446,014
<b>Percentage of board licenses/total licensees:</b>		
		2,383,127
<b>Receiving personal services by transaction %:</b>		
		193,350
<b>Grand Total</b>		<b>4,022,491</b>

## X. Board Finances: How Do They Work?

The division is authorized revenues and expenditures in the budget adopted annually by the Alaska State Legislature. The division's annual budget is published by the Office of Management and Budget; fiscal year 2016 is shown below as an example in Figure 1 as the *Final FY16 Operating as Passed*. Once the budget is signed into law, it goes into effect for the next fiscal year, which begins July 1. Any adjustments to the current year's budget are adopted as incremental or decremental supplements by the legislature during Legislative Session.

**FIGURE 1: FY16 CBPL OPERATING BUDGET (IN MILLIONS):**

Final FY2016 Operating as Passed (12605)	
1000 Personal Services	7,249.6
2000 Travel	677.1
3000 Services	4,074.7
4000 Commodities	110.4
5000 Capital Outlay	137.4
7000 Grants, Benefits	0.0
8000 Miscellaneous	0.0
<b>Totals</b>	<b>12,249.2</b>

The division's operating budget is annually around \$12 to \$13 million; however, we do not receive general funds from the legislature; we are granted authority to spend the funds collected through licensing fees. While individual licensing program revenues are segregated, the total spending authority ceiling is shared among all CBPL activities. The division as a whole cannot spend more than its appropriated amount.

This total includes all aspects of administration of all professional and business licensing programs, board activity, corporation registration, and investigation expenses.

Spending authority gives the green light to expend revenues collected through licensing fees up to the stated limit in each functional area (numbers on the left are the account code series):

1000 Personal Services:	Payroll and benefits for division staff (licensing, investigations, administration)
2000 Travel:	All travel expenses for board members, staff, and investigators

<b>3000 Services/Contractual:</b>	Agreements with other agencies to perform services outside the division's expertise, including Department of Law, Office of Administrative Hearings, fingerprinting by the Department of Public Safety, inspections by Department of Environmental Conservation
	Contracts with vendors to provide services outside the state's purview, such as printer maintenance, professional testing, program-specific consulting, postage and mailing
<b>4000 Commodities/Supplies:</b>	Consumable supplies, such as paper, pens, envelopes, and staples
<b>5000 Equipment/Capital Outlay:</b>	Major durable purchases, including computers, desks, and office equipment

These functional areas shown in the division budget are the same as board members receive in the Quarterly Schedules of Revenues and Expenditures for their licensing programs and in the division's Annual Report to the Legislature, the summary of which is included in this report as Appendix D. (The entire report, including individual licensing program detail, is on the division web site at the link shown in Appendix F.) This consistency allows board members to compare how their expenditures fit within the division's overall spending authority—including all expenses for professional licensing functions and investigations for 40+ programs, corporations and business licensing, and administrative support for each of these sections of the division.

## **Professional Licensing Fee-Setting Process**

The division is tasked in statute (AS 08.01.050) with proper administration of licensing fees, revenues, and expenditures. The state's professional licensing activities are funded wholly by "receipt supported services." This means that by statute, all costs must be covered by licensing fees.

State law delegates the responsibility for fee-setting to the division, which in turn must consult with the board when proposing changes to that program's fees. It requires the division to "annually review each fee level to determine whether the regulatory costs of each occupation are approximately equal to fee collections." The annual review informs fee-setting for the biennial licensing period—a cycle that, by design, collects a program's significant source of revenue only once every two years.

Because AS 08.01.065 requires the division to assess fees that approximate the cost of that particular licensing program, boards should not maintain too large a roll-forward surplus or carry too extreme a deficit. If a licensing program collects a higher fee amount than needed, those funds carry forward from

one fiscal year to the next. The surplus may provide a future benefit to the licensees by allowing fees to be maintained or lowered and for use to offset ongoing program-specific expenses. Conversely, if the amount collected is not adequate to cover expenses, that deficit carries forward as a liability for the next fiscal year. This often results in fee increases for the next renewal or—if the deficit is significant—the deficit can be amortized through incremental increases over multiple licensing periods. (Dept. of Law opinion, Milks, 2014)

## **Board and Commission Review of Fiscal Documentation**

Your board's staff liaison will include documentation of the board's most current finances in materials available before each scheduled meeting. In your board meeting packet, you will receive:

- Quarterly Schedule of Revenue & Expenditure (i.e. the board's quarterly report)
- Breakout of direct program expenditures

The fourth quarter report will contain all year-end revenue and expense information, including the final annual indirect allocation, as well as additional fiscal back-up documentation.

