COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

April 24, 2009

Mr. Phillip A. Leone, Director
Joint Legislative Audit and Review Commission (JLARC)
Suite 1100, General Assembly Building
Richmond, VA 23219

Re:Request for Internal Service Fund

Dear Mr. Leone:

In accordance with Code of Virginia § 2.2-803 B., this is to request approval of an internal service fund to account for the support services provided by the Department of Account's (DOA) Payroll Service Bureau (PSB). The DOA PSB was established in fiscal year 1996 as a shared services center for agency payroll, benefits and leave processing. The business case for the PSB is based on processing efficiencies from economies of scale and on a reduction in the Commonwealth's payroll processing risk (particularly from smaller agencies by providing adequate trained back-up staff available due to the high PSB processing volume). By all measures, including productivity, risk mitigation, and customer satisfaction, the PSB has proven to be a successful example of how the Commonwealth can benefit from shared administrative service arrangements.

As background, during the first year of operation (FY 1996), DOA's PSB provided services to 17 agencies and grew to 26 agencies by FY 1998. During this timeframe PSB operating costs were funded by a DOA-PSB general fund appropriation and associated MEL, which was sourced from appropriation and MEL reductions in agencies that were mandated to utilize the PSB services. Additionally, a portion of the DOA-PSB's general fund appropriation was sourced by annual Part 3 (§ 3-1.01 L.) non-general fund transfers to the general fund from several of the original customer agencies to support the cost of processing payroll for non-general funded employees.

From FY 1999-2002, as other agencies voluntarily joined the PSB, services were provided without inter-agency budget adjustments and DOA's incremental PSB costs were absorbed. Beginning in FY 2003, due to severe budget reductions, DOA could not continue to fund PSB services. Accordingly, DOA sought and received authorization through agency budget language (Chapter 1042, item 278 A.3) to begin charging a processing fee to those agencies whose budgets had not been reduced to fund PSB start-up and initial expansion costs from FY 1997-98. As the PSBs customer base and associated W-2 count has grown over the years through additional voluntary agency conversions, the processing fee has been adjusted annually to cover the actual cost of operations. Billings have been adjusted for the agencies originally funded through the appropriation reductions and Part 3 transfers described previously. The fee has ranged from $100 to $110 per W-2.

(804) 225-2109 FAX (804) 786-3356 TDD (804) 371-8588

In FY 2010, the PSB will provide services to 55 agencies with a W-2 count of over 16,000. This includes 8 agencies and approximately 2,000 additional employees mandated for participation pursuant to (Chapter 780, item 259 A.3). Additionally, given the billing complexity inherent in the mixture of funding models previously described, DOA plans to convert to an internal service fund arrangement for FY 2010. Accordingly, in Chapter 780 the appropriation supporting PSB expenditures has been removed from DOA's budget (in accordance with item 473 N., a portion of which will be transferred to agencies whose general fund budget had previously been reduced to support the PSB start-up and initial expansion costs) and the referenced Part 3 transfers eliminated. After these actions, the PSB will be completely self-funded through the utilization of the PSB Internal Service Fund.

Proposed Measurable Units for Billing – The prior calendar year's agency W-2 count. For fiscal year 2010, W-2s filed for calendar year 2008 would apply.

Proposed rates – $110 per W-2 for fiscal year 2010. This amount reflects the direct cost associated with the Payroll Service Bureau plus a 1% indirect cost factor. DOA has elected not to apply the full 10% indirect cost factor in order to limit the fiscal year 2010 rate increase.

Proposed Billing Method – Pre-bill customer agencies at the beginning of each fiscal year. However, agencies with cash flow limitations due to non-general fund cash limitations will be billed quarterly. This billing strategy will simplify billing and minimize the Line of Credit DOA will require in order to operate the PSB while awaiting payment from customer agencies.

Enclosed are the supporting documents requested by the JLARC staff. Thank you for your consideration of this request. Please let me know if I can provide any additional information.

