



# Environmental Health Fees

Informational Report

December 2022

**A Report to the  
Jackson County  
Board of Commissioners**

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An audit of Environmental Health (EH) fees for restaurants, hotels, and related inspections was included in the FY21-22 Annual Audit Plan because various parties had questions about these fees. The questions included specific questions as to why the amounts of certain fees were changing from one year to the next and included general questions regarding how the County determines what dollar amount to assign to the different fees.

We initiated the audit and performed testing that confirmed EH fees were calculated in accordance with the County's fee calculation process over the last five years. However, the fact that fees were calculated using the County's process does not answer the questions that were asked.

The requested answers are best provided through an informational white paper that explains the process rather than through a traditional audit report. Accordingly, we produced this report to provide explanatory information. EH fees and specific circumstances are discussed throughout the report, though much of the information is applicable to all County fees.

We organized this report as follows:

- Chapter 1: Background info on the budget, staffing, and functions of EH
- Chapter 2: The ORS and OARs that govern inspections and fees
- Chapter 3: Fee amounts and resulting program revenue
- Chapter 4: Determining the average number of hours needed to perform an inspection
- Chapter 5: An overview of the fee calculation methodology
- Chapter 6: Discussion of each component part used in the fee calculation
- Chapter 7: Summary

## **Chapter 1 - Background Info about Environmental Health**

Environmental Public Health (EPH), a division within the Health and Human Services (HHS) Department, is tasked with promoting and enforcing state regulations pertaining to:

- Lodging facilities
- Public drinking water systems
- Public pools and spas
- Restaurants and food trucks
- Use of wood burning stoves and open burning

These services are provided primarily through contractual agreements with the Oregon Health Authority (OHA) and the Oregon Department of Environmental Quality (ODEQ).

For fiscal year 2021-22, the EPH program had an adopted budget of approximately \$1.27 million. Personnel costs account for about 60% of the budget with the remaining 40% being for materials & services (M&S) costs. M&S costs include direct costs such as vehicles that are needed to travel to inspection sites and indirect costs such as building costs, central service chargebacks, etc.

The program's total FTE count is 6.2 FTE, which consists of:

- 1 Manager
- 1 Office Assistant

- 4 Environmental Health Specialists II
- .2 is for the Public Health Program Manager’s time allocated to the EPH program.

The EPH program is divided into the following 3 main subprograms:

- **Licensing and Inspection** – Inspections are performed on restaurants, commissaries and mobile units, bed and breakfasts, public pools and spas, and what is termed ‘tourist facilities’ (hotels/motels, hostels, picnic and recreation parks, and organizational camps). Licensing and inspecting are technically a state (OHA) responsibility but authority is delegated to the County through an intergovernmental agreement (IGA) to perform these responsibilities. Of the 4 Environmental Health Specialists’ time, 3.1 FTE is assigned to License and Inspection. This subprogram also responds to complaints concerning these licensed facilities, handles foodborne illness investigations, and plan reviews for new facilities. This subprogram also performs the inspections of daycares and school food service as a fee-for-service.

During the COVID-19 pandemic, the State Oregon Health Authority advised counties not to perform in-person inspections during the periods of high case counts. As a result, EH staff began aiding in the pandemic response instead of performing inspections. The chart below provides the number of completed inspections prior to and during the pandemic.

<b>CY 2019 Inspections Completed</b>	<b>CY 2020 Inspections Completed</b>	<b>CY 2021 Inspections Completed</b>
2,542	934	748

*Source: Jackson County FY22-23 Adopted Budget*

Inspections are conducted using criteria and checklists developed by the State. That statewide software system (currently HealthSpace) allows inspections to be completed electronically and the results emailed to the facilities at completion of the inspection. Additionally, the State can pull reports directly from the system so prior statistical reporting requirements are no longer in place.

- **Drinking Water** – The Drinking Water subprogram administers and enforces public drinking water quality standards for public water systems, which also involves providing technical services to public water systems to reduce health risks and maintain compliance with drinking water standards. The primary purpose of this program is to prevent water contamination and assure safe drinking water for users of public water systems such as systems that provide water to mobile home parks and restaurants. The County receives funds through an intergovernmental agreement with the Oregon Health Authority to perform these services. Of the 4 Environmental Health Specialists’ time, .8 FTE is assigned to Drinking Water.
- **Air Quality** – This function is funded through an agreement with the Oregon Department of Environmental Quality. EPH responds to citizen burning complaints (burn vs non-burn days and burning of prohibited items). This service is provided on behalf of, and funded through an intergovernmental agreement with, the Oregon Department of Environmental Quality. The remaining .1 Environmental Health Specialists 4 FTE is assigned to this function.

