

**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Internal Service Fund Rates
Background**

**Staff Briefing
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Internal Service Fund Rate Types

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■ Direct cost recovery

Customer agencies are charged for the actual cost of providing the service to them, including administrative and overhead costs for the internal service fund agency

■ Pass-through plus surcharge

The costs of services or commodities from private vendors are passed on to customer agencies, plus a percentage of the vendor prices to recover the administrative costs of the internal service fund agency

Calculation of Rates

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■ Direct cost recovery rate:

rate (unit cost) = total costs of service ÷ total units of service

■ Pass-through plus surcharge rate:

Charge = vendor direct cost x $\left(1 + \frac{\text{total administrative costs}}{\text{total vendor costs}}\right)$

Use of Fund Rate Types

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■ Direct costs

- DGS fleet management vehicles
- DGS building services (labor)
- DGS graphics services
- VITA mainframe computer use
- VITA consulting services (labor)

■ Pass-through plus surcharge

- VITA local and long-distance phone service
- VITA leased equipment
- VDC food and other commodities

Direct Cost Recovery Example: DGS Labor Rates

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- Labor rates are based on salary and fringe benefit costs of building trades personnel (electrician shown)

<u>Cost Item</u>	<u>\$Amount</u>	<u>% of Salary</u>
Salary	\$33,130	--
VRS Retirement	2,906	8.77 %
FICA	2,534	7.65
Medical Insurance (Family)	4,786*	14.45*
Retiree Health	295	0.89
Long-term Disability	354	1.07
Deferred Comp Matching	240*	0.72*
Annual Leave	1,411	4.26
Sick Leave	1,411	4.26
Holidays	1,401	4.23
Overtime	<u>\$1,988</u>	<u>6.00</u>
Total	\$50,458	52.30 %

*Flat amounts (not % of salary)

Direct Cost Recovery Example: DGS Labor Rates (continued)

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rate (unit cost) = total costs of service ÷ total units of service

Based on the average for all electricians:

$$\text{\$24.26} = \text{\$50,458} \div \text{2,080 hours}$$

So, while electricians earn, on average \$15.93 per hour, DGS has to charge customer agencies \$24.26 per hour to recover its full costs

Pass-through plus Surcharge Example: VITA Local Phone Service

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- Local telephone charges are based on the direct charge for dial tone from the vendor and the cost of administering the contract by VITA

<u>Cost Item</u>	<u>\$Amount</u>
Vendor's charges	\$15,600,000
VITA personnel	293,410
VITA facility rental	23,501
Hardware	33,838
Software	<u>9,293</u>
VITA direct administration subtotal	\$ 360,042
VITA division and agency indirect	<u>\$ 1,080,574</u>
VITA administration total	\$ 1,440,616

Pass-through plus Surcharge Example: VITA Local Phone Service (continued)

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$$\text{Charge} = \text{vendor direct cost} \times \left(1 + \frac{\text{total administrative costs}}{\text{total vendor costs}} \right)$$

Based on current vendor charges and VITA costs:

$$\text{Charge} = \text{vendor direct cost} \times \left(1 + \frac{1,440,616}{15,600,000} \right)$$

$$\text{Charge} = \text{vendor direct cost} \times (1.092)$$

So, to recover the full cost of local telephone service, VITA charges a 9.2 percent surcharge on each State agency telephone bill

Pass-through plus Surcharge Example: Virginia Distribution Center

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- Product prices are based on the direct cost of the product from the vendor, actual transportation costs, and the cost of VDC administration

<u>Cost Item</u>	<u>\$Amount</u>
Vendor's merchandise charges	\$28,081,706
Actual transportation costs	1,405,886
VDC operating expenses (staff, indirect overhead, etc.)	\$ 1,729,666
New building debt service payments	<u>1,615,138</u>
VDC administration total	\$ 3,344,804

Pass-through plus Surcharge Example: Virginia Distribution Center (continued)

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$$\text{Charge} = \text{merchandise cost} \times \left(1 + \frac{\text{total administrative costs}}{\text{total vendor costs}} \right) + \text{transportation cost}$$

Based on current vendor charges and VDC costs:

$$\text{Charge} = \text{merchandise cost} \times \left(1 + \frac{3,344,804}{28,081,706} \right) + \text{transportation}$$

$$\text{Charge} = \text{merchandise cost} \times (1.12) + \text{transportation}$$

So, to recover the full cost of VDC service, VDC needs to charge a 12 percent surcharge on commodities purchased by State and local agencies