Sincerely,

David A. Von Moll

Copy: The Honorable Richard D Brown
Secretary of Finance

Enclosure

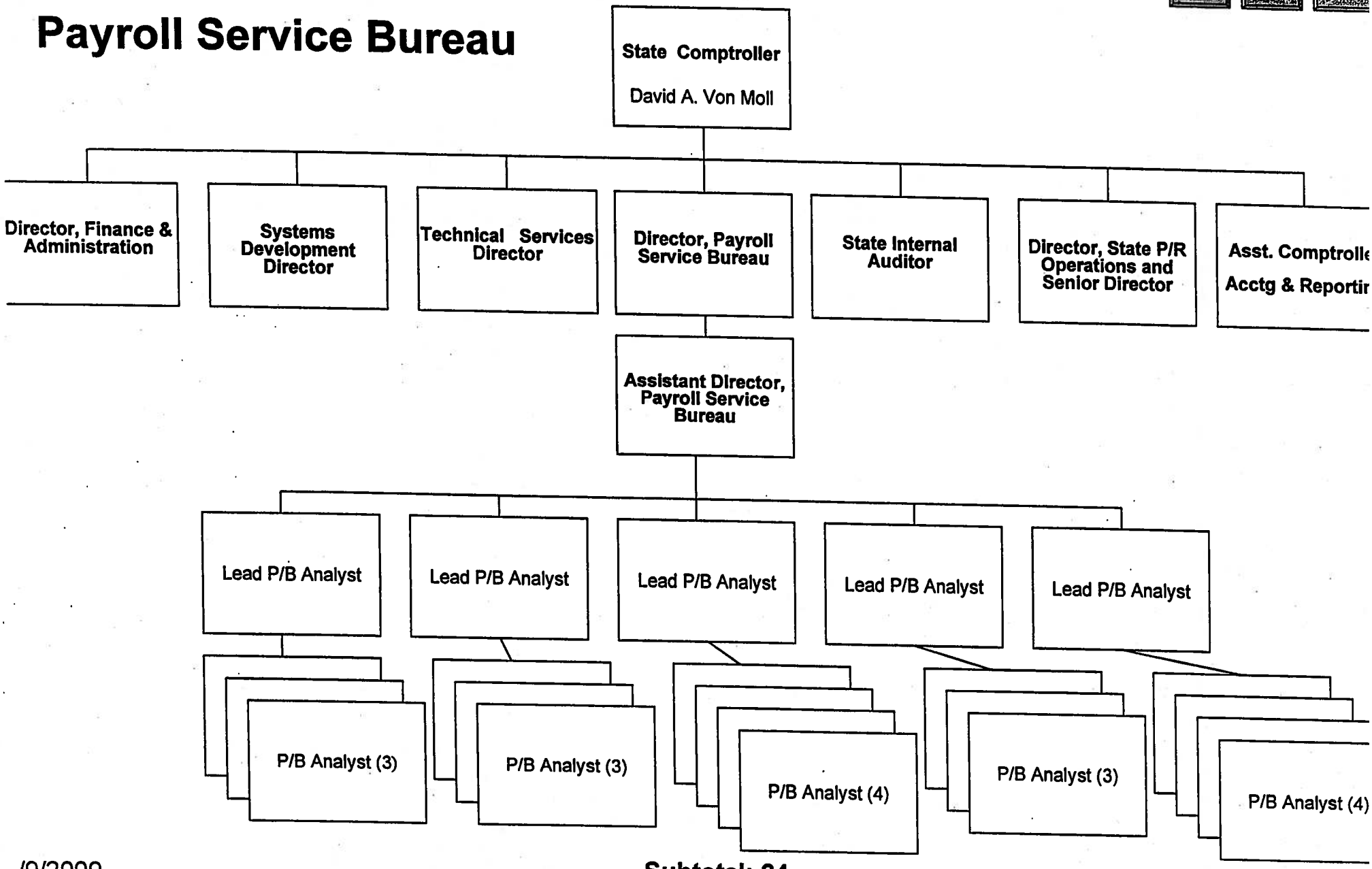
Summary of Annual PSB Direct Costs

Payroll & Fringes	$ 1,642,909.72	
Phones	5,978.40	
Copiers	4,653.36	
Computers	33,512.28	
Rent	66,027.64	
Printers	1,820.40	
PSB Employee Payroll Processing	2,750.00	
Professional Courier Costs	8,000.00	
Total	**$ 1,765,651.79**	108.96 2008 W-2 count was 16,205
Indirect costs of 1%	$ 17,656.52 *	
Grand Total	**$ 1,783,308.31**	110.05 2008 W-2 count was 16,205