## **Chapter 2: Oregon Revised Statutes (ORS) and Oregon Administrative Rules (OAR) that Govern Inspections and Fees**

OAR 333-012-0055 establishes requirements as to how often each type of facility is to be inspected. The frequencies are:

- Restaurants, commissaries, mobile units – Every 6 months
- Non-seasonal public pools and spas – Every 6 months
- Bed and breakfast facilities – Annually
- Hotels and motels – A minimum of every other year<sup>1</sup>
- Seasonal, single-event, or temporary facilities – A minimum of one inspection during operation

Non-seasonal facilities subject to inspection are required to pay an annual license renewal fee by December 31 to be licensed for the upcoming calendar year. The fee amount is intended to cover the cost of the required inspections. The fee is pro-rated for a partial year when a facility is in operation from October 1 through December 31. The pro-rated amount is one-half the annual fee amount.

ORS states that for restaurants and bed and breakfast facilities, a license is not transferable and a refund representing any unused portion of a license may not be made. The prohibition of refunds became relevant to all restaurants during the COVID-19 pandemic. The State required restaurants to temporarily close but no corresponding action was taken regarding licensing fees.

The hotels/motels pay an annual fee but they are only inspected every-other-year. Since the time it takes to perform a service is incorporated into the fee calculation, on the surface it appears that the hotels/motels are paying double the cost of what they are receiving.

We are not recommending that the fee be cut until EHP has had time to evaluate the time study for these inspections, including time spent on complaints and investigations.

## **Chapter 3: Fee Amounts and Resulting Program Revenue**

When the State enters into an intergovernmental agreement with a county to have the county perform license and inspection services in that county, Oregon Revised Statute (statute) allows the county to use fee amounts set by the State or to set its own fee amounts to cover the costs of administering the program.<sup>2</sup> The categories for which a county can set fees for are established by the State. A portion of fee revenue collected by a county is remitted to the State for its cost in overseeing the program. This remittance is allowed to be included as part of the cost of administering the program when calculating the fees.

As a control to prevent counties from charging excessive fees, statute establishes that the State shall analyze any county-established fee that is more than 20% above the fee amount established by the State and that the State may order the county's fee to be reduced.

Furthermore, Oregon Administrative Rules Chapter 333 provides two options a county can use to calculate their own fees. The OAR provides a standard that can be used, or in lieu of this standard a

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<sup>1</sup> The statute allows the public health authority to adopt a more frequent requirement. Jackson County has not.

<sup>2</sup> ORS 446 *Tourist Facilities*, ORS 448 *Pool Facilities*, and ORS 624 *Food Service Facilities*

county may use actual staffing standards and costs to determine their fees. Given these options, fees may vary by county.

The table below compares Jackson County’s restaurant fees to those of other counties and the State fee amount established by statute. As shown below, we tried to compare similar time periods the fees went into effect, but there are timing differences amongst the counties.

<b>Restaurant Fee</b>	<b>State</b> ORS 624.490	<b>Jackson</b> as of 9/20/21	<b>Deschutes</b> FY2021-22	<b>Lane</b> as of 6/24/21	<b>Linn</b> as of 7/1/2021	<b>Marion</b> as of 1/1/2022
Limited Service	\$335.00	\$664.00	\$629.00	n/a	\$255.00	\$294.00
0-15 seats	\$530.00	\$855.00	\$767.00	\$684.00	\$590.00	\$514.00
16-50 seats	\$600.00	\$978.00	\$840.00	\$779.00	\$705.00	\$581.00
51-150 seats	\$700.00	\$1,095.00	\$1,006.00	\$874.00	\$775.00	\$662.00
151+ seats	\$770.00	\$1,238.00	\$1,138.00	\$1,064.00	\$855.00	\$736.00

*Source: Each County’s website*

Jackson County’s fees are generally higher than those of other counties. Jackson County fees, per ordinance, are intended to recoup all costs (direct, indirect, capital assets, and general overhead) incurred in providing a service. We contacted several other counties to determine how they calculate their fees but due to recent staffing changes at some of these counties we could not always obtain specific details as to how fees were calculated. The limited information we obtained is as follows:

- Deschutes County limits fee increases to CPI adjustments and uses General Fund or Transient Room Tax revenue to subsidize the program.
- Lane County does not use General Fund support to offset fees. In reviewing their fee calculation methodology, we did not find an explanation for the difference in fee amounts.
- Linn County – Due to a staffing change at the county, we were not able to obtain information that would help us understand their fee calculation.
- Marion County determines their program costs and how much revenue they need to generate based on the volume of licenses in each category to cover these costs. These fees are then changed to ensure the appropriate amount of revenue is collected to cover expenses.

