REPORT OF THE
JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION ON

Internal Service Funds Within the Department of General Services

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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PREFACE

Section 2.1-196.1 of the *Code of Virginia* grants the Joint Legislative Audit and Review Commission (JLARC) certain oversight responsibilities for internal service funds. In keeping with these oversight responsibilities, an in-depth review of the five internal service funds within the Department of General Services (DGS) was completed. Such reviews have been initiated approximately every five years.

The five funds within DGS include: Central Warehouse, Office of Graphic Communications, State Surplus Property, Federal Surplus Property, and Maintenance and Repair Projects. These funds provide a variety of services on a cost-reimbursement basis to State agencies and in some cases to political subdivisions and non-profit organizations. While the sizes of the individual funds vary, together the funds generated over $30 million in operational revenues during FY 1987.

This review found that some of the funds are well-managed while others exhibit financial and operational problems. Additional attention needs to be given by DGS management to financial concerns such as the setting of rates and charges to cover operating expenses. As recommended in this report, $131,065 is being reverted from the Maintenance and Repair Projects fund to the general fund.

It is important to emphasize that although JLARC provides general oversight of the internal service funds, it is the responsibility of the Department of General Services staff to ensure that the programs are properly administered.

On behalf of the JLARC staff, I would like to express my special thanks to the Auditor of Public Accounts for making available special accounting and auditing assistance during the course of this study. I would also like to express our appreciation for the cooperation and assistance provided by the Department of General Services.

Philip A. Leone
Director

December 18, 1987

INTERNAL SERVICE FUNDS WITHIN THE DEPARTMENT OF GENERAL SERVICES

December 1987

Joint Legislative Audit and Review Commission

Internal service funds are used to finance and account for goods and services provided by one agency to other governmental agencies or units on a cost-reimbursement basis. When properly administered, these funds can take advantage of economy of scale savings through centralized operations.

The Joint Legislative Audit and Review Commission (JLARC) has certain oversight responsibilities for internal service funds as defined in Section 2.1-196.1 of the *Code of Virginia*. In keeping with JLARC's oversight responsibilities, reviews of the funds are completed about every five years.

This review examines the five internal service funds within the Department of General Services (DGS): Central Warehouse, the Office of Graphic Communications, State Surplus Property, Federal Surplus Property, and Maintenance and Repair Projects. The review focused on both financial and operational aspects of each of the internal service funds. Study activities assessed rates and charges, fund balances, billing procedures, operational efficiency, and user satisfaction.

In general, review findings indicate that some of the internal service funds are well-managed, while others experience financial and operational difficulties. The majority of fund users are satisfied with service provision. The major exception occurs in the maintenance and repair area, where user responses are mixed. Additional attention should be given to financial concerns such as rates and charges, while a total of $162,245 in excess funds should be transferred to the general fund.

A JLARC REPORT SUMMARY

This report summary briefly references study findings and recommendations. Detailed explanations of analyses and findings are contained in the text of the report.

General Concerns (pp. 7-14)

Most issues examined during this review of internal service funds within DGS related directly to one of the five specific funds. Four general concerns which affect all five funds were also reviewed.

Inconsistent Terminology within the *Code of Virginia*. The *Code of Virginia* contains inconsistent references to internal service funds. The Governmental Accounting Standards Board recommended substituting the term "internal service fund" for "working capital fund," and JLARC subsequently recommended adoption of the terminology change within the Code in 1982. Although two sentences within Section 2.1-196.1 were amended, other references within Sections 2.1-196.1 and 2.1-425 still contain references to "working capital fund" accounts. These references should be updated to reflect the new terminology.

Recommendation. *During its next review of Title 2.1 of the* Code of Virginia, *the Code Commission should substitute the term "internal* *service fund" for "working capital fund" in the instances in which it still appears. This revision would reflect currently accepted terminology and ensure consistency in the use of the terms and in the interpretation of the* Code.

Designation of Functions as Internal Service Funds. A review of DGS operations indicated that the five current internal service funds are appropriately designated as such, and that no other DGS section warranted formal designation as an internal service fund. For financial reporting purposes, the Auditor of Public Accounts and the Department of Accounts have decided to report Risk Management's financial data according to internal service fund guidelines to comply with generally accepted accounting principles. However, Risk Management should continue to be designated and budgeted as a trust and agency fund. In addition, DGS should contract for the completion of actuarial studies for a number of its insurance programs.

Recommendation. *The Division of Risk Management should continue to be designated and budgeted as a trust and agency fund. The Auditor of Public Accounts and the Department of Accounts, however, may report financial data according to internal service fund guidelines to comply with generally accepted accounting principles.*

Compensation for Administrative Support. DGS has lacked a clear, consistent policy in regard to charging its non-general fund units for administrative support. This has resulted in internal service funds being inconsistently charged for support services, which has not allowed fund staff to plan for such expenditures and consider them when calculating rates.

Recommendation. *The Department of General Services should develop a comprehensive and consistent methodology for assessing administrative support costs to its non-general fund sections. This methodology should serve as the basis for a cost allocation plan for administrative support services. The internal service funds should not be charged for unbudgeted, random departmental expenses.*

Transfer of Excess Earnings. JLARC is specifically authorized by statute to transfer excess internal service fund balances to the general fund. Such transfers can be problematic, however, if the fund balance includes fixed assets which cannot be readily converted into cash. An internal service fund which has a significant investment in fixed assets or inventory may show a high fund balance without having cash resources to revert to the general fund.

A more reasonable approach would be to examine each internal service fund's cash resources to determine whether excessive earnings have been retained. A guideline for maximum cash resources which examined both average expenses and the time required to collect accounts receivable was developed for the internal service funds.

Recommendation. *Cash resources rather than fund balance should be used in determining whether internal service funds have retained excess earnings. This would ensure that fund transfers are based on liquid assets, rather than fixed assets or inventory.*

Central Warehouse (pp. 15-32)

Central Warehouse was established July 1, 1960, to provide State agencies and political subdivisions with a centralized purchasing and distribution center. Approximately 822 State agencies, political subdivisions, and non-profit organizations purchased from the warehouse during FY 1987.

Central Warehouse has experienced financial difficulties since the last JLARC review in 1982. The warehouse's overhead mark-up has not covered the full cost of its operation, resulting in a steady reduction of its cash resources. Although the Warehouse applies a mark-up of 5.8 percent to the acquisition cost of all items sold to cover its overhead expenses, its cash resources have steadily deteriorated since FY 1983. On June 30, 1987, the warehouse had a cash deficit of $1.56 million. This indicates that the mark-up percentage should be increased.

Recommendation. *Central Warehouse should request a revised mark-up that will cover its operational costs and eliminate its cash deficit within five years.*

Central Warehouse has improved its efficiency in several operational areas including: the establishment of item reorder points, an increase in the fill rate for customer orders, a decrease in the inventory error rate, and a decrease in the delivery time required for small orders.

However, the warehouse still needs to improve its accuracy in filling orders and the quality of its inventory controls.

Recommendation. *The Central Warehouse should take steps to improve inventory controls and decrease its inventory error rate and gross stock adjustment ratio. Special efforts should be taken to verify the accurate filling of orders.*

Additional recommendations are made for increased supervision of warehouse operations, different treatment for accounting purposes of prompt payment discounts, quarterly price and item updates for customers, and other operational modifications.

Office of Graphic Communications (pp. 33-40)

In December 1980, the Office of Graphic Communications was created as an internal service fund. Graphic Communications provided graphic design, publication layout, and other graphics services to 61 State agencies during FY 1987.

The Office of Graphic Communications appears to be well-managed both financially and operationally. Areas which warrant attention relate to the reversion of excess cash resources to the general fund, billing improvements related to the timely collection of accounts receivable, and staffing needs.

The Office of Graphic Communications held cash resources of $62,567 at the end of FY 1987. By comparing these resources to the guideline recommended in this study, $15,414 in excess earnings were identified for reversion to the general fund. Further financial review indicated that billing procedures for the Office of Graphic Communications were adequate, although an excessive 52 percent of accounts receivable were outstanding for 31 or more days.

Recommendation. *JLARC should direct the Comptroller to transfer $15,414 in excess cash from the Office of Graphic Communications internal service fund to the general fund.*

Recommendation. *The Bureau of Fiscal Services should follow up on all Office of Graphic Communications' accounts receivable which are outstanding over 30 days. In addition, OGC should review its billing procedures to ensure that practices and communications encourage prompt payment.*

In general, the Office of Graphic Communications operates well. Although minimal records were kept regarding overtime worked and service requests denied during FY 1987, the office director believes that staffing is inadequate to fulfill all service requests.

Recommendation. *The Office of Graphic Communications should work with Department of General Services management to replace one temporary artist position with a salaried artist position. In addition, the Office of Graphic Communications should maintain records of all service requests denied and overtime worked by staff. These records will provide OGC management with quantifiable justification for future staffing requests.*

State Surplus Property (pp. 41-50)

State Surplus Property was established as an internal service fund on July 1, 1984. This internal service fund is responsible for the transfer and sale of property that has been declared as surplus by State agencies.

The State Surplus Property operation appears to be well-managed. Operationally, no problems were noted during the review. The only concern relates to the retention of excess cash resources. State Surplus Property ended FY 1987 with cash resources of $82,768. By applying the guideline recommended in this report, $15,766 in excess holdings were identified for reversion to the general fund.

Recommendation. *JLARC should direct the Comptroller to transfer $15,766 in excess funds from the State Surplus Property internal service fund to the general fund.*

Federal Surplus Property (pp. 51-64)

A federal surplus property redistribution operation has functioned since the 1940s. It was established as an internal service fund on July 1, 1986. Over 1,000 State agencies, political subdivisions, and non-profit organizations are currently eligible to receive property through the Federal Surplus Property program.

Federal Surplus Property has demonstrated both financial and operational problems recently. A combination of low service charges and a decline in the quality of goods available from the federal government resulted in Federal Surplus Property being unable to generate adequate revenue to cover expenses for the past two years.

Consequently, a total of $135,807 in net losses were incurred for FY 1986 and FY 1987. Further, the collection of outstanding accounts receivable warrants improvement.

Recommendation. *Federal Surplus Property should set service charges at levels that cover the cost of its operations. If this is impossible due to the quality of available federal surplus property, the Department of General Services should assess the long-term prospects for FSP and consider submitting a proposal to JLARC outlining options for FSP, including elimination of the function.*

Recommendation. *The Department of General Services should take two steps to aggressively follow up on overdue Federal Surplus Property accounts. First, the Bureau of Fiscal Services should aggressively follow up on accounts which are outstanding for over 60 days. Second, the administrator of surplus property programs should take corrective action against donees which have accounts that are outstanding for more than 90 days.*

For the last four years, Federal Surplus Property's ending inventory value has steadily risen, but the donation of surplus property has not kept pace with the acquisition of property. Corrective measures have been initiated to address this redistribution problem. Further, the program seemed to be heading towards an unfavorable equipment position during FY 1987. Development of a vehicle and equipment replacement schedule would ensure that equipment needs are met at all times and that disproportionate replacement costs are not incurred in any one year.

Recommendation. *DPS management should monitor the success of the changes instituted to increase the donation of federal surplus property. At the end of FY 1988, the amount of property donated should increase while ending inventory should be significantly lower than at the end of FY 1987.*

Recommendation. *The surplus property administrator should develop a vehicle and equipment replacement schedule for Federal Surplus Property.*

Maintenance and Repair Projects (pp. 65-92)

The Bureau of Buildings and Grounds is responsible for the maintenance of 36 buildings at the seat of government. The maintenance of five of these buildings (the Highway Building, the Highway Annex, the Jefferson Building, the Capitol, and the General Assembly Building) has been financed by the Maintenance and Repair Projects fund since January 1, 1985.

While the Bureau of Buildings and Grounds has provided better maintenance and repair services since it ceased carrying out construction and renovation work in 1984, financial and operational problems still exist. Problems were found in the calculation of overhead charges, billing procedures involving the coding of some maintenance performed within the Capitol and the accuracy of worker timesheets, and the retention of unnecessary cash resources. The Bureau should also strengthen its supervision of contract custodial crews, implement service agreements with certain agencies, take additional steps concerning preventive maintenance, and improve communication with customer agencies.

Financial Concerns. The Bureau of Buildings and Grounds' service charges are composed of hourly labor costs, material and supply costs, and an overhead component used to recover administrative costs. No problems were found with the calculation of materials and supplies and labor rates. However, the methodology for computing the overhead rate should be revised to more accurately reflect administrative costs.

Recommendation. *The Bureau of Fiscal Services should revise its overhead methodologies to eliminate inconsistent treatment of similar activities. The methodologies should provide for fair and equitable compensation for overhead expenses incurred in the conduct of Maintenance and Repair Projects activities. The revised methodologies and resulting rate should be presented to JLARC for approval prior to June 1988. The current rate of 20 percent should continue until the new methodologies are approved.*

Two billing deficiencies were found during the review. First, worker timesheets contain coding mistakes which result in incorrect billing if they are not corrected. Second, a third cost code is needed to account for the shared building-wide costs in the Capitol. This deficiency resulted in 100 percent of Capitol charges being assessed to the legislature.