* DOA only plans to impose a 1% indirect cost factor rather then the 10% allowed in the initial year of this Internal Service Fund. The cost increase of 10%, though still beneficial to the agencies, would be too great an increase initially. DOA would like to discuss the possibility of phasing in the remaining indirect costs in future years.

Department of Accounts

Payroll Service Bureau



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Subtotal: 24

FY 2010 Proposed Agency Cost/Fy 2009 Actual Agency Cost
Agency Listing

Agy #	Abbrev	2008 Total W-2's	FY 2010 Proposed Rate	FY 2010 Proposed Agency Cost	2007 Total W-2's	FY2009 Rate	FY 2009 Agency Cost
123	DMA	938	110	103,180.00	641	103	60,521.00
127	DEM	284	110	31,240.00	278	103	12,010.00
129	DHRM	102	110	11,220.00	97	103	4,207.00
132	SBE	45	110	4,950.00	42	103	818.00
136	VITA	423	110	46,530.00	472	103	13,903.00
140	DCJS	152	110	16,720.00	165	103	0.00
146	SMV	178	110	19,580.00	188	103	19,364.00
148	VCA	7	110	770.00	6	103	0.00
154	DMV	2,331	110	256,410.00	2588	103	266,564.00
156	VSP	2,957	110	325,270.00	3090	103	318,270.00
157	CB	25	110	2,750.00	27	103	116.00
161	TAX	1,255	110	138,050.00	1345	103	0.00
163	VDA	29	110	3,190.00	33	103	852.00
165	DHCD	158	110	17,380.00	154	103	3,244.00
170	HRC	8	110	880.00	9	103	0.00
175	VOPA	43	110	4,730.00	49	103	5,047.00
181	DOLI	191	110	21,010.00	199	103	7,723.00
201	DOE	406	110	44,660.00	431	103	22,916.00
202	LVA	254	110	27,940.00	275	103	8,580.00
222	DPOR	224	110	24,640.00	203	103	9,148.00
223	DHP	268	110	29,480.00	264	103	15,262.00
226	BOA	12	110	1,320.00	13	103	1,339.00
232	DMBE	28	110	3,080.00	26	103	1,013.00
233	BBE	13	110	1,430.00	12	103	1,236.00
239	FCMV	81	110	8,910.00	90	103	9,270.00
245	SCHEV	64	110	7,040.00	70	103	7,210.00
261	VCCS	239	110	26,290.00	219	103	22,557.00
325	DBA	45	110	4,950.00	59	103	886.00
405	VRC	52	110	5,720.00	58	103	5,974.00
423	DHR	54	110	5,940.00	59	103	2,121.00
440	DEQ	939	110	103,290.00	1000	103	103,000.00
505	DRPT	48	110	5,280.00	50	103	2,953.00
506	MVDB	28	110	3,080.00	28	103	2,884.00
507	TRO	3	110	330.00	2	103	206.00
602	DMAS	477	110	52,470.00	488	103	14,155.00
750	DCE	899	110	98,890.00	954	103	1,877.00
778	DFS	347	110	38,170.00	364	103	37,492.00
841	DOAV	43	110	4,730.00	41	103	4,223.00
848	VIDC	652	110	71,720.00	733	103	75,499.00
851	TIC	11	110	1,210.00	13	103	1,339.00
861	VEAP	13	110	1,430.00	2	103	206.00
937	SVHEC	57	110	6,270.00	53	103	5,459.00
938	NCI	15	110	1,650.00	40	103	4,120.00
957	CASC	10	110	1,100.00	10	103	0.00
960	DFP	389	110	42,790.00	324	103	14,992.00
962	DEDR	14	110	1,540.00	16	103	504.00
413	VASAP	9	110	990.00		103	
942	VMNH	80	110	8,800.00		103	
402	MRC	162	110	13,365.00		103	
218	VSDBS	284	110	15,620.00		103	
409	DMME	246	110	13,530.00		103	
238	VMFA	272	110	22,440.00		103	
722	IG-MHMRSAS	4	110	440.00		103	
417	Gunston Hall	29	110	3,190.00		103	
720	DMHMRSAS Central offic	308	110	33,880.00		103	
2008 W-2 TOTALS		16,205		1,741,465.00	15,280		1,089,060.00