Additionally, it is important to remember that county size and density can have a significant impact on expenses such as travel time and vehicle-related costs. Also, failure to include all associated costs in a methodology will result in a lower fee, as those costs will be absorbed elsewhere in an organization’s budget. As will be discussed in chapters 5 and 6, Jackson County’s methodology is thorough insofar as it captures all costs associated with a program’s operations.

The table below shows the type of fee revenue collected during fiscal year 2020-21 for the Licensing and Inspection subprogram. The subprogram’s revenue includes 3 revenue types that are separate from the fee revenue collected from the licensed facilities per the intergovernmental agreement with the State. These 3 (grayed out in the table below) are for food-handler permits<sup>3</sup>, and for inspections of day care establishments and schools, which EPH performs as a fee-for-service.<sup>4</sup>

<b>Fee Revenue Description</b>	<b>Amount</b>	<b>% of Total Revenue</b>
Restaurant	\$671,150.00	64%
Mobile Unit	\$113,773.00	11%
Swimming Pool/Spa	\$80,133.12	8%
Food-handler	\$44,344.00	4%
Hotels, Motels Hostels	\$33,158.00	3%
Day Care	\$28,650.00	3%
Schools	\$23,052.00	2%
Recreational Parks	\$20,117.00	2%
Commissaries, Warehouse, Vending	\$11,526.50	1%
Temp Restaurant	\$7,010.00	1%
Bed & Breakfast	\$4,515.00	0.4%
Organizational Camps	\$2,464.00	0.2%
Group Use Facilities	\$716.00	0.1%
<b>Total</b>	<b>\$1,040,608.62</b>	<b>100%</b>

Source: E1

## **Chapter 4: Determining the Number of hours to perform a service**

A fee amount is partially determined based upon the amount of time it takes to perform the service for which the fee is being charged. Logically, if it takes 2 hours to provide a service, the cost will be more than if it takes 1 hour. Time studies are periodically conducted to determine the average time it takes to perform a service.

Conducting a time study involves having staff record the amount of time it takes to perform a task during a pre-determined, limited amount of time. For example, each inspector may record the time it takes to complete each inspection during a week. This data is then used to determine the average amount of time it takes to complete each type of inspection.

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<sup>3</sup> Individuals working in food service establishments who handle food must obtain a food handler card permit within 30 days of beginning work. These permits are valid for 3 years

<sup>4</sup> Day cares and schools are required to undergo inspections but they are not required to have the County perform the inspection.

EH will be conducting a new time study to ensure it is using the appropriate number of hours. The last time EH conducted a time study was around 2014. Plans to reperform a time study was interrupted by the COVID-19 pandemic.

Going forward, EH will use the inspection software system to record the time taken to perform each inspection. The software system is designed so that an inspector can enter the start time at the beginning of each inspection and the ending time at completion of the inspection. This approach, rather than a time study that relies on a sample of inspections, will provide the data needed to determine the average time it takes to complete an inspection. Moreover, because data will be continuously collected, calculating the average time can easily be reperformed at annual intervals.

Additionally, if installation of GPS systems in inspectors' vehicles were to occur, this would provide a second data source that could be used to confirm the time spent at an inspection site.

Jointly or independently, these two systems would improve the accuracy in determining the average time it takes to complete each type of inspection.

We performed analytical procedures that indicate the 'average time' per the 2014-time study may not accurately reflect the true time it has recently been taking to complete inspections. However, as will be discussed later, EH has to perform related duties and the time to perform these duties are not reflected in the time study.

Theoretically, the 'average time' of each type of inspection multiplied by the corresponding number of inspections completed during the year should approximately equate to the number of inspectors multiplied by the 'billable hours' (i.e., the average number of hours an inspector is available to perform inspections). However, when we performed this calculation using 2019 hours the results indicated that that it should have taken 6,946 staff hours to perform all the inspections but that there were only 5,525 available 'billable' hours per the fee calculation model.