Recommendation. *The Bureau of Buildings and Grounds should develop formal, mandatory procedures for reviewing worker* *timesheets. These procedures should include routine comparison of timesheets to original work orders and verification of the cost codes, building numbers, trade descriptions, and number of hours worked.*

Recommendation. *The Bureau of Fiscal Services should establish a third cost code for the Capitol. This cost code should be used to account for services specified in the service agreement to be charged 85 percent to the legislature and 15 percent to the Governor's Office. The code should be in use by January 1, 1988.*

The Maintenance and Repair Projects fund has maintained unnecessary cash resources of $131,065 for the past two years. Maintaining these resources is unnecessary, as the fund operates on a break-even basis by giving agencies credits for budget overages or collecting for budget shortages at the end of each fiscal year.

Recommendation. *JLARC should direct the Comptroller to transfer $131,065 in excess funds from the Maintenance and Repair Projects internal service fund to the general fund.*

Operational Considerations. Generally the Bureau of Buildings and Grounds has improved the provision of maintenance services in recent years. Three difficulties were observed in the custodial services area, however. First, Buildings and Grounds needs to more closely monitor the performance of the private custodial crews to eliminate unauthorized activities. Second, some day custodians do not have specific jobs and in some instances have to be told when routine jobs need to be completed. Third, the assignment schedule for a day custodian position in the Capitol, General Assembly Building, and the Bell Tower does not place custodial resources where they are most needed.

Recommendation. *The Bureau of Buildings and Grounds should monitor the activities of the contracted nightly custodial crews more closely to ensure that prohibited activities such as using State phones and taking breaks do not occur.*

Recommendation. *The Bureau of Buildings and Grounds should develop a schedule of custodial tasks to be completed by the day custodians in the internal service fund buildings each week. Also, custodial supervisors should perform more structured inspections to ensure that tasks are being satisfactorily completed.*

Recommendation. *The Bureau of Buildings and Grounds management should shift assignment of the day custodial position assigned to the Capitol, General Assembly Building, and Bell Tower to ensure that custodial services are being provided at the most essential locations.*

User Satisfaction. Representatives from each agency whose maintenance is financed through the internal service fund were surveyed to determine customer agency satisfaction with maintenance services. While opinions in most areas were fairly mixed, there was a strong consensus among the users regarding their discontent with the heating and air conditioning systems in their buildings. The need for improved communications between the Bureau of Buildings and Grounds and the internal service fund agencies was also noted.

Recommendation. *The Bureau of Buildings and Grounds should take steps to improve communications with internal service fund agencies. This would include having workers notify agencies when work is being performed, notifying agencies when a partially completed task will be delayed, and annually distributing preventive maintenance and day custodian schedules to affected agencies. In addition, agencies should ensure that they understand service agreements and seek written clarification when they have questions concerning maintenance services.*

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I. INTRODUCTION

Internal service funds are a type of proprietary fund used to finance and account for goods and services provided by one agency to other governmental agencies or units on a cost-reimbursement basis. When properly administered, these funds can take advantage of economy of scale savings through centralized operations. Cost efficiency is also encouraged as the funds must recover the cost of their operations in fees collected from customers, and fees must be competitive with the private sector. The initial financing of the internal service fund may come from a general fund appropriation, from other funds, or from a working capital advance that is repaid with fund earnings over a fixed time period.

Nine internal service funds currently operate within three State agencies. Three funds -- Computer Services, Systems Development, and Telecommunications -- are located within the Department of Information Technology. Central Garage functions within the Virginia Department of Transportation. The five internal service funds within the Department of General Services are the focus of this review:

- Central Warehouse,
- Office of Graphic Communications,
- State Surplus Property,
- Federal Surplus Property, and
- Maintenance and Repair Projects.

INTERNAL SERVICE FUNDS WITHIN THE DEPARTMENT OF GENERAL SERVICES

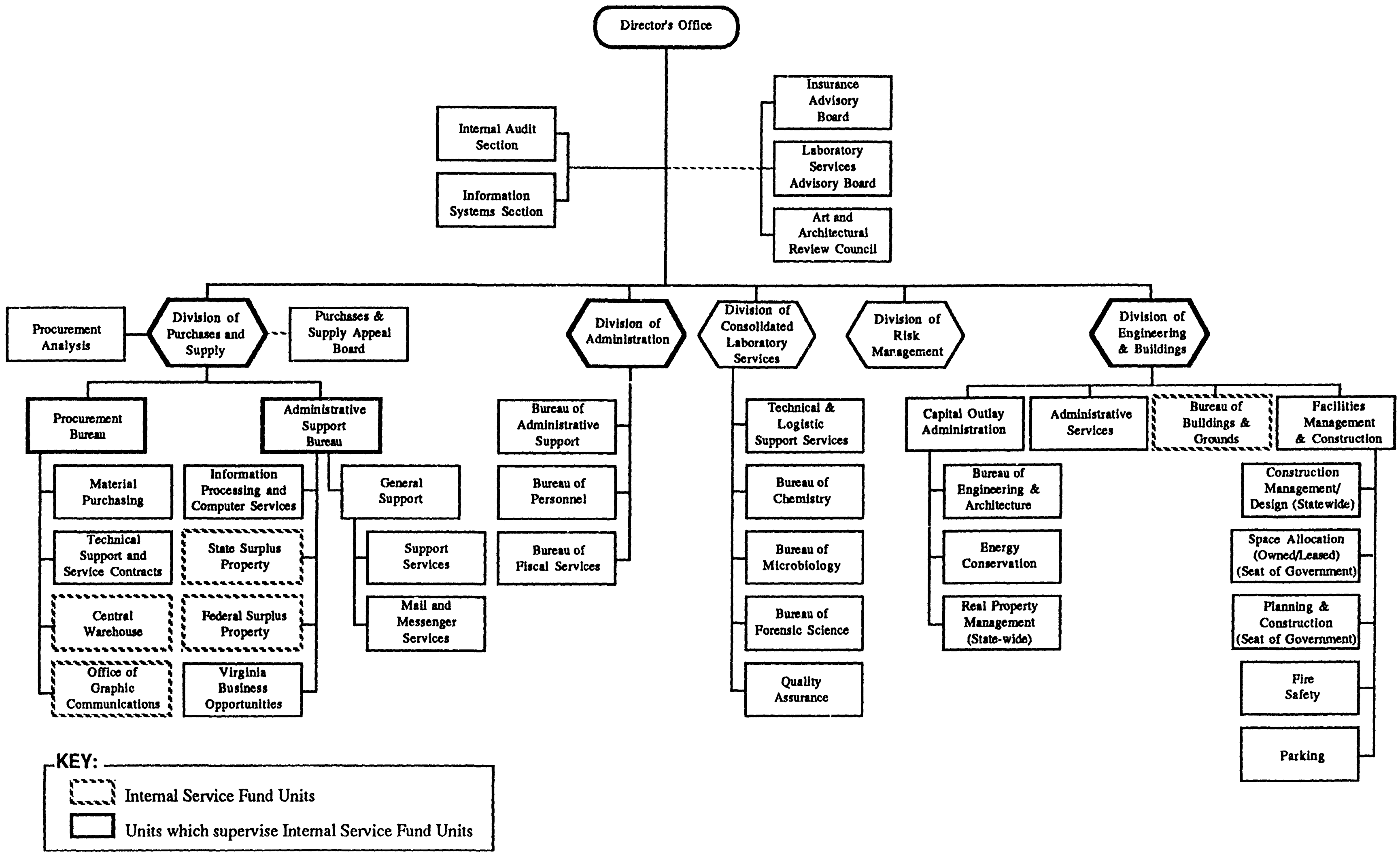
The Department of General Services (DGS) was created on July 1, 1978, as a result of recommendations made by the Commission on State Governmental Management. Four existing agencies -- Department of Property Records and Insurance, Department of Purchases and Supply, Division of Engineering and Buildings, and Division of Consolidated Laboratory Services -- were combined to form the single Department of General Services. The four functions represented by the original agencies continue to be represented within DGS as divisions, while a fifth division of administrative services has been added.

The five DGS internal service funds (ISFs) are currently located within two divisions (Figure 1). Central Warehouse, the Office of Graphic Communications, State Surplus Property, and Federal Surplus Property are all placed within the Division of Purchases and Supply. Maintenance and Repair Projects are carried out by staff within the Bureau of Buildings and Grounds, which is located within the Division of Engineering and Buildings.

Brief descriptions of the internal service funds are provided in Exhibit 1. As noted, the funds provide a range of services: from centralized purchasing of goods for distribution to State agencies and political subdivisions,

Figure 1

Location of Internal Service Funds in the Department of General Services



Source: DGS.

Exhibit 1

Descriptions of DGS Internal Service Funds

CENTRAL WAREHOUSE

Date Established:	July 1, 1960.
Service Description:	Sells processed and frozen food, maintenance supplies, and cleaning materials to State agencies and political subdivisions.
Number of Users FY 1987:	Approximately 822 State agencies and political subdivisions.
Total Revenue FY 1987:	$24,899,316

OFFICE OF GRAPHIC COMMUNICATIONS

Date Established:	December 9, 1980.
Service Description:	Provides graphic design, publications layout, and related services to other State agencies.
Number of Users FY 1987:	61 State agencies.
Total Revenue FY 1987:	$280,806

STATE SURPLUS PROPERTY

Date Established:	July 1, 1984.
Service Description:	Handles the administration of declaring State property as surplus including: transferring property between State agencies, reviewing sealed bids for property, and auctioning property to the public.
Number of Users FY 1987:	145 State agencies.
Total Revenue FY 1987:	$413,914

FEDERAL SURPLUS PROPERTY

Date Established:	July 1, 1986.
Service Description:	Selects and subsequently distributes federal surplus property to State agencies, political subdivisions, and non-profit organizations.
Number of Users FY 1987:	757 State agencies and political subdivisions and 318 non-profit organizations.
Total Revenue FY 1987:	$540,953

MAINTENANCE AND REPAIR PROJECTS

Date Established:	January 1, 1985.
Service Description:	Maintains the Capitol, the General Assembly Building, the Jefferson Building, the Highway Building, the Highway Annex, and the Aluminum Building.
Number of Users FY 1987:	7 State entities.
Total Revenue FY 1987:	$2,898,547

Source: JLARC staff analysis of DGS financial and organizational data.

to the maintenance of six State buildings within the Capitol Square area. The five internal service funds were established over a 26-year period between 1960 and 1986. The fund users range from over 1,000 State and local agencies, political subdivisions, and non-profit organizations (for Federal Surplus Property), to seven State entities (for Maintenance and Repair Projects). The size of the operation also varies: the Central Warehouse generated FY 1987 revenue of over $24 million, while the Office of Graphic Communications generated revenue of $280,806.

PREVIOUS JLARC STUDIES OF DGS INTERNAL SERVICE FUND OPERATIONS

Two previous studies of "working capital funds" were completed by JLARC staff in 1976 and 1982. (Since these studies, the term "working capital fund" has been largely replaced by the term "internal service fund.") Central warehousing and graphic communication functions were addressed in both previous JLARC reports, although at the time of the 1976 report, graphic services were a part of the printing operation.

Review of the Central Warehouse

The 1976 JLARC staff study of the Central Warehouse examined financial management and three operational areas: facility utilization, materials management, and alternative systems of inventory control. The primary study recommendations included the need to complete financial statements on a timely basis, the acquisition of a single warehouse facility to replace the two facilities being used, and improvements to the manual inventory system including consideration of an automated system.

JLARC's 1982 report noted that operation of the Central Warehouse had improved significantly following the 1976 report. Problems presented by having two warehouse facilities had been eliminated by the purchase of a single facility. The manual filing system was being replaced by an automated system as recommended in the previous report. Consequently, the 1982 report recommendations focused on improving operational procedures.

Review of the Graphic Communications Function

The graphic communications function was a small part of the Printing and Graphics fund examined by JLARC in 1976. Three illustrator positions were originally assigned to handle graphics work for the State printing shop. When two of the positions became vacant in April 1975, the positions were abolished. The remaining illustrator worked less than half-time on projects handled by the printing shop.

The 1976 JLARC staff study found that Printing and Graphics needed to improve its work procedures, records management, and financial reporting. The report also recommended that the Director of the Department of

Purchases and Supply develop a comprehensive plan for providing all State printing in the most efficient and effective way.

When the 1982 study began, the Printing and Graphics operation had been abolished and the Office of Graphic Communications had been established as a working capital fund. The graphics function operated at that time in much the same way as it does now. It was located within the DGS Division of Purchases and Supply and employed a manager and two graphic artists (the staff now includes five graphic artists). Since the graphics function had been operating for only 16 months when the 1982 JLARC study was completed, the function's financial viability as a working capital fund could not be determined. The study therefore stated that additional time should be allowed for the Office of Graphic Communications to demonstrate its financial viability before determining whether it should be continued or abolished. The other report recommendations focused on assisting Graphic Communications in increasing its utilization by State agencies.

JLARC REVIEW

The Joint Legislative Audit and Review Commission (JLARC) has certain oversight responsibilities for internal service funds as defined in §2.1-196.1 of the *Code of Virginia*. The Commission may authorize the establishment of new internal service funds and discontinue those which are no longer needed. Transferring excessive fund balances to the general fund can also be authorized by the Commission.

Central Warehouse and the Office of Graphic Communications had not been closely reviewed since 1982. The operation of the two surplus property programs and Maintenance and Repair Projects had not been studied by JLARC staff since their establishment as internal service funds. In keeping with JLARC's oversight responsibilities regarding internal service funds, an in-depth review of DGS' five funds was initiated.

