

Joint Legislative Audit and Review Commission



# Review of Department of General Services Internal Service Funds

Commission Briefing  
June 8, 2009



# In This Presentation ...

- Study Authorization and Background
- Budget and Financial Management
- Selected Internal Service Funds



# Study Authorization

- §2.2-803 of the *Code of Virginia* designates JLARC with oversight responsibility for internal service funds
- At December 2008 JLARC meeting, JLARC Director indicated that staff would review Department of General Services (DGS) internal service funds in spring 2009

# Background

- Internal service funds are a mechanism to charge agencies the cost of centralized services
- Each internal service fund charges “rates” for its goods or services
  - Rates are intended to cover the fund’s operating expenses

# DGS ISFs Provide a Range of Services

## Fund

## Primary Service

- |                                    |                                      |
|------------------------------------|--------------------------------------|
| ■ Virginia Distribution Center     | Food and housekeeping products       |
| ■ Bureau of Facilities Mgmt        | Leasing / maintenance of State space |
| ■ Division of Real Estate Services | Administration of agency leases      |
| ■ State Surplus Property           | Sale of State surplus items          |
| ■ Federal Surplus Property         | Sale of federal surplus items        |
| ■ Division of Consolidated Labs    | Scientific testing                   |
| ■ Fleet Mgmt                       | Management of vehicles               |
| ■ Bureau of Capital Outlay Mgmt    | Assistance with construction         |
| ■ Office of Graphic Communications | Printing and graphics services       |

# Two Approaches to JLARC Oversight

- Review of rate changes submitted by DGS
- More detailed reviews conducted periodically

# In This Presentation ...

- Study Authorization and Background
- Budget and Financial Management
- Selected Internal Service Funds