Board meetings may happen more frequently than new reports are published, which may result in a meeting without updated financial information. Please keep that in mind as meetings are scheduled.

**Report publication schedule:**

1<sup>st</sup> Quarter (July-September) = Reports ready the 15th of November

2<sup>nd</sup> Quarter (October-December) = Reports ready at the end of January

3<sup>rd</sup> Quarter (January-March) = Reports ready at the end of April

4<sup>th</sup> Quarter (April-June) = Reports ready mid-October

Due to the statewide year-end financial close-out process, the raw data to produce final end-of-year reports is available to the department becomes available September 1. Reporting for the various agencies within the department then requires additional time, so a little “radio silence” between May and October is necessary. Once this data is final, though, final reports will be issued, followed shortly by each program’s first-quarter report.

Around this time, the division also publishes its Annual Professional Licensing Report to the Legislature, which contains a breakout of legal and investigative expenses for the prior six years. This and other reports are always available online at

<https://www.commerce.alaska.gov/web/cbpl/AnnualPerformanceReports.aspx>.

Final year-end reporting is complete for FY14; each board member will receive a copy via email from their staff liaison, and these documents will also be included in board packets for the first regular meeting following this report.

## **Direct Expenses**

Direct expenses are incurred specifically on behalf of the licensing program in implementation of the administrative and investigative responsibilities enumerated in statute to the division and/or a board appointed by the Governor.

Personal services charges (account code 1000) include the salaries and benefits of division staff working directly on behalf of a program—typically a licensing examiner, records and licensing supervisor, and investigator. Some programs may also directly utilize the services of an office assistant, project assistant, regulations specialist, paralegal, or executive administrator. Many licensing programs share staff, so only the time actually worked on their activities is charged to that program's code.

Travel expenses (2000) for board members, licensing staff, and investigators working in support of a specific licensing program are charged to that program. Travel through the state system requires adherence to the state travel policy, which is outlined in a separate document. Travel arranged directly through associations after obtaining pre-approval from the CBPL director will not reflect in a program's 2000 line of expenses.

Contractual expenses (3000) include services provided by agencies outside the division. These costs predominantly represent advice provided by an attorney with the Department of Law in conjunction with board meetings, regulations, enforcement, or appeals of board decisions. They may also include appeal expenses incurred by the Office of Administrative Hearings and expenses for licensing examinations, facilities usage, expert witnesses, credit card fees, FedEx, and other similar contracts required to support the mission of the program.

Supplies (4000) and equipment (5000) used for a program are usually fairly minimal and may include binders for board books, folders and labels for licensing files, and other tangible resources requested by a specific employee to meet the needs of their program(s). Equipment and supply requests are reviewed by a supervisor and purchased by the department through processes required by the state's procurement code.

## **Indirect Expenses**

Indirect expenses are services and expenses that are not directly attributable to a singular program or profession. Within the Division of Corporations, Business & Professional Licensing (CBPL), costs meeting this criterion are charged to one administrative code, then allocated among the two revenue-generating units of the division: (1) Corporations and Business Licensing and (2) Professional Licensing.

CBPL's indirect costs include:

- Salaries for CBPL division management, front desk staff, and certain employees performing services for multiple programs.

