



Internal Service Fund Overview

Senate Finance Committee, Capital Outlay
and General Government Subcommittee



Internal service funds are how the state allocates funding for centralized services to state agencies

- Many critical support services are centrally provided to Virginia state agencies by other state agencies
 - information technology, property management, financial services, and human resource services
- Internal service funds are used to recoup costs incurred by one agency when providing services for another agency

Internal service funds were initiated to serve several purposes

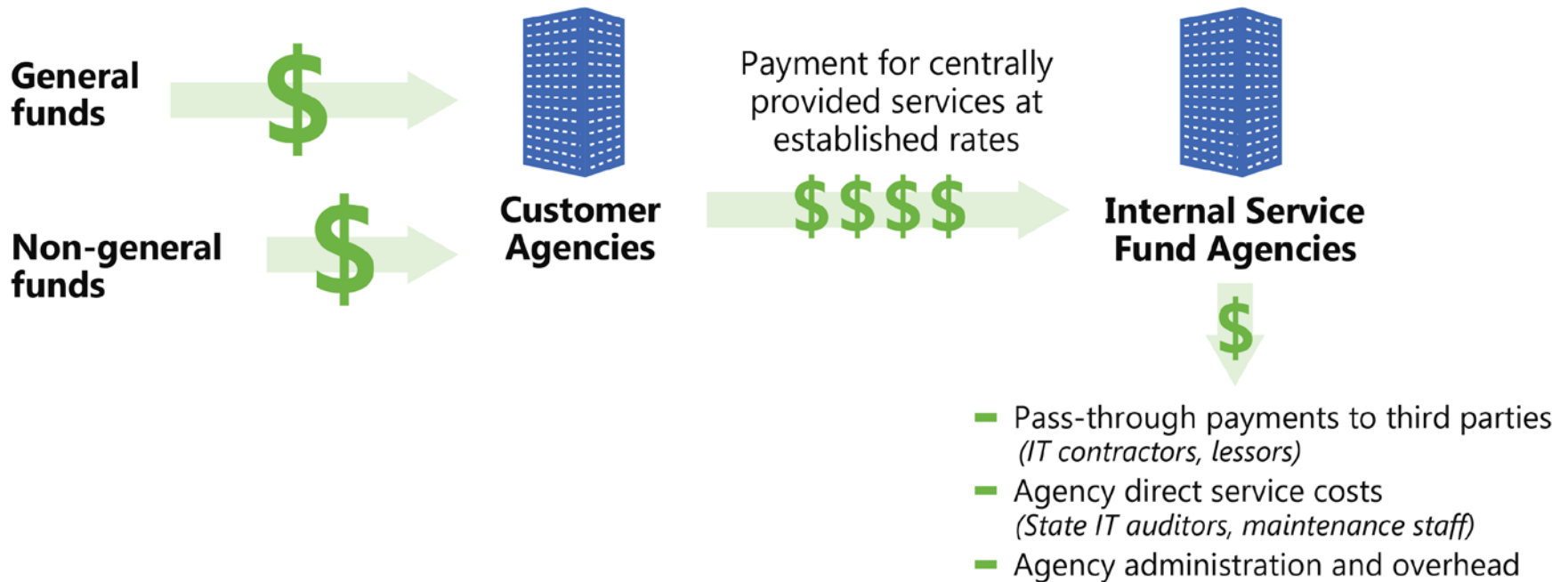
- Allocate cost of central services across all revenue sources
 - Federal and other non-general fund sources share in the cost of central services
- Encourage efficient, “businesslike” operations for central services
- Encourage prudent use of central services by agencies
 - Pay for usage of services (\$ per hour, \$ per square foot, \$ per unit, etc.)

Agencies with internal service funds

- VITA – Virginia Information Technologies Agency
Examples: IT infrastructure, security, & support services
- DGS – Department of General Services
Examples: building and lease management, surplus property, & vehicle fleet
- DOA – Department of Accounts
Examples: financial reporting and budgeting applications, & payroll services
- DHRM – Department of Human Resource Management
Examples: Personnel Management Information System & administration of health benefits

For detailed information, see JLARC's 2017 ISF memo at jlarc.virginia.gov/isf.asp.

Internal service fund overview



Internal service fund rates

- Customer agencies pay for centralized services through established rates
- Internal service fund agencies are to charge rates to cover the cost of providing services
- DPB has responsibility for reviewing internal service fund rates

ISF “overhead surcharge” rates must be approved in the Appropriation Act. Appropriation Act § 4-5.03.

Appropriations for internal service fund agencies

- The General Assembly approves appropriations for internal service fund agencies annually in the Appropriation Act
- Each customer agency is appropriated general or non-general funds to pay for the services it uses

FY18 internal service fund appropriations

VITA	\$350 million
DGS	\$170 million
DOA	\$28 million
DHRM	\$8 million *
Total	\$556 million

*Excludes Health Insurance Fund.

For detailed information, see JLARC's 2017 ISF memo at jlarc.virginia.gov/isf.asp.

JLARC has statutory responsibility for oversight of internal service funds

- JLARC staff monitor fiscal health of funds and report findings to JLARC commission members in an annual memo

Code of Virginia §§ 2.2-803B, 2.2-1101, and 2.2-2013

JLARC oversight focuses on the financial status of the funds

- Fund balance
 - difference between assets and liabilities
 - positive balance indicates that a fund has regularly collected sufficient revenue to pay its expenses
- Cash reserve
 - available for unexpected expenses or revenue shortfalls

For detailed information, see JLARC's 2017 ISF memo at jlarc.virginia.gov/isf.asp.



JLARC annual review of internal service funds

- No major concerns regarding financial status of internal service funds in FY17
- Fund balances are generally positive and within reason
 - Most funds with negative balances are making progress toward a positive balance
 - Funds with declining balances are being monitored by agency staff to determine whether change is needed
- Cash reserves are generally within guidelines

For detailed information, see JLARC's 2017 ISF memo at jlarc.virginia.gov/isf.asp.

JLARC staff for this presentation

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