The discrepancy could have been caused by any of three factors or a combination of the factors. Either:

1. The 'average time' based on the 2014 study overstates the average time it actually took in 2019 to complete inspections, or
2. The estimated number of 'billable hours' understates the number of hours that were available
3. The number of staff assumed to be available to complete inspections throughout the year may have been understated. This could be caused by having a staff whose time is split between various duties having more time to perform inspections than was planned for and extra help was used.

The table below shows the FTE and billable hour information used to calculate the inspection fees for the last five years. As mentioned previously, the time studies have not changed over the last five years. As shown in the table below, though the time study 'average hour to complete an inspection' did not change during the 5 years, the level of anticipated direct staff and hours staff available to perform the service did change. These changes resulted in a change in the total staff hours available.

Fee Year	# of Staff Providing Direct Services <sup>5</sup>	Hours Each Staff is Available to Perform Direct Services (aka 'billable hours')	Total Hours Staff Are Available
2017-18	4.45	1,566	6,969
2018-19	4.45	1,566	6,969
2019-20	3.4	1,614	5,488
2020-21	3.4	1,626	5,528
2021-22	3.25	1,700	5,525

*Source: County Fee Calculation Documents*

As mentioned above, though inspections are the primary activity of the licensing subprogram, there are related activities that occur in addition to the time spent performing licensing inspections. For example, EH receives complaints from the public that must be investigated. Also, when a restaurant applies for an initial license it must submit plans that EH must review. These activities are all part of the duties of licensing and inspecting restaurants.

Collecting and using data on plan reviews and investigations/complaints will enable EH to better estimate how many hours are needed to provide these services during the coming year. This will help evaluate whether the 'billable hours' time used to calculate the fees needs to be either reduced or increased.

## **Chapter 5: Overview of the Fee Calculation Methodology**

County Ordinance Chapter 211 (Fees) establishes the cost standards and criteria to be used when establishing fees. The ordinance defines cost to consist of the following 4 components:

1. Direct Costs – means all applicable operational costs including, but not restricted to, salaries, wages, fringe benefits, services and supplies, incurred by the department in order to impose the regulation, perform the service, or provide the product for which the fee or charge is being levied.
2. Indirect Costs – means all applicable costs incurred by the department in the provision of managerial, administrative, and general support of those imposing the regulation, performing the service, or providing the product for which the fee or charge is being levied.
3. Capital Assets - means the annual depreciation expense of those capital assets used by the department in order to impose the regulation, perform the service, or provide the product for which the fee or charge is being levied.
4. General Overhead - means the expenses not otherwise included in the categories of direct costs, indirect costs, and capital assets but that are incurred by the County in order to impose the regulation, perform the service, or provide the product for which the fee or charge is being levied. General overhead includes those expenses incurred by central service departments, which provide managerial, administrative, and general support, that are not otherwise charged to the operating departments.

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<sup>5</sup> This includes .15 FTE for the EPH Program Manager. Therefore, the total hours might be on the high side since the Manager performs plan reviews, and helps with complaints, and on rotation for weekend inspections.



To recoup costs associated with these components, the County has developed a formula that is used to calculate the cost of providing 1 unit of service. The formula is:

$$\begin{aligned}
 &\text{Cost of 1 hour of time to perform a service} \\
 &+ \\
 &\text{Cost of direct materials \& services used in 1 hour} \\
 &+ \\
 &1 \text{ hour of depreciation of building and other capital assets} \\
 & \times \\
 &\text{Department/Program Overhead rate} \\
 & \times \\
 &\text{County Overhead rate} \\
 & \times \\
 &\text{Number of hours to perform a service} \\
 & = \\
 &\textbf{Cost of Providing 1 Unit of Service}
 \end{aligned}$$

The calculation is performed annually. However, there are challenges and nuances that impact each component of the fee methodology calculation and can therefore impact the resulting fee amount. These challenges and nuances will be discussed in the next chapter.

The chart below provides an overview of how each component contributed to the total unit cost for the EH fees during each of the last 5 years.