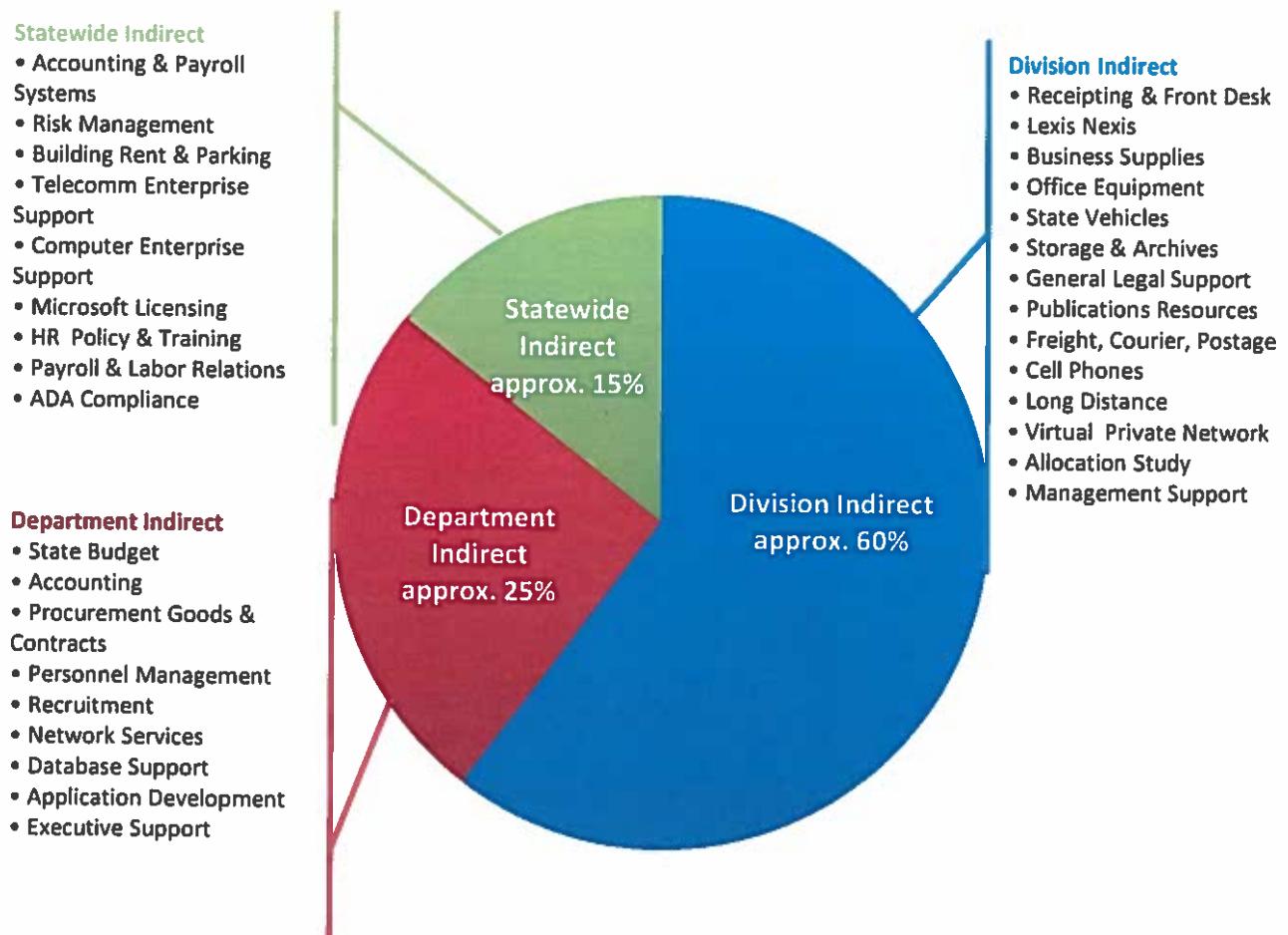
- Travel for management that is not directly chargeable to a singular program.
- Various services and commodities, such as the Lexis Nexis research database subscription, copies of statutes and regulations, records storage, purchase/lease and maintenance of printers and copiers, and other shared supplies and equipment.

It is more cost-effective for the division to share certain central resources with other agencies in the department and across the state. Department cost allocations, to which every department agency contributes, include services of the Commissioner's Office and the Division of Administrative Services (ASD). Costs are distributed equitably in accordance with a plan approved by the Office of Management and Budget and put into place in FY10.