Study Objectives

This review examined both financial and operational aspects of each of the five internal service funds. Study objectives included:

- to determine whether service rates and charges are appropriate,
- to determine whether current fund balances are excessive,
- to examine the adequacy of billing procedures,
- to generally assess operational efficiency, and
- to assess user satisfaction with services provided by the funds.

Research Activities

JLARC staff carried out numerous activities to examine the internal service funds, including: structured interviews, surveys, field observations, reviews of procedures and documents, and quantitative analyses.

Interviews. Over 50 structured interviews were held with staff within the Department of General Services, the Department of Planning and Budget, the Office of the Auditor of Public Accounts, and other entities. Structured telephone interviews were also conducted with administrators in eight other states regarding the operation of their federal surplus property operations.

Surveys. One hundred and eighty-seven written surveys were mailed and the responses analyzed to assess user satisfaction with the goods and services provided by the four internal service funds within the Division of Purchases and Supply. A second type of survey, administered in face-to-face interviews with the seven Maintenance and Repair Projects agencies, gathered users' opinions regarding the quality of maintenance and custodial services provided by the Bureau of Buildings and Grounds.

Field Observations. JLARC staff conducted a number of field observations to observe: the Central Warehouse inventory process, a State Surplus Property auction, two contract custodial crews, and other activities and facilities.

Procedures and Documents Review. Various procedures and documents used by the internal service funds were reviewed and assessed.

Quantitative Analyses. Two quantitative analyses were undertaken in reviewing the internal service funds. First, the rate-setting methodologies used by each of the funds were examined to ensure that appropriate factors were being considered and that the calculations were correctly made. Second, a guideline for setting an appropriate level for cash resources for each internal service fund was developed. This involved assessing the annual expenses and collection of Accounts Receivable to determine the financial needs of each fund.

Report Organization

This chapter has provided introductory and background information regarding the five internal service funds within the Department of General Services. General concerns will be discussed in the second chapter, followed by a detailed examination of each of the five internal service funds in chapters III through VII.

II. GENERAL CONCERNS

Most issues examined during this review of the Department of General Services (DGS) internal service funds relate directly to one of the five specific funds. Four general concerns which affect all five funds were also reviewed, however, and are described in this chapter.

The first concern involves an inconsistency in terminology contained within the *Code of Virginia*. The term "internal service fund" and the outdated term "working capital fund" both appear within the *Code*. This inconsistency could confuse the intent of the *Code* if the terms were interpreted to refer to different types of accounts.

The second concern relates to the examination of each of the sections within DGS to determine whether they serve the purposes of an internal service fund and whether designation as such is appropriate. This examination determined that the five funds which are currently accounted for as internal service funds have been appropriately designated. Two additional DGS divisions were considered as possible candidates for internal service fund designation, but no change in designation is recommended.

The extent to which administrative support should be compensated by the internal service funds was the third area of concern. It is appropriate for internal service funds to be required to compensate the "parent agency" for any administrative support provided, as these funds are expected to be self-supporting. However, DGS has not had a clear, consistent policy in this area and practices have varied. Several of the internal service funds have consistently compensated for support provided by the Division of Administrative Services, while other funds have not paid or been assessed for such support.

Finally, the practice of examining internal service fund balances to determine whether money can be reverted to the general fund often ignores the fact that these balances may include fixed assets. The assets of several of the internal service funds reflect a large capital investment in buildings and costly equipment. The financial position of these internal service funds may therefore appear to be stronger than warranted, as an internal service fund could show a large fund balance while actually being in a deficit cash position.

Inconsistent Terminology Within the *Code of Virginia*

The 1982 JLARC staff report Working Capital Funds in Virginia recommended amending the *Code of Virginia* by replacing the term "working capital fund" with "internal service fund." This change would reflect terminology recommended by the former National Council of Governmental Accounting and its successor the Governmental Accounting Standards Board.

Section 2.1-196.1 of the *Code* was amended in 1984, substituting the term "internal service" for "working capital" in two sentences. Sections 2.1-196.1 and 2.1-425, however, still contain references which authorize

JLARC to direct the establishment of working capital fund accounts by the Comptroller.

Recommendation (1). During its next review of Title 2.1 of the *Code of Virginia*, the Code Commission should substitute the term "internal service fund" for "working capital fund" in the instances in which the outdated term still appears. This revision would reflect currently accepted terminology and ensure consistency in the use of the terms and in the interpretation of the *Code*.

Designation of Functions as Internal Service Funds

Section 2.1-196.1 of the *Code of Virginia* authorizes JLARC to direct the Comptroller to establish or abolish internal service fund accounts. In compliance with this statutory authority, the major sections operating within DGS were examined to determine their appropriateness for designation as internal service funds. Internal service fund designation is appropriate if (1) the section's primary function is to provide goods or services for other governmental agencies or entities, (2) these goods or services can be provided on a cost-reimbursement basis, and (3) advantages related to establishing and accounting for the cost-reimbursement system justify its expense.

The examination involved two distinct analyses. First, the five sections which currently operate as internal service funds were examined. All five sections were found to be appropriately designated as internal service funds. Each section met the three internal service fund criteria.

The second analysis examined the other major units within DGS to determine whether their purposes comply with internal service fund objectives and whether they would benefit from designation as such. This examination found that the establishment of two DGS divisions -- the Division of Consolidated Laboratory Services and the Division of Risk Management -- as internal service funds warranted further consideration. Neither division was found to be appropriate for internal service fund designation, however.

Division of Consolidated Laboratory Services. The Division of Consolidated Laboratory Services (DCLS) was created in 1972 when a number of individual laboratories operated by the State were merged by the General Assembly. Authority for DCLS services is defined in §2.1-426 of the *Code of Virginia*. DCLS offers a number of laboratory testing services to State and federal agencies, localities, law enforcement agencies, fire departments, drinking water providers, medical professionals, and to a limited extent private citizens. Thus the requirement that an internal service fund provide services primarily to other governmental entities is satisfied by DCLS.

The requirement that these services be provided on a cost-reimbursement basis is not met as the majority of DCLS services are financed by the general fund. A few users are required to pay for services provided, including the Alcoholic Beverage Control Board, non-governmental drinking water suppliers, local and private laboratories requiring State certification, and medical personnel needing sample kits and tests that are not required by law or by the Department of Health. The DCLS director collected approximately $720,000 during FY 1987 in fees charged for these services.

Although the funding mechanism could be changed to require all users to pay for services on a cost reimbursement basis, this alternative violates the intent of the General Assembly to fund these services and is therefore not recommended. Section 2.1-429.A of the *Code* directs DCLS to exempt "tests specifically mandated by law and tests for diseases considered by the State Department of Health to be critical" from any charge. A restriction against charging local governments for analyzing water samples as required by the Department of Health was added within §2.1-429.B in 1986. These restrictions clearly state the intention of the General Assembly to fund these testing activities. Several of DCLS' other services also serve the larger interest of the State -- examination of forensic data, identification of toxins and harmful bacteria in foods, and determination of the presence of environmental pollutants -- and therefore should be financed by the State.

A second funding alternative would be to designate the services which are currently being charged for as an internal service fund. This designation does not seem warranted however, given the small proportion of DCLS work that is performed on a cost-reimbursement basis.

Division of Risk Management. The Division of Risk Management (DRM) was created in 1980 to centralize the identification of and protection against financial loss for State government, political subdivisions, and constitutional officers. Thus the provision of risk management services for State agencies and political subdivisions and officials meets the criteria that internal service funds are to provide services for other governmental entities.

Section 2.1-526 of the *Code of Virginia* defines the purview of DRM's activities. DRM provides for comprehensive insurance coverage in the following areas: automobile, property, workers' compensation, boiler and machinery, tort claims liability, faithful performance of duty blanket bond, aviation, law enforcement liability, medical malpractice, and marine liability. DRM employs a combination of private insurance coverage and self-insurance plans in managing these programs. Self-insurance involves the State assuming the financial risk of loss and directly paying claims.

DRM operates on a cost-reimbursement basis, charging State agencies and political subdivisions for the insurance coverage provided. Payments are held in the State Insurance Reserve Trust Fund (which is authorized in §2.1-526.5) or other funds established by DRM.

The Comptroller and the Auditor of Public Accounts decided in August 1987 to report DRM, for financial accounting purposes, as an internal service fund rather than a trust and agency fund as had been the practice. This decision was made to conform with the National Council on Governmental Accounting Statement 4 of "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences." Item 20 of this Statement reads, "[a] governmental entity may create a separate Internal Service (self-insurance) or other fund to pay claims and judgments of all governmental funds."

DRM finances can be reported this way without changing DRM's designation as a trust and agency fund. For example, Industrial Enterprises, within the Department of Corrections, is reported as an internal service fund although it is not designated as such. The Auditor of Public Accounts and the Department of Accounts both state that this is an acceptable practice.

Changing the designation of DRM from trust and agency funds to internal service funds is not recommended, as operational problems could result. DRM's self-insurance programs involve collecting revenue for expenses which are expected in the future. This is necessary because lawsuits could be filed or settled at any time and the State must have the funds available to cover the amount of the settlement. Continuing DRM's designation as trust and agency funds provides some "protection" for the cash resources. It is commonly understood that trust and agency funds maintain cash resources, which may be large, in anticipation of future expenditures. Internal service funds, however, are expected to maintain limited cash resources and to revert excess resources to the general fund each year.

Designation of DRM as an internal service fund overseen by JLARC is therefore not recommended at this time. For financial reporting purposes, the Department of Accounts and the Auditor of Public Accounts can report DRM financial data according to internal service fund guidelines to comply with generally accepted accounting principles.

While reviewing DRM's operations, an additional concern related to DRM oversight became evident. Five of DRM's individual insurance programs have become self-insured operations since July 1, 1985. (These are the automobile liability, workers' compensation, sheriffs law enforcement, public officials liability, and tort liability programs.) Because self-insured programs place the burden of claim payment on the State, it is essential that adequate fund reserves be maintained. DRM has not employed the services of an actuary to assist in the determination of what these reserves should be.

Recommendation (2). The Division of Risk Management should continue to be designated and budgeted as a trust and agency fund. The Auditor of Public Accounts and the Department of Accounts, however, may report financial data according to internal service fund guidelines to comply with generally accepted accounting principles.

Recommendation (3). DGS should contract for the completion of an actuarial study for each of its self-insured programs. These studies should be undertaken when enough data has been collected to project future reserve needs.

Compensation for Administrative Support

The legislature has expressed its intent that costs incurred in operating an internal service fund be supported by the charges assessed for its services. Section 2.1-196.1B of the *Code of Virginia* states:

> Unit prices of services rendered by the internal service fund accounts shall be fixed so that all costs properly allocable to providing the service shall be fully recoverable.

The Department of General Services however, lacks a clear, consistent policy regarding the charging of non-general fund units for administrative support. Because of this, internal service funds and other non-general fund activities have been inconsistently charged for support services, which has not allowed these units to plan for expenditures and consider them when calculating rates.

In planning for FY 1987, the Division of Administrative Services decided to distribute administrative costs between all of the non-general fund units within DGS. A recovery of $100,000 was included in the budget to account for the charges that the non-general fund units might be assessed. It was also decided that the funds would only be charged for any amount that could not be covered by budgeted general fund amounts. No estimates or methodology for these charges was devised by the Division of Administrative Services until January 1987. In February, halfway through the fiscal year, the proposed methodology and estimated service charges were communicated to four operational Division directors by memo.

BFS, however, did not assess three of the internal service funds for administrative support -- Central Warehouse, Federal Surplus Property, and Maintenance and Repair Projects. This decision was made because these funds did not have adequate resources to pay the service charges.

The inability of some funds to pay their share of administrative support costs illustrates the need for DGS to plan for the assessment of administrative support charges in a consistent and timely fashion. Timely planning would have allowed the managers to incorporate administrative support charges into their rate structures. The practice of assessing support charges only when it becomes clear that budgeted funds will be inadequate and additional money will be required should be discontinued. Internal service fund operations should be financed by the charges assessed for their services, and to the extent feasible they should not be subsidized by the general fund. A clear, consistent cost allocation plan appears to be necessary to accomplish this.

Most administrative support costs charged to the internal service funds have been for services provided by the Bureau of Fiscal Services and the Bureau of Personnel. Charging for these costs appears appropriate because each bureau provides substantial and quantifiable support to the internal service funds. While developing a cost allocation plan, DGS should consider whether the costs of additional administrative units or personnel should be included. Only those costs which can be readily identified and fairly assessed should be charged. Minor administrative costs should not be charged as the cost and effort involved in assessing the charge would outweigh the benefits.

In addition, special charges for services which are not typically compensated by the funds should not be assessed. An example of this type of charge was assessed by the department during FY 1987.

In February 1987, each of the divisions within DGS was assessed a "proportionate share of unbudgeted agency-wide expenses...." These expenses totaled $56,092 including: $33,073 for departmental insurance premiums, $15,202 for the reallocation of four positions within the Director's office, and $7,817 for the relocation of the new director. The five DGS internal service funds were assessed $7,550 of these charges despite the fact that the funds would not typically be charged for these expenses.

Special expenses which result from budget shortfalls in areas that are not directly related to internal service fund operations should not be charged to these funds.