Fee Year	Billable Hrs	Direct Labor Rate	Materials Rate	Building Depr Rate	Asset Depr Rate	HHS OH	General OH	Rate For 1 Hr of Service
2017-18	1,566	\$63.70	\$11.36	\$0.91	\$0.00	52%	0.77%	\$116.35
2018-19	Used 2017-18 rates to calculate fees. If used 2018-19 rates, the hourly rate would have been \$131.57							
2019-20	1,614	\$67.11	\$25.94	\$2.33	\$0.00	53%	0.90%	\$147.24
2020-21	1,626	\$64.88	\$18.80	\$2.63	\$0.33	72%	0.82%	\$150.25
2021-22	1,700	\$69.20	\$17.47	\$2.12	\$0.04	72%	0.80%	\$154.00

Source: County Fee Calculation Documents

## **Chapter 6: Discussion of the Component Parts**

### **Calculating the cost of 1 hour of time to perform the service**

At the time the calculation is performed, a report is pulled from the E1 system that shows the payroll cost data (pay and benefits) of all employees who were in the applicable position for the preceding 12 months and that calculates the average cost of 1 FTE based on these employees.

Four things present challenges in accurately calculating the future cost of 1 FTE. They are:

1. If the cost of living adjustments (COLA) that will go into effect at the start of the next fiscal year is not known at the time the calculation is performed, then a COLA is not factored into the payroll cost.
2. The report does not anticipate any step increases that may occur during the year.
3. If turnover occurs during the year, it is likely that the exiting employee will be replaced by an employee at a lower step. Because of the unknowns of turnover and recruitment, the potential impact cannot be included in the calculation.
4. Time worked beyond an employee's normal schedule (e.g., overtime) is included in the average pay.

The subprogram must assign an average number of 'billable hours' it expects employees to spend performing the service throughout the year. This involves subtracting holidays and estimating how many hours will be spent on vacation and sick time, in meetings and trainings, and other work attributable to the service throughout the year.

The average payroll cost for 1 FTE is then divided by the assigned number of billable hours to determine the cost of 1 hour of time spent providing the service.

The following table illustrates how the EHP individual staff and CPI adjustments in combination with changes in the anticipated number of billable hours cause fluctuations in the cost of providing 1 hour of service:

<b>Year</b>	<b>Labor Report FTE</b>	<b>Labor Report Avg Total Cost</b>	<b>Billable Hrs</b>	<b>Hrly Rate (Avg Cost Per Hr)</b>	<b>Pay Step Using 7 Step Pay Scale</b>	<b>CPI</b>
17-18	2	\$ 99,759.15	1,566	\$ 63.70	1 FTE step 6 1 FTE step 7	1.016 CPI adjustment included in total cost
18-19	1	\$ 105,879.19	1,566	\$ 67.61	1 FTE step 7	1.025 CPI adjustment included in total cost
19-20	1	\$ 108,312.73	1,614	\$ 67.11	1 FTE step 7	CPI was not included in the total cost
20-21	4	\$ 105,497.38	1,626	\$ 64.88	1 FTE step 1 1 FTE step 2 2 FTE step 7	1.061 CPI adjustment included in total cost
21-22 <sup>6</sup>	4	\$ 117,633.93	1,700	\$ 69.20	1 FTE step 2 1 FTE step 3 2 FTE step 7	1.020 CPI adjustment included in total cost

<sup>6</sup> The average labor costs are higher for this fee year because more overtime was worked during the 12-month look back period than typically worked for this program. The majority of overtime was attributable to the COVID-19 response.

## **Calculating the cost of direct materials & services used in 1 hour**

To perform this part of the calculation, a program must first distinguish between its direct and indirect costs. Indirect costs are recouped through the overhead rate, which is discussed later in this report.

Because of when the calculation is performed, the cost data used to calculate this rate is 2-years old. As a result, cost data is increased for a one-year CPI change to help make it a more accurate reflection of future costs. For example, fees charged during fiscal year 2021-22 used cost data from fiscal year 2019-20 which was then increased by 1.7%. In this example, 2019-20 cost data is used because it is the most recently completed fiscal year at the time the fee calculation is performed for fees to be charged during 2021-22.

The CPI adjusted direct costs is divided by the number of direct FTE and then 'billable hours' to calculate the direct materials and services costs used to provide 1 hour of service.

For EHP, the materials and services rate has been pretty consistent the last two fiscal years (20-21 and 21-22) at \$18.80 and \$17.47 an hour. In fiscal year 2017-18, the rate was calculated at \$11.36. This year was lower due to a calculation entry error. In fiscal year 2019-20 the rate was calculated at \$25.94. This year was higher due to a change in accounting for overhead costs. This accounting change was a one-time occurrence and was not repeated in subsequent years.

