

July 10, 2019

MEMORANDUM

TO: Members of the Joint Legislative Audit and Review Commission

FROM: Kimberly Sarte, Associate Director

SUBJECT: Proposed Policy Change for Internal Service Fund Oversight

JLARC is authorized by statute to oversee the internal service funds (ISFs) managed by several state agencies—the Virginia Information Technologies Agency (VITA), the Department of General Services (DGS), the Department of Accounts (DOA), and the Department of Human Resource Management (DHRM). ISFs are a financial mechanism used to recoup costs incurred by one agency when performing services or procuring goods on behalf of other agencies. Because of recent budgetary changes, JLARC staff is proposing a change to JLARC’s oversight policy for ISFs.

Background on proposed policy change

Starting in 2014, ISFs began going through the regular budget process and receiving a specific appropriation amount. The ISF rates charged to agencies, which previously had been approved by JLARC, are now driven by the approved appropriation level. Following the 2014 change, JLARC revised its ISF oversight policy to issue an annual high-level memo on the financial status of the funds. Staff recommended that JLARC reassess its policy after the new budget process had been in place for several years.

Proposed policy change for ISF oversight

Now that the ISF budget process has been in place for five years, JLARC staff proposes changing the policy so that JLARC staff would review ISFs at the request of the chairman of JLARC, the Senate Finance Committee, or the House Appropriations Committee. JLARC staff believes that the proposed policy, which would not require a statutory change, would result in more in-depth and comprehensive information being provided to JLARC members and money committee staff when needed. JLARC’s annual reviews consistently have found no major concerns with the financial status of the funds, so the proposed policy does not appear to present much risk. The proposed policy is also consistent with other types of fiscal reviews that JLARC provides on an as-needed basis, such as the fiscal impact reviews of bills during the General Assembly session. Importantly, JLARC staff would continue providing in-depth, ongoing oversight of the VITA and Cardinal ISFs (two of the larger ISFs), as required by separate oversight directives in the Appropriation Act.

JLARC staff intends to propose the policy change at the July 15th JLARC meeting. If you have any questions before then, please don’t hesitate to contact Hal Greer or myself at 804-786-1258.

JLARC INTERNAL SERVICE FUND POLICY - PROPOSED

Internal service funds are used to account for support services provided by a centralized administrative unit. This accounting method allows for the identification and reporting of services used by the individual state agencies and is intended to improve management of the funds.

The Joint Legislative Audit and Review Commission (JLARC) has statutory oversight authority for internal service funds (§ 2.2-803B, § 2.2-1101, and § 2.2-2013). Accordingly, at the request of the chairman of JLARC, the House Appropriations Committee, or the Senate Finance Committee, JLARC staff shall conduct a review of a designated internal service fund. Review topics may include the financial status of the fund, including whether the fund has appropriate balances and cash reserves, and the rates charged to customer agencies through the fund.

At the request of JLARC staff, an internal service fund manager shall supply annual end-of-the-year financial statements, a schedule of rates to be charged for services in the current and next fiscal year, and estimates of fund revenues and expenditures for the current and next fiscal year. Submissions shall include a description of the assumptions used to determine rates and estimates, including changes to services provided, customers served, or pricing policies and formulas.

At the conclusion of a requested review, JLARC staff shall provide a memo to the members of JLARC documenting their results and findings.

Adopted: TBD

JLARC INTERNAL SERVICE FUND POLICY - CURRENT

Internal service funds are to be used to account for support services provided by a centralized administrative unit. This method of accounting permits identification and reporting of services used by the individual state agencies, and is intended to result in improved management.

The Joint Legislative Audit and Review Commission (JLARC) has statutory oversight responsibility for internal service funds (§ 2.2-803B, § 2.2-1101, and § 2.2-2013). Accordingly, the Commission desires to establish a policy that ensures there is adequate legislative oversight of internal service funds. In keeping with this objective, the Commission adopts this policy statement.

Each internal service fund manager shall keep the Commission informed of the financial condition of the funds that they manage. For each fund, the manager shall supply JLARC staff with annual end-of-the-year financial statements in a format specified by the staff and additional information as shall be required. JLARC staff shall report to the Commission on the condition of the funds on an annual basis.

By September 1, each internal service fund manager shall submit to JLARC staff (1) a schedule of rates to be charged for services in the next fiscal year and (2) estimates of fund revenues and expenditures for the current and next fiscal year. Submissions shall include a description of the assumptions used to determine rates and estimates, including changes to services provided, to customers served, or to pricing policies and formulas. JLARC staff shall review these materials and report findings to the Commission on an annual basis.

The Department of Planning and Budget shall notify JLARC staff of changes that are made to proposed rates or revenue and spending estimates during and after the budget development process. JLARC staff shall report findings from these oversight activities to the Commission as needed.

All state agencies shall report the creation of any new internal service funds, or the creation of new rates under an existing internal service fund, to JLARC staff. JLARC staff shall review new rates as they are established and report findings to the Commission as needed.

Each internal service fund manager shall establish charges to customers that are intended to be sufficient to recover the actual cost of providing service but not at a level to accrue a surplus. In the event a surplus is accumulated, disposition of the surplus shall be determined by the Commission as provided by law.

Adopted: September 12, 1983

Amended: July 14, 2014