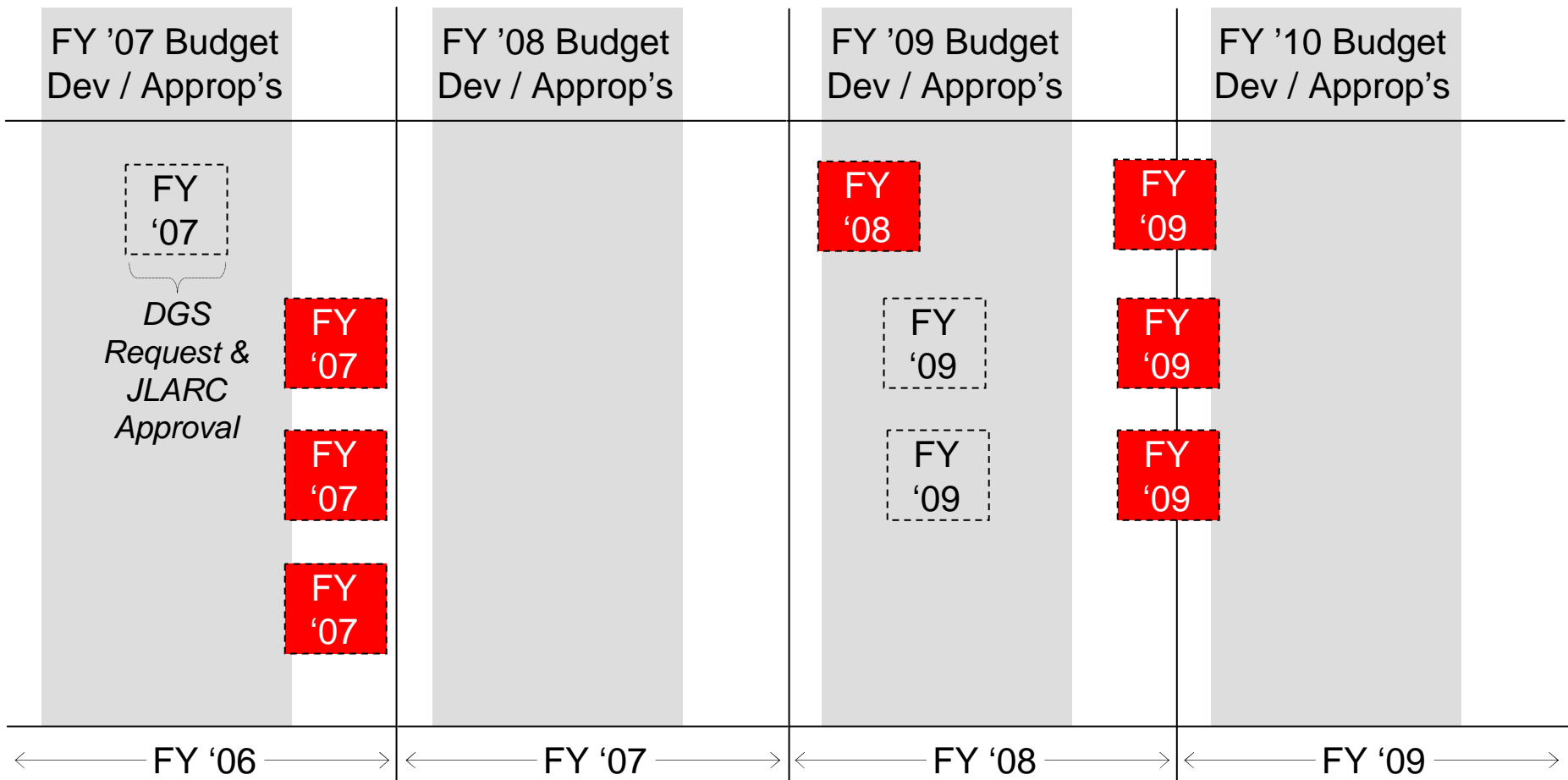
# Finding

- ISF rate requests could be better aligned with biennial budget process

# JLARC Policy Requires DGS to Submit Rates for Approval

- No statutory requirement or JLARC policy addressing the timing of when rates should be submitted
- DPB requires agencies to submit a form during executive branch budget development process
  - Notifies DPB of possible rate changes
  - Provides justification for why rates need to change

# Rate Requests and Approvals Tend to Occur After Budget Development and Appropriations



Source: Previous DGS ISF rate request and JLARC rate approval documentation.

# Recommendation

- DPB should develop a schedule for rate proposals that is better integrated with the biennial budget process

Note: See “List of Recommendations” in written report for full text.



# Finding

- No agreed-upon thresholds for ISF gains, losses, or cash balances

## JLARC Has Statutory Role in ISF Cash Balances

- §2.2-803 of the *Code*: “JLARC may direct the Comptroller to transfer excess fund balances to the general fund ...”
- Factors complicate identifying “excess” fund balances
  - Some of cash balances shown are already obligated
  - Unclear whether accumulating reserves to pay for capital expenditures
  - No agreed-upon method to calculate cash balance percentage for different funds

# Recommendation

- DGS should develop specific cash balance thresholds for each internal service fund it operates, as well as criteria for
  - Accumulation of reserves
  - Use of reserves
  - Criteria for when to return funds to agencies

Note: See “List of Recommendations” in written report for full text.

# In This Presentation ...

- Study Authorization and Background
- Budget and Financial Management
- Selected Internal Service Funds



# Virginia Distribution Center (VDC)

*FY '08 Revenue*

\$33.6 million

*FY '08 Expenses*

\$33.1 million

*FY '09 Staffing*

26

- VDC provides low-cost products that yield cost avoidance substantially higher than costs to operate VDC
- Agency satisfaction – 88%
- VDC appears to be recovering its expenses
- VDC customer base includes non-State agencies and evolves over time

# Bureau of Facilities Management (BFM)

*FY '08 Revenue*

\$33.3 million

*FY '08 Expenses*

\$33.0 million

*FY '09 Staffing*

104

- Rate for State-owned office space is lower than the average charged by private landlords
- Agency satisfaction – 85%
- BFM cites funding challenges for remodeling office space for new tenants and large equipment failures

# Recommendation

- DGS and DPB should agree on a mechanism to facilitate planning and funding for equipment repairs or replacements

Note: See “List of Recommendations” in written report for full text.



# Division of Real Estate Services (DRES)

*Estimated FY '09 Fees*

\$1.85 million

*FY '09 Staffing*

14

- DRES reports cost savings / avoidance through
  - Renegotiation or relocation
  - Reduction or collocation
  - Decisions to purchase or build new space instead of leasing
  
- Agencies express concern about centralization
  
- Lack of information about statewide real property hinders ability to identify further cost-saving opportunities

# Recommendation

- DGS should collect and maintain key data, including use, cost, and square footage, for all of the State's owned and leased property

Note: See "List of Recommendations" in written report for full text.

# Office of Surplus Property Management (OSPM)

	<i>FY '08 Revenue</i>	<i>FY '08 Expenses</i>	<i>FY '09 Staffing</i>
State	\$2.3 million	\$1.9 million	13
Federal	\$0.4 million	\$0.3 million	3

- Agency satisfaction – 79%
- DGS concerned that changes in future revenue stream may affect future sustainability
  - Changes in State operations may reduce future revenue
  - OSPM taking steps to offset likely decline in revenue

# Division of Consolidated Laboratory Services (DCLS)

*FY '08 Revenue*

\$2.3 million

*FY '08 Expenses*

\$2.8 million

*FY '09 Staffing*

35

- DCLS conducts tests in an accurate and timely manner for DEQ and VDACS
- Several aspects of DCLS ISF raise questions about current approach
  - Unique when compared to other DGS ISFs
  - All State customers not included in ISF
  - Revenue collected may not be equal to actual expenses

# Recommendation

- DGS should evaluate the feasibility of
  - Including additional State agencies in ISF
  - Charging customer agencies cost of testing
  
- As part of evaluation, DGS should notify JLARC whether it wishes to
  - Continue to operate DCLS ISF with additional agencies and appropriate cost recovery
  - Discontinue operating DCLS as an ISF

Note: See “List of Recommendations” in written report for full text.

# Summary

- In general, agencies are satisfied with DGS ISF services and products
- Financial management of DGS ISFs could be improved through
  - Further integration with budget
  - Specific cash balance thresholds for each ISF

## **JLARC Staff for This Report**

Glen Tittermary, Deputy Director

Justin Brown, Project Leader

Kimberly Sarte

Christine Wolfe

Brad Marsh

## **For More Information**

<http://jlarc.virginia.gov>

(804) 786-1258