## **Calculating the cost of 1 hour of depreciation of building and other capital assets**

The hourly rate is calculated by taking the annual depreciation and dividing it by the number of program FTE and then 'billable hours.'

The annual depreciation of the building and any capitalized building improvements, and other capital assets comes from the most recently closed fiscal year. As discussed in relation to calculating direct costs, in order to implement a new fee at the start of fiscal year 21-22, the fee calculation had to be performed prior to the end of FY20-21. Therefore, FY19-20 data was used when calculating fees to be charged in FY21-22.

Prior to moving to the 140 S Holly Street HHS building, Environmental Health was located at 1000 E. Main Street. The change in locations was a contributing factor in EH's depreciation expense increasing about \$10,000 a year. The result is this portion of the fee went from \$0.91 an hour in FY2017-18 to \$2.12 an hour in FY21-22.

The sharing of a building among multiple programs requires that depreciation costs be fairly allocated among the programs. If the actual square footage for each program is not known, the depreciation is allocated to the differing program based on a square footage per FTE ratio. In reviewing the performance of the fee calculation of prior years, we found that an entry error occurred and that differing FTE counts had been used to calculate this rate from one year to the next.

## **Calculating the Department/Program Overhead rate**

The calculation of the overhead rate depends on how the department has set-up their accounting structure. There are 3 general methods used within the County and slight variances within each of the 3 general methods that are used by departments.

The 3 methods are:

1. Department utilizes an administration business unit(s) to record all indirect costs and these costs are **not** allocated out to the programs within the department,
2. Department utilizes an administration business unit(s) to record all indirect costs and these costs are allocated out to the program within the department, or
3. Department does not utilize an administration business unit and all costs associated with a program are recorded to that program.

HHS uses a combination of options 2 and 3 mentioned above. Option 2 is used to capture HHS department-wide costs that will need to be allocated among the HHS programs. This includes costs associated with administrative staff (e.g., HHS Director), general administration materials and services (e.g., paper), and facility costs (e.g., utilities). HHS utilizes separate administration business units to capture these costs. Then, three distinct cost account codes are used to allocate these general costs to the programs.

Option 3 is used to capture overhead costs within EHP, such as the EHP manager and office assistance and countywide central services (e.g., accounting). Determining whether certain costs within a program are overhead costs or direct costs can be challenging and would require additional steps. To simplify this since the fee calculation process is performed by one individual for the entire County, it has been the practice to estimate using FTE. For example, if there is a total of 5 FTE and 1 of the 5 FTE is managing staff and not performing a direct service, then 1/5<sup>th</sup> of the total program costs is used in the overhead rate calculation.

The overhead calculation for EHP is:

$$\begin{array}{r} \text{Allocated HHS department-wide costs} \\ + \\ \text{Estimated EHP Program overhead costs} \\ / \\ \text{Remaining costs (estimated direct costs)} \\ = \\ \text{Overhead Rate} \end{array}$$

### **County Overhead rate**

The intent of this rate is to allocate costs incurred at the County-wide level in imposing regulations, performing services, and providing products when those costs are not allocated through the central service chargeback system but are paid for through the County's General Fund. This rate adds less than 1% of the cost of the fee to the fee.

Similar to the capital asset rate, these costs are not recorded within the program charging the service and the revenue is not transferred back to the central service department providing the service or to the general fund.

## **Chapter 7: Summary**

This report set out to explain how the County determines what dollar amount to assign to the different fees and how this process can result in fee amounts changing from one year to the next beyond an amount that can be explained by inflation.

Labor and materials/services costs, the depreciation of building and other capital assets, and overhead costs are all included in the fee calculation methodology. The cost of these expenses is calculated on an hourly rate and then multiplied based on the number of hours required to provide the specific service. Then, increased by the overhead rates.

Changes from one year to the next can occur for multiple reasons. Generally, changes in labor costs and the relationship between direct and indirect costs are the primary reasons. Employee turnover can cause a reduction in labor costs when tenured employees leave employment and are replaced by individuals at entry level pay rates. Conversely, labor rates can rise as employees move up the pay scale.

Lastly, the number of hours determined to be necessary to perform the service and the ratio of hours spent in direct service vs. indirect activities impacts the results of the fee calculation.

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