Recommendation (4). The Department of General Services should develop a comprehensive and consistent methodology for assessing administrative support costs to its non-general fund sections. This methodology should serve as the basis for a cost allocation plan for administrative support services. This methodology and plan should be presented to JLARC for approval prior to implementation. The administrative support estimates contained in the plan should be communicated in writing to the division directors prior to June of each fiscal year to allow for accurate rate-setting. In addition, the internal service funds should not be charged for unbudgeted, random departmental expenses.

Transfer of Excess Earnings from the Internal Service Funds

Although JLARC is specifically authorized by statute to transfer excess internal service fund balances to the general fund, other executive and legislative entities may be involved in assessing these balances and recommending and implementing transfers. Very often the fund balance, consisting of fixed and other assets, is reviewed to determine whether an internal service fund is retaining an excessive amount of its earnings.

Problems with Emphasis on Fund Balance. Two problems exist with looking at the fund balance to determine whether excess earnings are being retained. First, focusing solely on the fund balance may obscure the fact that the balance may include a number of fixed assets which cannot be readily converted into cash. Second, an internal service fund which has a significant investment in fixed assets or inventory may show a high fund balance without being in a liquid cash position. The fund balance shown by the Central Warehouse is a good example of both of these problems.

The Central Warehouse ended FY 1987 with a fund balance of $1.4 million. While a balance of this size seems to indicate that the internal service fund operated well, this was not the case with the Central Warehouse.

Central Warehouse had total assets of $4,271,371 and total liabilities of $2,826,487 at the close of FY 1987. However, total assets included fixed assets valued at $1.0 *million and merchandise inventory of $2.9 million. These assets would not typically be liquidated unless the fund were going to cease operating. Further, nearly $2 million of the total assets were in the form of accounts receivable.*

An examination of the warehouse's cash position showed a deficit of just over $1.5 million. Thus, Central Warehouse's fund balance was a positive figure primarily because of its large investment in fixed assets and inventory. As it is in a deficit cash position, there are no "liquid" resources to be taken from the warehouse.

As illustrated, a decision to transfer part of the fund balance to the general fund based solely on the magnitude of the balance fails to account for these considerations.

Emphasis on Cash Resources. A more reasonable approach would be to examine each internal service fund's cash resources to determine whether excess earnings have been retained. This would prevent the problem of judging a fund's financial condition by its investment in fixed assets.

Assuming that cash resources are to be reviewed, a guideline is needed to determine when excess cash is being held. A cash resource guideline was therefore developed for the internal service funds within DPS. The guideline does not apply to Maintenance and Repair Projects, which operates on a break-even basis. Excess cash resources which are held by the Maintenance and Repair Projects funds at the end of the year are credited or returned to the user agencies.

To establish the guideline for maximum cash resources, both average expenses and the time required to collect accounts receivable were examined for the internal service funds. The turnover for accounts receivable was assessed and found to range from 30 to 54 days during FY 1987 (Table 1). (The majority of State Surplus Property's income is derived from service charges deducted from sales revenue rather than collected as accounts receivable from

Table 1

TURNOVER FOR ACCOUNTS RECEIVABLE FOR THREE DIVISION OF PURCHASES AND SUPPLY FUNDS

Internal Service Fund	Turnover of Accounts Receivable*
Central Warehouse	30 days
Office of Graphic Communications	53 days
Federal Surplus Property	54 days

*Turnover of accounts receivable does not apply to State Surplus Property.

Source: JLARC staff analysis of DGS financial statements.

agencies. Its accounts receivable collections were therefore not used in the calculation.) The collection of accounts receivable within two months suggested a cash resource allowance of two months expenses (expressed as 17 percent of yearly expenses).

The guideline and four additional restrictions suggested by JLARC staff are shown in Exhibit 2. The first restriction accounts for internal service funds which have large inventory purchase expenses. While inventory purchases are expenses to the fund, the purchases also represent assets that will generate cash upon sale. It is therefore inappropriate to consider these purchases in the same way as other expenses which are not assets. The second restriction suggests careful consideration prior to taking cash from a fund which incurred a net loss for the year. Ending the year with a deficit means that expenses were higher than revenue and could indicate operational or financial problems. The third restriction ensures that the accounts payable do not exceed the sum of remaining cash and the accounts receivable. The final restriction states that excess cash resources should be used to repay working capital advance debts prior to reversion to the general fund. The guideline and restrictions will be used in the following chapters to review the cash resources maintained by the four internal service funds within DPS.

Recommendation (5). Cash resources rather than fund balance should be reviewed in determining whether internal service funds have retained excess earnings. This would ensure that fund transfers are based on liquid assets, rather than on fixed assets or inventory.

Exhibit 2

GUIDELINE AND RESTRICTIONS SUGGESTED
FOR MAXIMUM CASH RESOURCES

Guideline

Maximum Cash Resources = (Annual Expenses) x (17 percent)

Restrictions

1. Inventory purchases should be subtracted from annual expenses before applying the 17% adjustment, as inventory is also an asset for the fund.

2. If the fund ended the year with a net loss rather than a profit, careful consideration should be given prior to reversion of any cash resources.

3. Cash should not be reverted when accounts payable exceed the sum of cash and accounts receivable from State agencies.

4. If the fund is repaying a working capital advance, excess cash resources should be applied to that debt prior to reversion to the general fund.

Source: JLARC staff analysis.

III. CENTRAL WAREHOUSE

Following a recommendation from the Commission for Economy in Government, the Central Warehouse was established in 1960. The Central Warehouse was created to provide State and local agencies and political subdivisions with a centralized purchasing and distribution center which would provide food and supplies at prices lower than those available in the private sector. DGS' Division of Purchases and Supply has been given statutory responsibility for the administration of this program (§2.1-454.1B of the *Code of Virginia).*

The Central Warehouse complex, located at 12th and Dinwiddie Streets in Richmond, was purchased in 1977 and contains five buildings with 155,000 square feet. During FY 1987, the warehouse employed a staff of 35 employees and maintained a delivery fleet of ten vehicles and 12 trailers.

The warehouse sells approximately 1,000 types of items, including janitorial and maintenance supplies; canned, packaged, and frozen foods; paints and painting supplies; office forms; and paper products. Foodstuffs comprise 51 percent of the items in the Central Warehouse catalog. Net sales during FY 1987 totaled $24.75 million, an increase from the sales figures reported in previous JLARC studies of $20.6 million for FY 1981 and $12.9 million for FY 1975.

During FY 1987 the Central Warehouse served approximately 822 State agencies, political subdivisions, and non-profit organizations. Primary warehouse customers at the State level included correctional facilities, hospitals, and colleges and universities. At the local level, cities, counties, school divisions, and individual public institutions purchased from the warehouse.

Central Warehouse appears to be experiencing some difficulty in the financial area. Warehouse charges do not cover the full cost of warehouse operations, and a cash deficit position has resulted. In the operations area, the warehouse has improved the efficiency of its operation in selected areas, but several improvements are still needed. The majority of customer agencies, however, are satisfied with the goods and services offered by the warehouse.

FINANCIAL CONSIDERATIONS

In reviewing the Central Warehouse's financial condition, three areas of concern were examined: rates and charges, the treatment for accounting purposes of prompt payment discounts, and billing procedures including accounts receivable collection. Current rates and charges appear to be too low, and the warehouse is in a cash deficit position. However, no problems are evident concerning the warehouse's billing procedures and the collection of its accounts receivable.

Rates and Charges

Central Warehouse applies a mark-up percentage to the acquisition cost of all items sold. This percentage is assessed to recover operational costs incurred by the warehouse. The mark-up should be high enough to allow the warehouse to pay its expenses and possibly generate a small annual surplus. A 5.8 percent mark-up has been charged by the warehouse since 1984.

A steady deterioration of the warehouse's cash position since FY 1983 indicates that the mark-up percentage needs to be increased. The warehouse has not been generating sufficient revenues to cover the cost of its operations.

Deteriorating Cash Position. Central Warehouse's cash resources have decreased each year since FY 1983 (Table 2). The most significant drop occurred at the end of FY 1986 when cash resources decreased by $1,150,932 from the end of the previous fiscal year. This decrease resulted in a cash deficit of $1,053,000. Fiscal year 1987 closed with an even larger cash deficit of $1,559,552.

According to staff within the Department of Accounts, the cash position of internal service funds is not monitored when paying bills as these funds operate on the premise that adequate revenue will be generated to cover expenses. The control that the Department of Accounts exerts over internal service fund expenditures is to limit the funds to expense estimates set out in the Appropriations Act. Central Warehouse's expenses for FY 1987 equalled $24,883,937, which was below its estimate of $27,069,907. FY 1987 revenues, however, did not totally cover expenses.

Table 2

CASH RESOURCES FOR CENTRAL WAREHOUSE
FY 1983-1987

Fiscal Year	Cash Resources*
1983	$ 297,251
1984	131,847
1985	97,932
1986	(1,053,000)
1987	(1,559,552)

*Includes cash, restricted cash, and petty cash.

Source: DGS financial statements.

While cash resources have decreased, Central Warehouse's fund balance has slightly increased from $1.2 million to over $1.4 million over the past four years (Table 3). The positive fund balance is primarily attributable to the large investment in inventory and fixed assets. Central Warehouse's merchandise inventory was its largest asset at the end of FY 1987 and totaled $2,956,714. The warehouse's fixed assets amounted to $1,081,861. The slight increase in the fund balance is due to increased inventory holdings.

The warehouse has no "liquid assets" (assets that can readily be converted into cash) available for transfer to the general fund. As noted previously, the warehouse recorded a deficit in cash resources of $1,559,552 in FY 1987 due to the fact that it had paid out more than it collected. When this deficit figure is adjusted, by adding the $1,792,349 in accounts receivable and subtracting the $345,460 in accounts payable, the warehouse still maintained a negative cash balance of $112,663 for FY 1987. Considering this cash deficit, no funds should be reverted from the Central Warehouse to the general fund at this time.

Need for Increased Mark-up. Despite the mounting cash deficit, Central Warehouse's need for an increased mark-up has been masked, as its income statements have indicated a profit each year since FY 1983 (Table 4). The income statement does not show changes in the collection and use of cash, however. An examination of changes in assets and liabilities from FY 1985 to FY 1987 revealed that increases in outstanding accounts receivable and inventory expenses, the repayment of the working capital advance, and other transfers reduced Central Warehouse's cash resources despite an increase in net sales. Thus, in addition to reviewing its income statements, a statement of changes in cash flow should be prepared annually to determine whether the mark-up is generating enough revenue to meet all expenses.

Accountants within the Bureau of Fiscal Services are not typically requested to review accounting practices or to assist in determining service rates and charges for the internal service funds within DPS, however. BFS staff should have been asked to prepare a statement of changes in cash flow after the cash resources began to systematically decrease.

Recommendation (6). Central Warehouse operations should be more closely supervised by Division of Purchases and Supply management. Accountants within the Bureau of Fiscal Services should periodically review the accounting practices followed by the internal service funds to ensure that they are appropriate. The Bureau of Fiscal Services should also regularly assist in the calculation of internal service fund rates.

Previous Requests for Mark-up Increases. DGS's last request for an increase in the warehouse's mark-up came in October 1983 when it sought to increase the mark-up from 5.0 percent to 6.6 percent. DGS requested a 0.8 percent increase to cover additional operational expenses and a 0.8 percent increase to supplement repayment of its working capital fund advances. (A total of $3 million in working capital advances were made to the Central Warehouse during the 1970s and 1980s. These advances were used by the warehouse to expand operations through such activities as purchasing additional inventory.)

Table 3

FUND BALANCE ANALYSIS
CENTRAL WAREHOUSE

Fiscal Year	Fund Balance
1984	$1,212,489
1985	1,393,709
1986	1,429,821
1987	1,444,885

Components of the FY 1987 Fund Balance

Assets		
Cash Resources*	$(1,559,552)	
Accounts Receivable	1,792,349	
Merchandise Inventory	2,956,714	
Prepaid Expenses	--	
Fixed Assets**	1,081,861	
Total Assets		$4,271,372
		(minus)
Liabilities		
Accounts Payable***	$ 345,460	
Accrued Leave Liabilities	81,039	
Advance Due to General Fund	2,399,988	
Total Liabilities		$2,826,487
Fund Balance		$1,444,885

*Includes cash, restricted cash, and petty cash.

**Includes land, buildings and improvements, and machinery and equipment.

***Includes accounts payable and salaries payable.

Source: DGS financial statements.

Table 4

CENTRAL WAREHOUSE REVENUES, EXPENSES, AND NET PROFIT AS SHOWN IN DGS FINANCIAL STATEMENTS

Fiscal Year	Operating Revenues	Non-operating Revenues*	Expenses	Net Profit (Loss)
1983	$21,049,448	$145,745	$21,339,295	($144,102)
1984	21,002,950	137,519	21,078,450	62,019
1985	23,509,412	128,620	23,454,190	183,842
1986	24,140,111	168,231	24,238,953	36,936**
1987	24,753,089	146,227	24,883,937	15,379

*Non-operating revenues were primarily composed of prompt payment discounts realized by the warehouse.

**An operating transfer for reversion of excess earnings to the general fund reduced the net profit by $32,453.

Source: DGS financial statements.