Included in this indirect allocation are:

- Department-wide functional support areas, including fiscal oversight and accounting, network services and support, software programming and support, human resources, and procurement
- Statewide core costs for services that every state agency receives, including:
  - Department of Administration – Human Resources, Risk Management, AKSAS/AKPAY accounting systems, mail services, state-owned building rental, parking garages, Microsoft licenses, enterprise computer services, computer anti-virus protection, telecom support services, telecom PBX phones, pagers, and virtual private networks
  - Department of Labor – ADA management and compliance

**FIGURE 2: BREAKDOWN OF INDIRECT ALLOCATION TO CBPL:**



## Indirect Expense Allocation Methodology

The division has strived to define and further refine its indirect allocation methodology since a Legislative Audit in FY11 revealed a deficiency in the indirect expenses carried by the Corporations and Business Licensing Unit. The legislature in FY12 provided \$3.4 million to recoup the indirect expenses overpaid by professional licensing programs. The division, in partnership with its sister Division of Administrative Services, undertook an exhaustive examination of all revenues and expenses for each of its professional licensing programs, ensuring each transaction was reconciled to the state accounting system. This project, sometimes referred to as the "10-year look-back," provided boards and commissions with accurate documentation of accounting for their programs since 2001.

This effort did not make "whole" all programs that had been operating at a deficit; it only made correct the operating expenses over the last decade. Some programs converted their negative carry-forward

balances to surplus; some discovered that they were deeper in deficit than anticipated before the reconciliation. Regardless of the outcome of this massive effort in FY12, it paved the way for programs to receive transparent fiscal details—and for the division to be held accountable for its responsibility to accurately manage its fiscal affairs.

Another outflow of the project was to codify a reasonable, defensible, justifiable method of allocating indirect expenses to the division from the state and department levels—and then within the division across the work units and various licensing programs. From FY12-FY13, indirect expenses were allocated to the division according to level of effort, then distributed further to professional licensing programs by licensee count.

In FY14, from this position of strength, CBPL launched a deeper analysis of indirect costs. The result led to implementation of three new indirect allocation methodologies, as represented in Figure 4, below:

- 1) Allocating costs, both statewide and departmental, to agencies based on PCN, or position, count. It was determined that the division should be consistent with the statewide and department allocation methodology whenever possible. This methodology is based on percentage of time coded to each program; these percentages are driven by payroll reports for each position.

Examples of CBPL indirect expenses now allocated by PCN count are indicated by account code; a full explanation of each line of account code can be found on the Department of Administration's website.

Statewide (per federally approved cost allocation plans):

3805 IT/Non-Telecom  
3806 IT/Telecom  
3810 Human Resources  
3811 Building Leases

Departmental:

3155 Software Maintenance  
3979 Management/Consulting (support from the Division of Administrative Services and Commissioner's Office)

- 2) Allocation of CBPL personal services costs for administrative and accounting activity during high-volume renewal cycles. Following a review of CBPL administrative staff personal services, specifically the receiving staff & a portion of their supervisor's time, resulted in an updated allocation based on the number of transactions staff processed for each program in the department's receiving system.

This change resulted in the Business Licensing and Corporations programs paying a more accurate, higher percentage of the administrative staff's personal services costs due to the fact that there is a higher volume of business license and corporations transactions processed when compared to

professional licensing transactions. Professional Licensing programs were charged for 49.2% (\$193.9) of the personal services of CBPL administrative staff in FY14 vs. 84% (\$331.2) they would have been allocated if maintaining the allocation methodology used in FY13.

3) Allocation of ASD personal services costs for administrative and accounting activity during high-volume renewal cycles. The allocation for ASD revenue support staff that process CBPL's accounting transactions was similarly adjusted, now driven by the count of financial lines entered to the State Accounting System for each program.

**FIGURE 4: INDIRECT ALLOCATION WITHIN CBPL**



Looking forward, indirect expenses are expected to increase since Undesignated General Fund (UGF) allocations are being reduced to the DCCED Division of Administrative Services, Department of Administration, and other agencies providing services to CBPL. As positions are cut in other DCCED divisions, CBPL's percentage of costs allocated by PCN from the department to divisions will increase. As this dynamic will change year to year, division management will keep board members informed.