



# COMMONWEALTH of VIRGINIA

*Joint Legislative Audit and Review Commission*

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## **INTENAL SERVICE FUNDS SUBCOMMITTEE REPORT**

December 10, 2007

TO: Senator Thomas K. Norment, Chair  
Members, Joint Legislative Audit and Review Commission

FROM: Senator Walter Stosch, Subcommittee Vice-Chair

The JLARC Internal Service Fund Subcommittee and JLARC staff recently reviewed requests for changes in rates from the Department of General Services and the Virginia Information Technologies Agency.

### **DGS Internal Service Fund Rate Changes: Office of Graphic Communications (OGC) and State Surplus Property**

On October 16, 2007, the Department of General Services (DGS) submitted for Commission approval revised internal service fund rates for the Office of Graphic Communications (OGC) and for the State Surplus Property Program (the DGS request is included as Attachment 1).

DGS has proposed to increase the per-hour billable charge for work by the Office of Graphic Communications from \$70 per hour to \$75 per hour. Based on DGS' projection of OGC operating expenses and a reasonable assumption about annual billable hours for the office (about 5,000 billable hours per year), it appears that increasing the office's rate from \$70 to \$75 per hour will enable DGS to cover the costs of its annual operation over the next few fiscal years, with only a very small balance under the projection.

DGS staff indicate that their proposed rate structure changes for State Surplus property will help it improve its revenue flow without a major impact on agencies. Most agencies, for example, will not be impacted by the rate formula change because they do not auction off property with sales prices of more than \$20,000 or \$40,000. Agencies with larger dollar sales (from selling heavy equipment and vehicles) will, however, see some impact. With the new proposed rate structure, DGS' "Estimated P&L Surplus Property 5 Year Plan" shows revenues from FY 2008 to FY 2012 of 8,554,415, or 1.2 percent above the operating expenses at \$8,453,403.

Currently, DGS has an estimated cash balance in this program that exceeds the normal level. That is, by the end of FY 2008, DGS projects a cash fund balance of \$719,189. The rule-of-thumb which has been applied in the past to determine a reasonable cash fund balance for this program is 25 percent of operating expenditures. With projected operating expenditures for the program in FY 2008 of \$1,514,375, a reasonable cash fund balance amount is about \$378,594. Thus, DGS' projected cash fund balance for FY 2008 of \$719,189 is about \$340,595 higher than it should be. However, DGS staff state that there some OSHA, safety, and structural issues at the DGS warehouse at Darbytown, and they estimate the costs of repairs to address these issues at \$540,000 to \$690,000. Consequently, DGS proposes to use this excess cash balance to help address these repair needs. During the upcoming session, the House Appropriations and Senate Finance committees may want to monitor DGS plans for the use of these funds.

**After reviewing the requests submitted by DGS, the Subcommittee recommends that the Commission approve of the rates as proposed for the Office of Graphics Communications and State Surplus Property.**

### **VITA Internal Service Fund Rate Changes: Computer Services**

On November 19, 2007, the Virginia Information Technologies Agency (VITA) submitted for Commission approval revised internal service fund rates for the Computer Services Fund (the VITA request is included as Attachment 2). VITA is seeking approval for revisions to some rates established in November 2006 and is proposing rates for various new services to be offered by Northrop Grumman through its comprehensive agreement with the Commonwealth.

VITA's request includes 89 rates for services provided by Northrop Grumman, of which 61 rates are for new services, 17 are rate reductions for existing services, and 11 are rate increases for existing services. Based on VITA's partial analysis of service use by customers, the proposed rates for existing services are projected to result in customer agency savings of about \$5.4 million. New revenues of about \$1.7 million are projected from at least one service not currently provided. The net reduction in costs to customers of \$3.7 does not account for potential increases in costs which may be incurred by agencies for many of the new services proposed by Northrop Grumman (some of which are optional for agency use). The Subcommittee noted in the attached financial statements that VITA's Computer Services fund had a \$3.4 million operating loss on revenues of \$195 million in FY 2007.

The proposed rates for the 28 existing services will reduce the costs for all customer agencies except the Department of Medical Assistance Services (which will incur only a small increase). Among the agencies which should experience the largest reductions in costs are the Department of Social Services, the Department of Health, the Department of Transportation, and the Department of Corrections. However, the agency impact analysis does not include any estimate of the costs for the 61 services not currently provided. For example, the service called "peripherals bundle" is expected to add \$1.7 million in new costs to user agencies. It is not known at this time which agencies will be impacted by those additional costs. Many of the new services proposed by VITA are optional, so the impact on

agencies will vary based on their decisions about which services to purchase. To the extent that agencies use the new services, the savings from the rate reductions could be offset by new costs. VITA has provided the rate request and analysis of agency impact to the Department of Planning and Budget (DPB) and continues to work with DPB to ensure that agencies have adequate funding to pay for necessary services.

**After reviewing the requests submitted by VITA, the Subcommittee recommends that the Commission approve the new and revised rates as proposed for computer and communications services.**

Attachments