Only the 0.8 percent to cover additional operational expenses was approved at that time. The remaining 0.8 percent of the request was denied because the loan repayment plan had not yet been approved by the General Assembly. (The plan was subsequently approved by the 1984 General Assembly and incorporated into the Appropriations Act.) DGS failed to resubmit a rate request after the details of the repayment plan were known. The mark-up percentage has remained unchanged since January 1984 when the rate increase, from 5.0 percent to 5.8 percent, became effective.

Recommendation (7). Central Warehouse should request a revised mark-up that will cover its operational costs and eliminate its cash deficit within five years.

Prompt Payment Discounts

A second financial area reviewed was Central Warehouse's treatment of prompt payment discounts. Prompt payment discounts are reductions in the purchase price given by a supplier when their goods are paid for within a prescribed period of time. These discounts are usually one to two percent of an order's value and payment is required between 20 to 30 days from the date of delivery, depending on invoice terms.

The Central Warehouse has historically accounted for prompt payment discounts as sources of non-operating revenues. In FY 1987, prompt payment discounts accounted for $120,634 in non-operating revenues for the Central Warehouse.

A July 1985 report by the DGS Internal Auditor noted that this practice was incorrect and a violation of generally accepted accounting principles (GAAP). The report concluded that the accounting method used by the warehouse was incorrect because it allowed Central Warehouse to increase its revenue by paying for merchandise within a prescribed period of time. Thus, by simply purchasing goods the warehouse was able to realize income. As of September 1, 1987, the Central Warehouse had not acted on the report findings.

GAAP states that prompt payment discounts can be applied to the cost of merchandise in either of two ways: a net method or a gross method. The net method requires the discounts to be subtracted from the price of the merchandise purchased, and inventory is recorded at its actual cost to the Central Warehouse after the discount has been realized. The gross method allows goods to be priced according to list price before the discount. The discount is then recorded as a reduction to the cost of goods sold.

The DGS Internal Audit report recommended use of the net method. While the net method is the preferred method from an accounting standpoint because it values inventory at actual acquisition cost, it also has several drawbacks. Under the net method, the Central Warehouse would set prices assuming that the prompt payment discount would be received 100 percent of the time. While prompt payment discounts are typically realized for Central Warehouse purchases, if discounts were not received the warehouse's prices on goods sold would be understated. Thus, the warehouse would not be covering the cost of replacement and operations on goods sold.

Application of the net method would also require the Central Warehouse to implement two changes. First, the warehouse would have to change the value of its inventory, which is currently valued at gross price, to net price. Second, the mark-up on goods sold would have to be increased to allow for the lower price applied to the goods and the loss of prompt payment discounts as revenue.

The gross method would be simpler for the Central Warehouse to implement, as the value of inventory and the mark-up would be unaffected by the change in accounting for the prompt payment discounts. In addition, the Auditor of Public Accounts (APA) uses the gross method when issuing financial statements for the Central Warehouse.

Recommendation (8). The Central Warehouse should discontinue the practice of accounting for prompt payment discounts as a source of non-operating revenue. The gross method, which accounts for these discounts as reductions in purchase price and complies with generally accepted accounting principles, should be employed.

Billing Procedures

Central Warehouse directly bills its own customers on a daily basis. The goods listed on the delivery ticket for each customer are entered into the warehouse's automated system to produce the billing invoices. State agencies are billed on Interagency Transfer Invoices (IATs), while non-profit organizations and political subdivisions are billed on standard invoices containing basically the same information as the IATs. These billing invoices comprise the warehouse's accounts receivable which are currently being maintained, collected, and followed-up by warehouse staff. However, within the next year DGS plans to have the Bureau of Fiscal Services assume the responsibility for collecting the warehouse's accounts receivable, as BFS has already done for the other four ISFs.

A review of Central Warehouse billing shows that receivables are being collected in a reasonable amount of time. In addition, the majority of Central Warehouse customers that were surveyed indicated that they are satisfied with the accuracy and timeliness of warehouse billings.

Collection of Accounts Receivable. As of April 30, 1987, 85 percent of Central Warehouse accounts receivable were current (owed for 30 days or less), 14 percent were 31 to 60 days overdue, and less than one percent were overdue by more than 61 days. Further, an analysis employing a standard accounting formula showed that BFS is turning over the collection of accounts receivable for the warehouse approximately every 30 days (Exhibit 3).

Exhibit 3

COLLECTION OF CENTRAL WAREHOUSE ACCOUNTS RECEIVABLE
FY 1987

$$\text{Average Number of Days to Collect Accounts Receivable} = \frac{365 \text{ Days}}{(\text{Net Sales} \div \text{Average Accounts Receivable})}$$

$$= \frac{365 \text{ Days}}{(\$24{,}753{,}089 \div \$2{,}017{,}481)} = \frac{365 \text{ Days}}{12.27} = 30 \text{ Days}$$

Source: JLARC staff analysis.

Customer Satisfaction. To assess customer satisfaction with Central Warehouse billing, a sample of customer agencies were surveyed regarding the accuracy and timeliness of the warehouse's billings. All of the customer agencies surveyed were either very satisfied or satisfied with the accuracy of the bills they received, and 98 percent of the respondents were either very satisfied or satisfied with the timeliness of their billings (Table 5). Forty-five percent reported they had never had billing discrepancies. Forty-seven percent

Table 5

SURVEY RESPONSES REGARDING CENTRAL WAREHOUSE'S BILLING PROCEDURES

Question: Please indicate your level of satisfaction with Central Warehouse service performance in the following areas:

Area	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
Accuracy of Billings	40%	60%	--	--
Timeliness of Billings	39%	59%	2%	--

Question: When billing discrepancies have occurred, have warehouse staff generally resolved the problems satisfactorily?

Yes	No	Never Had A Problem	Don't Know
47%	2%	45%	6%

N = 62.

Source: JLARC staff survey of Central Warehouse customer agencies.

reported that warehouse staff generally resolved billing discrepancies to their satisfaction.

OPERATIONAL CONSIDERATIONS

In reviewing the operational procedures of the Central Warehouse, three areas of concern were examined: selected efficiency measures, user satisfaction, and special operational concerns regarding management policies. Based on the assessment criteria, the warehouse has improved the efficiency of its operation since the 1982 JLARC study. The majority of the users surveyed are satisfied with the goods and services offered by the warehouse and the performance of the staff conducting the operation. However, improvements are needed in the tracking and filling of orders, and a policy concerning rental of warehouse space should be revised.

Efficiency Measures

Operational efficiency is particularly important for internal service funds, which are designed to pay their own way without assistance from the general fund. Inefficiency can result in higher prices for customers, decreased profitability for the operation, and discontent on the part of customers. Several operational characteristics were identified and reviewed as efficiency indicators for the Central Warehouse. Assessment of these indicators served as a "spot check," and was not intended to yield a comprehensive picture of the Central Warehouse's efficiency.

Generally, the assessment showed that the Central Warehouse has improved the efficiency of several of its operational areas since the 1982 JLARC study. A review of several inventory management indicators showed that item reorder points have been established, the fill rate of customer orders has improved, the inventory error rate has decreased, and the warehouse has improved the delivery time for small orders. However, the warehouse still needs to improve the accuracy of the orders it fills and the quality of its inventory controls.

In addition, the warehouse has not followed the 1982 recommendation that it update its catalog more than once annually. The availability of current information on prices and items is still a problem. JLARC staff also became aware of a problem affecting the condition of the warehouse's refrigerated goods when they are delivered to customers.

Filling of Customer Orders. The Central Warehouse operation has been fully automated since July 1982. This automation appears to have helped the warehouse improve its overall level of efficiency. Three measures of efficiency related to the Central Warehouse's ability to fill customer orders were examined: reorder points, fill rate, and the accurate filling of customer orders.

Reorder points are the inventory levels at which additional stock should be ordered to ensure that inventory is not depleted before new stock arrives. Before warehouse operations became automated, reorder points had not been established for all warehouse items. Customers therefore did not always receive complete orders, as some of the items ordered were out-of-stock. The Central Warehouse has established reorder points for each item in its inventory by determining the average usage figure for each item. The establishment of the reorder points has contributed to an improved fill rate for customer orders.

The fill rate is a measure of the proportion of warehouse stock items delivered compared to the number of items ordered by customers. The fill rate is an indicator of the warehouse's ability to keep needed items in stock and available for delivery to customers. The Central Warehouse's fill rate has increased from 84 percent in FY 1980 to a rate of 95 percent for FY 1987.

A third factor, the accuracy of the filling of customer orders, was reviewed due to the number of "switches" noted by warehouse staff. "Switches" are inventory discrepancies that are generally explained by assuming that the difference between one item being overstocked by a specific amount, and a similar item being understocked by the same amount, results from incorrect filling of orders. Switches accounted for $51,183 of the warehouse's total inventory adjustments of $106,408 for FY 1987.

Warehouse personnel attributed the large number of switches found during FY 1987 to warehouse staff not reading the order description closely and pulling the wrong item, and to the foreman subsequently failing to catch the error. JLARC staff noted one particular order in March 1987 where inadequate inventory control was evident.

> *The warehouse filled an order which included a request for 48 cases of dark sweet cherries. During the third quarter inventory it was discovered that there was an overage of 48 cases for dark sweet cherries and a shortage of 48 cases for red cherries. The warehouse had filled the order with the incorrect brand of cherries. The dark sweet cherries that were sent with the order were $6.00 cheaper per case than the red cherries, and the warehouse showed an overage of $288 due to the error. Had the order been accurately checked during the selecting, staging, and loading processes, this mistake would have been discovered.*

Accuracy of Inventory Controls. Previous JLARC studies employed the inventory error rate and the gross stock adjustment ratio as measures of the effectiveness of the warehouse's inventory control methods. The inventory error rate has improved significantly since the 1976 and 1982 studies, while the gross stock adjustment ratio for 1987 was higher than the 1975 figure. In addition, the results of inventory reviews suggest that the warehouse should improve its inventory controls with the goal of further lowering its inventory error and gross stock adjustment rates.

The inventory error rate reflects the proportion of items for which an inventory error of more than a predetermined dollar amount occurred. For the September 1975 inventory, errors amounting to $20.00 or more were examined. The error rate was found to be 20 percent, which was considered to be excessively high. For the December 1981 inventory, after adjusting the $20 amount for the effects of inflation since 1975, the error rate had increased to 31 percent.

For this study, the warehouse's June 1987 inventory was used to determine the inventory error rate. Adjusting for inflation resulted in a figure of $40.80 as the lower value for calculating the inventory error rate. The 1987 error rate was 17 percent. This figure is 14 percent lower than the December 1981 rate and 3 percent lower than the September 1975 rate. The lower inventory error rate found for 1987 suggests that some inventory control improvements have been made, although further improvement is still needed.

The second measure of the effectiveness of inventory control, the gross stock adjustment ratio, is calculated by dividing the sum of both inventory overages and shortages by the average monthly value of the inventory. (Inventory overages and shortages are discrepancies between the actual in-stock count for items and the quantities that are supposed to be in stock. These discrepancies represent warehouse mistakes, and should be kept to a minimum.) In comparing the gross stock adjustment ratio for fiscal years 1975, 1981, and 1987, minimal improvements can be seen (Table 6). In FY 1975 the ratio was 3.34 percent. This figure increased to 4.38 percent in FY 1981 as average monthly inventory levels increased. Since the warehouse has become automated, however, the gross stock adjustment ratio has decreased to 3.56 percent in FY 1987.

Table 6

GROSS STOCK ADJUSTMENTS
OF CENTRAL WAREHOUSE INVENTORIES

	Gross Stock Adjustments	Average Monthly Inventory	Gross Stock Adjustment Ratio
FY 1975	$ 54,036	$1,620,000	3.34%
FY 1981	104,881	2,393,621	4.38
FY 1987	106,408	2,988,256	3.56

Source: JLARC staff analysis of Central Warehouse financial statements.

The third measure of effectiveness involves the results of Central Warehouse's quarterly and year-end inventories conducted during FY 1987. The warehouse closes its operation during each inventory and the inventories are conducted using a three-stage process. Warehouse staff are divided into teams to take three counts of all items in the inventory. For both the first and the second count, the warehouse staff do not have a count of the number of items they are supposed to have in inventory. However, on the third count the staff is given a copy of the figures found during the first two counts so that they know where discrepancies exist.

A portion of the third quarter inventory was observed in March 1987. During the process, warehouse staff stated that it is not unusual for 50 to 60 percent of the items to be off after the first inventory count and 40 to 60 percent of the items to be off after the second and third counts. Warehouse staff will follow-up on any discrepancies remaining after the third count and try to account for any discrepancies of $150 or more using item history reports. Warehouse staff will then either adjust the inventory once they discover their error or they will contact the customer to try and get the incorrectly delivered items back.

A total of 940 adjustments were made in FY 1987 for overages or shortages in the warehouse inventory. These adjustments added up to a gross stock adjustment figure of $106,408, of which $53,699 was attributed to shortage adjustments and $52,709 was attributed to overages.

The accuracy of the inventory for 30 warehouse items was also independently checked in May 1987. During that check 12 items, or 40 percent of the total counted, were either over or under the automated inventory count. These differences involved approximately 183 units of merchandise with an aggregate dollar value of $2,527.