Reduced Billing Detail						
GF Cost*	NGF Cost*	Total Cost	Part 3	GF-No bill	FY 2009 Agency Cost	
9,118	56,905	66,023		0.00	60,521.00	1
11,359	17,275	28,634	(5,265.00)	(11,359.00)	12,010.00	2,3
5,784	4,207	9,991		(5,784.00)	4,207.00	2
3,508	818	4,326		(3,508.00)	818.00	2
3,491	45,125	48,616	(31,222.00)	(3,491.00)	13,903.00	2,3
7,994	9,001	16,995	(24,707.00)	0.00	0.00	3
9,397	9,967	19,364		0.00	19,364.00	
618	0	618		(618.00)	0.00	2
0	266,564	266,564		0.00	266,564.00	
275,622	42,648	318,270		0.00	318,270.00	
2,665	116	2,781		(2,665.00)	116.00	2
133,271	5,264	138,535		(133,271.00)	0.00	2,4
1,637	1,762	3,399	(910.00)	(1,637.00)	852.00	2,3
12,618	3,244	15,862		(12,618.00)	3,244.00	2
927	0	927		(927.00)	0.00	2
271	4,776	5,047		0.00	5,047.00	
12,774	7,723	20,497		(12,774.00)	7,723.00	2
21,477	22,916	44,393		21,477.00	22,916.00	2
19,745	8,580	28,325		(19,745.00)	8,580.00	2
0	20,909	20,909	(11,761.00)	0.00	9,148.00	3
0	27,192	27,192	(11,930.00)	0.00	15,262.00	3
0	1,339	1,339		0.00	1,339.00	
970	1,708	2,678	(695.00)	(970.00)	1,013.00	2,3
0	1,236	1,236		0.00	1,236.00	
5,836	3,434	9,270		0.00	9,270.00	
5,207	2,003	7,210		0.00	7,210.00	
14,035	8,522	22,557		0.00	22,557.00	
5,191	886	6,077		(5,191.00)	886.00	2
0	5,974	5,974		0.00	5,974.00	
3,956	2,121	6,077		(3,956.00)	2,121.00	2
48,637	54,363	103,000		0.00	103,000.00	
0	5,150	5,150	(2,197.00)	0.00	2,953.00	3
0	2,884	2,884		0.00	2,884.00	
0	206	206		0.00	206.00	
23,544	26,720	50,264	(12,565.00)	(23,544.00)	14,155.00	2,3
96,385	1,877	98,262		(96,385.00)	1,877.00	2
37,492	0	37,492		0.00	37,492.00	
0	4,223	4,223		0.00	4,223.00	
75,499	0	75,499		0.00	75,499.00	
	1,339	1,339		0.00	1,339.00	
206	0	206		0.00	206.00	
4,467	992	5,459		0.00	5,459.00	
4,120	0	4,120		0.00	4,120.00	
1,030	0	1,030		(1,030.00)	0.00	2
13,980	19,392	33,372	(4,400.00)	(13,980.00)	14,992.00	2,3
1,144	504	1,648		(1,144.00)	504.00	5
						5
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873,975.00	699,865.00	1,573,840.00	(105,652.00)	(333,120.00)	1,089,060.00	

Footnotes:

1 - Only charged for 11 months, started with PSB 1 August, 2008. Also adjusted for national guard 1 time pays.

2 - No GF billing in FY 2009

3 - Part 3 reduction

4 - No NGF billing in FY 2009

5 - Prorated for FY 2010 based upon # months with PSB

* - GF/NGF cost allocation based on GF/NGF MEL