When the total figures for the financial discrepancies were broken down by classes, important trends were noted. Two items had been selected from each of the 15 classes of warehouse goods to assess the inventory management in each area. Some of the classes contained high-volume items such as food and cleaning supplies. For these items, the inventory count tended to be off more often than for the slower moving items. Forty percent of the items that accurately matched the inventory count came from six of the slower moving classes which contained products such as paints, cutlery, flags, envelopes, and library supplies. On the other hand, $1,466 or 56 percent of the aggregate dollar difference found during the spot check could be attributed to only six items in food and cleaning supply classes. The fact that the high-volume items, which are included in daily orders on a more regular basis, were off much more than the slow-moving items suggests that additional monitoring of high-volume items is needed.

Recommendation (9). The Central Warehouse should take steps to improve inventory controls and decrease its inventory error rate and gross stock adjustment ratio. Special efforts should be taken to verify the accurate filling of orders. A formal policy should be developed which specifies how orders are to be checked. Central Warehouse management should spot check the accuracy of orders which have been verified by foremen, and foremen should be held accountable for inaccurately filled orders which have been checked.

Additional Measures. Three additional measures of operational efficiency were examined: how quickly small orders are delivered by the warehouse, how often the warehouse catalog is updated, and the condition of delivered goods. The first two measures were selected to follow up on recommendations made in the 1982 JLARC study, while the third measure was developed during the course of this review.

The 1982 report noted problems with customer satisfaction with the warehouse's delivery of small orders. At that time, thirteen percent of the users surveyed were dissatisfied with the delivery service. However, Central Warehouse has improved its procedures for delivering small orders since the 1982 JLARC study. In 1982, the warehouse would only deliver small orders when a full trailer-load of items was ready for shipment. This meant that a customer whose order did not fill a 40-foot trailer had to wait until the warehouse accumulated a trailer load of items for shipment to the customer's area. The warehouse now uses private freight carriers to send small orders for long distances. Warehouse management has also improved the process of coordinating the delivery of several small orders to the same areas of the State.

Problems resulting from the publication of only one warehouse catalog a year were also noted in the 1982 report. Several customer agencies reported that they did not know the price of their orders before delivery, as price updates were not sent out during the year. JLARC staff therefore recommended that Central Warehouse staff issue their catalog in a loose-leaf binder to allow for periodic price updates. This recommendation has not been followed.

In FY 1987, the Central Warehouse published an annual, bound catalog listing approximately 1,000 items. The prices listed in the catalog were current when the catalog was published in January 1987. However, warehouse prices change frequently to reflect the last price paid when the goods were purchased. A check conducted in May 1987 of 30 items listed in the 1987 catalog revealed that one item was no longer offered, the catalog numbers for four items had changed, and the prices on 15 items had changed.

Central Warehouse has made some attempts to provide price updates to customers. Merchandise updates are periodically mailed out, but these updates primarily list new items that are offered. Price updates are not routinely included. Warehouse management also indicated that State agencies could periodically find price and item updates in another DGS publication, the Purchases and Supply Information Bulletin. The Bulletin is published for State agencies, however, and a large number of Central Warehouse customers are non-profit organizations and political subdivisions. Further, the Bulletin does not provide comprehensive information on price and item updates.

Recommendation (10). Central Warehouse should send quarterly price and item updates to its active customers.

In the course of reviewing Central Warehouse operations, JLARC staff became aware of occasional problems concerning the condition of refrigerated goods delivered by the warehouse to its customers. While the warehouse places all frozen goods in insulated transport boxes to keep goods from thawing during delivery, refrigerated items are not always placed in these boxes. Refrigerated items are sometimes loaded into the delivery trucks where they can warm, creating the potential for foodborne illness.

JLARC staff were informed of one particular order in June 1987 where a portion of the refrigerated foods were not contained in transport boxes and therefore became warmer than recommended.

> *Central Warehouse made a delivery to a Northern Virginia customer using an unrefrigerated truck to transport foodstuffs. A sanitarian from the Division of Environmental Health examined the condition of the foodstuffs upon arrival. Two dairy products, the margarine and cheese, were not placed in insulated transport boxes even though their labels clearly stated to keep the items refrigerated at 45 degrees Fahrenheit. The temperature of the items was checked and found to be 50 degrees Fahrenheit. The Division of Environmental Health wrote warehouse management a letter advising them of the potential for illness as a result of the situation.*

A warehouse manager acknowledged that refrigerated trucks are not always used to carry refrigerated items and that these items are not always placed in insulated boxes. While this manager could not recall an instance of items being refused due to their condition during FY 1987, no records are kept to document problems with orders. The fact that the warehouse does not maintain a file containing information on rejected orders and items made verification of the magnitude of the problem impossible.

Recommendation (11). Central Warehouse should place all refrigerated foods in insulated transport boxes to ensure that they remain at required temperatures during delivery.

Recommendation (12). Central Warehouse should maintain a file of all items and goods that are not accepted by customers. This file should contain information regarding the customer's name, location, reason for non-acceptance, and the warehouse's response to the situation.

User Satisfaction

A sample of 62 State and local agencies, political subdivisions, and non-profit organizations were surveyed regarding their satisfaction with the goods and services provided by the warehouse. The majority of customers surveyed indicated that they were satisfied with the products and services provided by Central Warehouse (Table 7). In addition, 81 percent of the users stated that the warehouse's services provided their agencies with savings on their purchases, while 68 percent thought the warehouse's prices were lower than prices charged by other suppliers. Only two percent of the respondents indicated that warehouse staff have not adequately addressed a problem when they have complained about services or products.

Special Operational Concerns

During the course of the JLARC study of the Central Warehouse, two management policies were examined which warrant discussion. First, the Central Warehouse allowed other State entities to store items in the warehouse facility without paying rent for the space. Because the internal service funds are self-supporting, it is important for all additional costs incurred to be recovered. The second policy was a decision to exclusively use private contract haulers to deliver warehouse orders beginning in August 1987.

Warehouse Occupants. During FY 1987 there were five State entities which stored items in the Central Warehouse facility. These entities were: the Department of Information Technology (DIT), the Division of Tourism within the Department of Economic Development, the Bureau of Buildings and Grounds, State Surplus Property, and the Division of Consolidated Laboratory Services. These occupants used the warehouse to store supplies, property, and merchandise that they did not have room for in their own facilities.

During FY 1987, only two of the five occupants storing materials in the Central Warehouse paid rent. DIT paid $864 to store approximately 2,736 telephones. This amount was based on a charge of 20¢ per square foot of occupied space. DIT has rented space from Central Warehouse since April

Table 7

SURVEY RESPONSES REGARDING CENTRAL WAREHOUSE'S PRODUCTS AND SERVICES

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
Quality of Central Warehouse products	34%	63%	3%	--
Quality of Central Warehouse services	39%	60%	1%	--

Question: Do you think using the Central Warehouse has resulted in savings for your agency?

Yes	No	Don't Know
81%	1%	18%

Question: In general, are the prices charged by the Central Warehouse lower than the prices charged by other suppliers?

Yes	No	Dont' Know
68%	3%	29%

Question: In general, when you have had complaints about the services or products provided to your agency, have Warehouse staff adequately addressed the problem?

Yes	No	Never Had a Complaint	Don't Know
56%	2%	39%	3%

Question: Has anyone from the Warehouse ever contacted your agency to determine whether you have additional needs that are not being met?

Yes	No
15%	86%

N = 62.

Note: Totals may not equal 100 percent due to rounding.

Source: JLARC staff survey of Central Warehouse customer agencies.

1985, when 15,000 phones and 1,875 sets of phone parts were originally delivered directly to the warehouse.

While this payment seems appropriate, the location of the phones should be changed. DIT's phones are located in an area where Central Warehouse stores its inventory rather than being separated in a little-used area in Building Four where the other non-warehouse goods are stored. This allows DIT personnel, who pick up the phones, to have access to Central Warehouse goods. The phones were placed in this area of the warehouse because DIT was concerned about security in the remote area of the warehouse where property from the other occupants is stored. State Surplus Property also was concerned about security but allowed its property to be stored in Building Four and placed a fenced barrier around its property.

The placement of another agency's property within a working area of the warehouse presents potential inventory control problems. Persons other than Central Warehouse employees have access to the warehouse's goods. Also, when DIT personnel pick up the phones they could interfere with the warehouse's operation in this building. DIT should move its property and if there is a concern over the security of the items, a fenced barrier should be built.

Recommendation (13). Central Warehouse should have the Department of Information Technology move its property from the stock areas of the warehouse to Building Four. A barrier should be placed around DIT's property if theft is considered to be a possibility.

The Division of Tourism is the other occupant that pays rent to the Central Warehouse to store its property. Tourism uses a small section of Building Five to house boxes of tourism pamphlets and brochures. This agency was also charged 20¢ per square foot of occupied space for a total of $504 in FY 1987. Tourism has been paying rent to the warehouse for two years.

The Bureau of Buildings and Grounds, State Surplus Property, and the Division of Consolidated Laboratory Services do not pay rent to the warehouse for the spaces they occupy. The majority of the goods stored in building five belong to these three entities. In accordance with the internal service fund's practice of charging for warehouse space, these programs should also pay rent.

Recommendation (14). The Central Warehouse should charge the Bureau of Buildings and Grounds, State Surplus Property, and the Division of Consolidated Laboratory Services for rent equivalent to the charges levied on the Department of Information Technology and the Division of Tourism.

Contractual Hauling of Central Warehouse Orders. Managers within the Division of Purchases and Supply decided in June 1987 to exclusively use private contractual haulers in FY 1988 to deliver all customer orders. A number of reasons were given by DPS management for the decision. First, the Central Warehouse's fleet of delivery trucks and vehicles was becoming outdated and a total of four new tractors were needed. Second, Central Warehouse employed a small staff of six drivers which needed to be expanded if contract hauling were not increased. Third, available data and cost calculations supported the position that the use of private haulers would be less expensive and more efficient than the use of the warehouse's own delivery fleet (Exhibit 4).

Central Warehouse will use one private contractor to deliver its orders in FY 1988. The warehouse's fleet of vehicles will not be sold as surplus until the contractual hauling process has been tested and proven to be the

Exhibit 4

COST COMPARISONS FOR LONG-DISTANCE DELIVERY
OF CENTRAL WAREHOUSE CUSTOMER ORDERS

Lot I: Delivery of customer orders at a distance of 115 miles or more from Richmond, VA.

Lot II: Delivery of customer orders at a distance of 30 miles to 115 miles from Richmond, VA.

	Use of State Trucks	Use of Private Contractor
Lot I:	$501,240*	$520,211
Lot II:	25,049*	64,525
FY 1988 Regrade:	5,981	-0-
Additional Drivers:	80,000	-0-
Total	$612,270**	$584,736***

*Based on cost of operating current warehouse delivery vehicles at 1.22 cents per mile.

**Does not include the following:

Two new tractors	$102,000
Two replacement tractors scheduled for FY 1985 and FY 1986 but delayed	102,000
One new trailer	15,500
One replacement van	27,500
Total additional cost	$247,000

***Does not deduct taxes that will be paid to the State on fuel and road use and personal property tax to localities.

Source: DPS records.

preferred alternative. The six drivers employed by Central Warehouse were terminated as of August 3, 1987. The Department of Personnel and Training and the Virginia Employment Commission were brought in by DGS to aid the workers in finding new employment.

The management decision to experiment with exclusive use of contract haulers for FY 1988 seems to be reasonable. The use of State trucks would cost approximately $612,270, compared to $584,736 to use private contract haulers. (The State cost would be even higher if equipment costs were added in.) The decision should be reviewed by DGS management after a year of operation to determine how well private hauling has worked and what the actual costs were to the Central Warehouse.

IV. OFFICE OF GRAPHIC COMMUNICATIONS

The Office of Graphic Communications (OGC), within the Division of Purchases and Supply, was established as an internal service fund in December 1980 after the Printing and Graphics operation was abolished. OGC was created to provide graphic services to State agencies. Office staff use design, illustration, photography, and other skills to produce a variety of products, including: catalogs, annual reports, brochures, posters, calendars, newsletters, logos and mastheads, charts, maps, and graphs.

The Office of Graphic Communications is located in the 8th Street Office Building in Richmond. OGC employs five full-time employees (a director and four graphic artists) and two hourly employees (one graphic artist and one receptionist). An additional hourly graphics position was vacant as of September 1, 1987.

OGC appears to be a well-managed internal service fund. It is in sound financial condition and should revert approximately $15,000 to the general fund. A survey of users indicates that most users are satisfied with OGC services. Increased emphasis, however, needs to be placed on the collection of accounts receivable and documentation of staffing needs. In addition, the OGC workload appears to call for an additional salaried artist position.

FINANCIAL CONSIDERATIONS

In reviewing the Office of Graphic Communications' financial condition, two areas of concern were examined: rates and charges, and billing procedures. OGC's hourly labor rates are based on a logical and sound rate-setting methodology which generally results in rates which are significantly lower than those charged by private sector graphics agencies in the Richmond area. OGC's rates and charges have placed OGC in sound financial condition. In fact, the fund's cash balance was found to be slightly high, and $15,414 should be transferred to the general fund. Finally, OGC's billing process was found to be adequate, but additional emphasis should be placed on the collection of accounts receivable.

When JLARC examined OGC in 1982, the operation was too new to conduct a detailed evaluation or assess the program's financial viability. Since then, OGC has proven to be a financially viable operation capable of producing quality graphic services for State agencies. During FY 1982, OGC billed customer agencies for $101,544 while generating a net profit of $4,664. By FY 1987 OGC's billings had increased to $280,806 while generating an annual surplus of $3,433. In addition, the number of customer agencies using OGC has increased from the 35 agencies reported in the 1982 JLARC study to the 61 agencies which used OGC services in FY 1987.

Rates and Charges

OGC's rate structure was judged to be appropriate based on three factors. First, adherence to the structure allowed OGC to cover the cost of its operations. Second, the rates are determined through a sound rate-setting methodology. And third, OGC's rates are generally lower than those charged by the private sector, which should result in cost-savings to customer agencies.

Cost of Operations. A primary consideration in assessing appropriateness of rates is whether the rate structure generates adequate revenues to cover the cost of OGC's operations. OGC's revenues have exceeded expenses and OGC has generated a small surplus for each fiscal year from 1984 through 1987 (Table 8). The largest surplus, $21,126 in FY 1985, equalled nine percent of OGC's expenses for that year.

Table 8

REVENUES, EXPENSES, AND NET PROFIT
FOR THE OFFICE OF GRAPHIC COMMUNICATIONS
FY 1984-1987

Fiscal Year	Revenues	Expenses	Net Profit
1984	$190,314	$177,227	$13,087
1985	268,976	247,850	21,126
1986	257,402	254,444	2,958*
1987	280,806	277,373	3,433*

*Expenses for administrative support provided by the Bureau of Fiscal Services reduced the annual surplus by $6,000 in FY 1986 and $6,494 in FY 1987.

Source: DGS financial statements.

Assessment of OGC's overall financial position shows that OGC's fund balance has continued to increase since the 1982 JLARC study. OGC currently has a fund balance of $43,825 (Table 9). OGC's fund balance consists mainly of liquid assets (cash and accounts receivable) with only $5,476 in fixed assets.

OGC's cash resources of $62,567 were examined to determine if excessive cash resources were being held. By applying the guideline recommended in Chapter II, $15,414 in excess holdings were identified (Exhibit 5). Because OGC is repaying a working capital advance, the excess earnings should be applied to this debt.

Recommendation (15). JLARC should direct the Comptroller to apply $15,414 in excess cash from the Office of Graphic Communications' internal service fund to the remaining balance owed on its working capital advance.

Table 9

FUND BALANCE ANALYSIS FOR THE
OFFICE OF GRAPHIC COMMUNICATIONS
FY 1984-1987

Fiscal Year	Fund Balance
1984	$18,539
1985	38,499
1986	40,392
1987	43,825

Components of the FY 1987 Fund Balance

Assets		
Cash Resources	$62,567	
Accounts Receivable	44,759	
Merchandise Inventory	--	
Prepaid Expenses	--	
Fixed Assets	5,476	
Total Assets		$112,802
Liabilities		(minus)
Accounts Payable	$ 7,068	
Accrued Leave Liabilities	9,409	
Advance Due to General Fund	52,500	
Total Liabilities		68,977
Fund Balance		$ 43,825

Source: DGS financial statements.

Assessment of Rate Setting Methodology. The Office of Graphic Communications' bills consist of two components: an hourly labor rate and the cost of materials and supplies. The cost for materials and supplies are directly charged to the users. OGC's labor rates are therefore the only component which must be calculated.

In FY 1987, OGC charged its customers $28 per hour for creative tasks and $20 per hour for production tasks. OGC management defined creative tasks to include "time spent originating an idea or concept for a job." Production tasks include all work that is done once the concept is selected and approved. Approximately 85 percent of OGC's work is production work.

Exhibit 5

ASSESSMENT OF CASH RESOURCES FOR THE
OFFICE OF GRAPHIC COMMUNICATIONS
FY 1987

Maximum Allowable Cash Resources	=	Annual Expenses x 0.17
	=	\$277,373 x 0.17
	=	\$47,153
Amount of Reversion	=	Actual Cash Resources - Maximum Allowable Cash Resources
	=	\$62,567 - \$47,153
	=	\$15,414

Source: JLARC staff analysis.

A review of OGC's methodology for determining labor rates showed that it is logical and based upon readily available data. The Office of Graphic Communications employed a three-step formula to determine FY 1981 labor rates. First, the number of available work days for the fiscal year was determined by taking the 365 days in the year and subtracting out the weekends, holidays, vacation days and sick days for each of the graphic artists. Second, the number of available work days was multiplied by an efficiency rate of 75 percent to get the number of billable hours for the year. The 75 percent efficiency rate equated to six and one-half billable hours a day per graphic artist. (The remaining one and one-half hours, or 25 percent of the artists' time, was for non-billable tasks such as soliciting phone bids with vendors and filling out job worksheets.) Third, the number of billable hours was divided into the OGC operating budget (which does not include project material and supply costs) to determine the hourly rates. These rates were based on an average of 85 percent of the artists' billable hours being devoted to production tasks and 15 percent to creative tasks.

Comparison to Private Sector Graphics Operations. The rates charged by OGC for graphics services were compared to rates charged by private sector graphics agencies in the Richmond area. On average, the hourly rates charged by the private sector agencies for creative tasks were \$22 an hour higher than those charged by OGC and \$25 an hour higher for production tasks.

JLARC staff contacted 20 graphics agencies, listed in the Richmond Yellow Pages phone directory, to gather comparison data. Many of the graphics operations charged and determined their rates on a different basis from OGC. Ten graphics agencies, however, charged on a comparative basis to OGC. These ten agencies' prices ranged from $24 to $75 an hour for creative tasks and $24 to $75 an hour for production tasks (Table 10).

Table 10

GRAPHIC SERVICE RATE COMPARISONS

Private Sector Firm	Hourly Rates: Creative Tasks	Hourly Rates: Production Tasks
A	$65	$40
B	24	24
C	35	35
D	60	60
E	60	35
F	65	55
G	65	55
H	75	75
I	30	--
J	25	25
Average Private Sector Rate	$50	$45
OGC Rate	- 28	- 20
Difference	$22	$25

Source: Telephone interviews, August 1987.

Billing Procedures

The Office of Graphic Communications' billing procedures were determined to be adequate based on two findings. First, the Office of Graphic Communications maintains comprehensive project records for each project. Second, customer agencies which were surveyed were generally satisfied with billing procedures. However, some difficulties were observed concerning the collection of OGC's accounts receivable.

Project Records and Timesheets. A review of project records showed that comprehensive records are maintained for each project. Detailed timesheets are maintained by each artist, as well as job worksheets which record the type of services performed for the job, the date of each service, and the amount of billable time spent on the service. An active file is also maintained for each project that tracks everything done on the project on a monthly basis. These records are used by the OGC director to determine the amount to bill each customer agency. The extensive records allow OGC to closely monitor project costs and to accurately bill customers.

User Assessment of Billing Process. Questions were included on the user survey regarding user satisfaction with the accuracy and timeliness of OGC's billings. Eighty-five percent of the customers thought that OGC bills accurately reflect services provided. Only six percent of the users did not think that their bills accurately reflected services. While 53 percent of the respondents had never had problems with the bills they had received from OGC, the 41 percent who did report billing discrepancies felt that OGC had adequately addressed the problem. Similarly, 88 percent of the respondents noted that billings for OGC's services were provided within a reasonable period of time after services were received, while only six percent did not feel that their billings had been received within a reasonable period of time.

Collection of Accounts Receivable. The Office of Graphic Communications bills its customers on a monthly basis. OGC's accounts receivable and accounts payable are collected and processed by the Bureau of Fiscal Services. As of April 30, 1987, OGC had 133 accounts receivable totaling $42,141. Forty-eight percent of OGC's accounts receivable were current (owed for less than 31 days) and 26 percent had been outstanding for 31 to 60 days. The remaining 26 percent of bills were outstanding for over 60 days.

The Prompt Payment Act requires State agencies to promptly pay their bills with privately owned enterprises. Although this Act does not directly apply to State agency payments to internal service funds, it expresses the legislature's interest in prompt payment. Legislative interest in prompt payment is further confirmed by §3-3.02 of the FY 1988 Appropriations Act, which authorizes the Comptroller to transfer amounts due internal service funds from other State agencies. Because prompt payment is a responsible business practice, and given the legislature's expressed interest in this area, the 52 percent of bills outstanding for over 30 days is excessive.

Recommendation (16). The Bureau of Fiscal Services should follow-up on all Office of Graphic Communications' accounts receivable which are outstanding over 30 days. In addition, OGC should review its billing procedures to ensure that practices and communications encourage prompt payment.

OPERATIONAL CONSIDERATIONS

Two specific operational areas were explored during the course of this review. First, a survey of a sample of OGC customer agencies revealed that the majority of users are satisfied with OGC's performance. Second, it appears that OGC could use an additional salaried graphic artist position to carry out its graphic responsibilities. The documentation of staffing needs should be improved, however.

User Satisfaction With OGC Services

A written survey was mailed to 34 State agencies which purchased graphic services from the Office of Graphic Communications since July 1, 1985. According to survey responses, the majority of the users:

- were satisfied or very satisfied with services provided by OGC,
- stated that the accuracy of OGC's project estimates were within 10 percent of the original estimate,
- indicated that when problems were encountered, OGC adequately addressed them, and
- had not decided against requesting a product from OGC as a result of poor quality or some other problem (Table 11).

Staffing

During FY 1987, the Office of Graphic Communications employed a director, four salaried graphic artists, one hourly graphic artist, and one part-time hourly secretary. An additional hourly graphic artist was being recruited at the end of FY 1987. OGC and DPS management both asserted that this level of staffing was inadequate to fulfill all of the service requests made to OGC by State agencies. However, a review of OGC's workload-related data showed that complete documentation was not available to support this contention.

To explain staffing needs, OGC management noted that a number of graphics requests had to be turned down due to a shortage of staff. One rejected job requested by a university was valued at approximately $10,000. However, OGC does not maintain records of the number or size of denied requests. In addition, incomplete records are maintained for overtime worked.

During most of FY 1987, OGC employed two hourly graphic artists full-time to complete its work. One hourly graphic artist was hired in April 1986, and this position was consequently converted to a salaried position in April 1987. The second hourly graphic artist was hired in November 1986. Currently, OGC is in the process of hiring one additional hourly artist for full-time work during FY 1988.

The employment of hourly workers is not optimal as turnover is typically high. Hourly positions receive no State benefits and their salaries are lower than for the salaried graphic artists. Since January 1, 1985, OGC has employed a total of seven different graphic artists to fill two hourly positions.

A full assessment of OGC's staffing needs could not be conducted, as minimal records were kept regarding overtime worked and service requests denied during FY 1987. However, the fact that OGC has employed an hourly artist full-time for nearly a year does support the contention that this position is needed to carry out OGC's workload. Consideration should be given to transforming this position into a salaried position.

Recommendation (17). The Office of Graphic Communications should work with Department of General Services management to replace one temporary artist position with a salaried artist position. In addition, the Office of Graphic Communications should maintain records of all service requests denied and overtime worked by staff. These records will provide OGC management with quantifiable justification for future staffing requests.

Table 11

SURVEY RESPONSES REGARDING
OFFICE OF GRAPHIC COMMUNICATIONS' PRODUCTS AND SERVICES

Question: In general, how would you rate your level of satisfaction with OGC's responsiveness to your agency's needs?

Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
56%	35%	9%	--

Question: In general, how close have OGC's final project costs been to the original estimate? For example, if the estimate was $100 and the final cost was either $50 or $150, the cost was 50% off.

Within 10%	Off By 11-25%	Off By 26-50%	Off By More Than 51%
80%	13%	--	7%

Question: In general, when you have had complaints about the services provided to your agency, has OGC addressed the problem adequately?

Yes	No	Never Had A Problem	Don't Know
53%	6%	41%	--

Question: Have you ever decided against requesting a product from OGC as a result of poor quality or some other problem with a previous OGC product?

Yes	No
12%	88%

N = 34.

Source: JLARC staff survey of OGC customer agencies.

V. STATE SURPLUS PROPERTY

State Surplus Property (SSP) was established as an internal service fund on July 1, 1984. It had operated as a general fund program prior to that time. SSP is one of four internal service funds located in the Division of Purchases and Supply (DPS). DPS is given authority, within §2.1-457 of the *Code of Virginia*, for the transfer or sale of property that has been declared as surplus by State agencies.

SSP recovers the cost of its operation by charging State agencies for selling or transferring their surplus property. Surplus property can be sold or transferred in several different ways. The majority of the sales are by auction to the general public. Sealed bids are elicited for property that is to be sold by agencies located in rural parts of the State and for items which are not sold to the general public such as handcuffs and handguns. Property can also be transferred between State agencies, which may or may not involve the transfer of funds between agencies. In addition to the responsibility for handling all surplus property transactions for State agencies, SSP operates a small warehouse for storing surplus property and offers limited delivery services.

Eight employees including two professional auctioneers work within SSP. These employees operate the SSP warehouse and carry out administrative, public sale, and other miscellaneous functions.

SSP appears to be a well-managed operation. The fund is in sound financial condition, and should revert approximately $16,000 to the general fund. Recent management efforts have focused on turning property over quickly, and users are generally satisfied with the services rendered by SSP staff.

FINANCIAL CONSIDERATIONS

Two areas of concern were examined to review SSP's financial condition: rates and charges, and billing procedures. A review of selected indicators and practices shows that SSP is in sound financial condition. A reasonable rate structure is in place which provides for the fund's operational needs. In fact, approximately $16,000 in excess funds should be transferred to the general fund. Further, billing and revenue transfer procedures appear to be accurate and provide adequate safeguards to customer agencies.

Rates and Charges

SSP provides and charges for four types of services: auctions and sealed bids, transfers between agencies, storage of items in the SSP warehouse, and the delivery of property. These charges are applied in accordance with a rate schedule that was implemented in July 1984. SSP earned $413,914 in FY 1987 through these charges.

Assessment of SSP's charging practices showed that the rate schedule is appropriate for two primary reasons. First, by following the schedule, the fund covered its cost of operation during FY 1987. Second, the schedule provides for equitable treatment of customer agencies.

Cost of Operation. SSP has ended its three years of operation in varying financial positions (Table 12). The net profit for FY 1985 was $172,088, the equivalent of 94 percent of the operation's expenses for the entire year. The following year, however, expenses increased dramatically as the internal service fund began to pay for expenses that DGS had previously provided, such as postage and computer transaction costs. SSP also expanded its operation by holding six additional auctions, opening its Richmond warehouse, and adding two new positions. These additional expenses resulted in a deficit of $38,419 for the year. In FY 1987, SSP's operations had stabilized somewhat. Revenues were greater than expenses, yielding a small profit of $19,783.

Table 12

REVENUES, EXPENSES, AND NET PROFIT
FOR STATE SURPLUS PROPERTY
FY 1985 - 1987

Fiscal Year	Revenues	Expenses	Net Profit (Loss)
1985	$354,287	$182,199	$172,088
1986	338,138	376,557	(38,419)
1987	413,914	394,131	19,783

Source: DGS financial statements.

State Surplus Property's fund balances for fiscal years 1985 through 1987 have also shifted over the years (Table 13). The fund balance of $206,171 in FY 1985 was decreased in FY 1986 due to the deficit incurred by the SSP operation. Even though this deficit occurred in FY 1986, the fund showed cash resources of $82,768 at the close of FY 1987.

The cash resources of $82,768 were assessed to determine if excessive cash resources were being held. By applying the guideline recommended in Chapter II, $15,766 in excess holdings were identified for reversion to the general fund (Exhibit 6).

Recommendation (18). JLARC should direct the Comptroller to transfer $15,766 in excess funds from the State Surplus Property internal service fund to the general fund.

Table 13

FUND BALANCE ANALYSIS FOR STATE SURPLUS PROPERTY

Fiscal Year	Fund Balance
1985	$206,171
1986	168,428
1987	188,140

Components of the FY 1987 Fund Balance

Assets		
Cash Resources	$ 82,768	
Accounts Receivable	--	
Prepaid Expenses	--	
Fixed Assets	126,846	
Total Assets		$209,614
		(minus)
Liabilities		
Accounts Payable	$ 1,879	
Accrued Leave Liabilities	19,595	
Advance Due to General Fund	--	
Total Liabilities		$ 21,474
Fund Balance		$188,140

Source: DGS financial statements.

Equity of Charges. A review of the SSP rate schedule determined that agencies are treated equitably under the schedule (Exhibit 7). Flat rates or charges are assessed for three types of services: transfers, storage, and pick up and delivery. Under these flat rates or charges, all agencies are charged according to the schedule when receiving these services. This ensures that all agencies receiving services bear a proportionate cost of providing those services. For example:

> *Agency A wants to sell 20 desks and 20 chairs through the SSP warehouse. A placement charge of $80.00 is*

assessed by State Surplus Property based on its charging structure of $1 per square foot of space required. Desks typically require three square feet of storage space, while chairs require one square foot.

Agency B needs to sell 15 chairs through the warehouse. The placement charge for Agency B therefore would be $15.00.

A three-tier rate structure has been designed for the fourth type of SSP service - auctions and sealed bids. The three-tier structure accounts for the economy-of-scale which results when large quantities of property are sold by auction or sealed bid at one time. For example, each auction has certain fixed costs such as staff salaries and travel expenses. This means that as the number of items auctioned increases, the per-item cost in time and money for SSP for that auction decreases. Thus, while the Virginia Department of Transportation (VDOT) accounts for about half of the SSP sales (about $2.7 million for FY 1987), SSP auction staff only spend about a quarter of their time handling these sales.

Actual revenue and expenditure data from FY 1983 were used to develop the three-tier rate structure in July 1984. This structure has been in place since that time, and helps ensure that agencies pay a proportionate share of overall SSP expenses.

Exhibit 6

ASSESSMENT OF STATE SURPLUS PROPERTY CASH RESOURCES
FY 1987

Maximum Allowable Cash Resources	= Annual Expenses x 0.17
	= $394,131 x 0.17
	= $67,002
Amount of Reversion	= Actual Cash Resources - Maximum Allowable Cash Resources
	= $82,768 - $67,002
	= $15,766

Source: JLARC staff calculation with SSP data.

Exhibit 7

RATE SCHEDULE FOR STATE SURPLUS PROPERTY SERVICES

Service Provided by SSP	Rate or Charge
Transfers between Agencies	
-Involving an Exchange of Funds	Items stored in SSP warehouse: 15% of selling price Items not stored in SSP warehouse: 5% of selling price
-Involving No Exchange of Funds	Titled and ADP items: $15 All other items: $10
Storage of Items in Warehouse	One-time charge of approximately $1 per square foot of space required
Pick Up and Delivery of Property	
-If Loading Dock is Available	$20 per hour for 2 employees 50¢ per mile $10 per hour for each additional employee
-If No Loading Dock is Available	$35 per hour for 2 employees 50¢ per mile $15 per hour for each additional employee
Auctions* and Sealed Bids	Percentage of Monthly Sales: First $20,000 at 20% Second $20,000 at 10% Remainder at 3%

*An additional charge of $750 is levied if the agency requires the auction to be held on a Saturday or a holiday.

Source: Interview with SSP manager.

Billing Procedures

State Surplus Property does not actually send bills to its customer agencies to collect its service charges. Instead, SSP retains a percentage of what is received from property sales to cover operating costs. (These collection procedures will be referred to as "billing procedures" throughout this discussion.) A review of billing procedures indicated that SSP has instituted adequate safeguards to ensure that auction data is correct and that correct amounts of sales proceeds are retained by SSP and transferred to the general fund and to State agencies.

Billing Safeguards. The review of billing safeguards focused on SSP's procedures for selling property by auction. Auctions account for almost 76 percent of revenue taken in by SSP, are fast paced, and often involve large numbers of items. Auctions represent the activity with the greatest potential for miscalculation.

SSP procedures incorporate several safeguards which allow customer agencies to ensure that the correct amount is collected and reported for each item (Exhibit 8). Before an auction is held, SSP prints and numbers an "award" which describes each item that is to be sold. These awards correspond to the listing of the items that the customer agency provided SSP as being available for sale. During the auction, the auctioneers reference the award number for each item and record the final sales price for each award. A representative of the customer agency is typically present and can independently track the selling price of each item.

Following the auction, SSP sends the customer agency a listing of each item sold and the price at which it sold. This listing can be checked against the agency's listing of sales prices. SSP's service charge, which is based on the percentages noted in the previous section, is applied to the total amount collected on the property.

These procedures allow SSP and the customer agency to clearly track and double check items which are sold and the sales price for each item. If discrepancies or difficulties exist, they can be identified at up to four stages of the process.

Accuracy of Fund Transfers. A review of interagency transfers and user responses regarding the accuracy of fund transfers indicates that SSP experiences few difficulties in transferring appropriate amounts of money. Funds are transferred to customer agencies each month. These transfers are recorded on interagency transfer invoices (IATs) which delineate the funds that have been collected in SSP's special account for the agency, the service charges to be retained by SSP, the amount to be reverted to the general fund, and the remaining funds for transfer to the customer agency. All IATs processed for April 1987 (a total of 50) were reviewed for accuracy. The mathematical computations on each were correct. An internal audit completed during March 1984 also found that SSP's receipts were promptly deposited, sales revenue was transferred correctly and promptly to State agencies, and documentation was adequate to track the receipt and ultimate sale of property.

Exhibit 8

STATE SURPLUS PROPERTY AUCTION AND VERIFICATION PROCEDURES

State Surplus Property Procedure	Customer Agency Verification
Award is written for each item to be sold.	Awards can be checked against listing provided by the agency.
Public auction conducted by SSP personnel.	Agency representative can record price for which each item sells.
SSP sends the agency a copy of all awards listing the price received for each item.	Award amounts can be checked against list compiled by agency representative at the auction.
SSP sends agency monthly interagency transfers which list funds collected for surplus property, the service charge applied by SSP, and how the remaining funds are to be dispersed to the agency and the general fund.	Agency personnel are able to verify the service charge assessed and the amount of funds reverted to the agency and the general fund from the interagency transfers received.

Source: JLARC staff analysis.

To assess user satisfaction with the billing for SSP services, questions were included on the user survey regarding whether SSP transferred the correct dollar amount from the sale of the agency's property. Seventy-five percent (33) of the 46 respondents noted that SSP transferred the correct amount, while 20.5 percent (nine respondents) did not know. Only 4.5 percent (two respondents) said the correct amount was not transferred.

OPERATIONAL CONSIDERATIONS

Four measures were examined as indicators of SSP operational efficiency. These measures included the frequency of auctions, the turnover rate for property in the warehouse, the adequacy of equipment and facilities, and user satisfaction. While these measures do not fully assess efficiency, they serve as a check on how well SSP is operating. The review indicated that property was sold in a timely manner by auction and from the warehouse, that equipment and warehouse space needed to ensure operational efficiency had been purchased and was well utilized, and that the majority of user agencies were satisfied with the timeliness, pricing, and service associated with the SSP program.

Frequency of Auctions

SSP has steadily increased the number of auctions held each year. Frequent auctions encourage quick turnover of property and shorten the length of time an agency or SSP has to store property before it is sold. In addition, it allows agencies to more quickly obtain their money for surplus items. Frequent auctions also help SSP maintain a steady flow of revenue.

In FY 1984, the last year that State Surplus operated as a general fund operation, 24 auctions were held. SSP has increased the number of auctions by approximately five per year since becoming an internal service fund. Thus in FY 1987, 75.9 percent ($4,053,959) of total SSP sales revenue ($5,341,404) was generated through 40 auctions. April was a record month, with sales of $1.2 million.

Turnover of Property Stored in Warehouse

The sale of property from the SSP warehouse amounted to $101,786 in FY 1987. According to the SSP manager, the average inventory value (based on sales price) for three quarters of FY 1987 was $22,759. Turnover in the warehouse can be calculated by dividing the sales figure by the average inventory value. This calculation yields a turnover rate of 4.47. Thus, on average, goods within the SSP warehouse sell within three months.

Availability of Needed Equipment and Facilities

During the course of this review, SSP reported no major equipment or vehicle needs. A 1984 travel van which is used in conducting auctions was recently purchased to replace a deteriorating 1972 vehicle. SSP also maintains several vans and pick up trucks for the limited delivery services maintained. None of the vehicles shown on SSP's equipment inventory had been fully depreciated, indicating that each still offers several years of productive service.

The warehouse facility leased by SSP contains 12,000 square feet and was considered to be adequate by the program manager. JLARC staff concurred, noting during a visit to the warehouse that over a quarter of the square footage was available for additional storage of property.

User Satisfaction with Timeliness, Pricing, and SSP Services

Surveys were mailed to a sample of 46 State agencies which had declared property as surplus, transferred property to or from another agency, or purchased surplus property. These surveys included questions regarding timeliness, pricing, and staff-provided services. The majority of user agencies surveyed indicated satisfaction in these areas (Table 14).

Table 14

SURVEY RESPONSES REGARDING STATE SURPLUS PROPERTY'S TIMELINESS, PRICING, AND SERVICE PROVISION

Agencies which declared property as surplus since July 1, 1985.

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
The timeliness of the property's sale.	32%	59%	7%	2%
The selling price of the property.	21%	74%	5%	—
The service provided by SSP staff.	45%	53%	2%	—

Agencies which had a State Surplus Property auction since July 1, 1985.

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
The timeliness of auction being held.	56%	44%	—	—
The price received for property.	39%	61%	—	—
The service provided by SSP staff.	71%	29%	—	—

Agencies involved in transferring surplus property between agencies since July 1, 1985

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
The timeliness of processing the transfer.	32%	61%	7%	—
The service provided by SSP staff.	48%	45%	7%	—

Agencies which have purchased items from State Surplus Property since July 1, 1985.

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
The price charged for property.	24%	76%	—	—
The service provided by SSP staff.	52%	44%	4%	—

N = 46.

Source: JLARC staff survey of State Surplus Property customer agencies.

The majority (over 90 percent) of customer agencies which had declared property as surplus or had purchased items through SSP indicated that they were satisfied or very satisfied with the timeliness, selling price, and service provision associated with SSP. Similarly, agencies which had transferred or received surplus property were satisfied with the timeliness of the transfer processing and the services provided by SSP staff. Agencies which had an SSP auction showed the highest level of satisfaction, with 100 percent being satisfied to very satisfied with the price charged for property and 100 percent indicating satisfaction with the service provided.

VI. FEDERAL SURPLUS PROPERTY

On July 1, 1986, Federal Surplus Property (FSP) was established as an internal service fund. FSP had previously operated as a special fund with service charges supporting its operations. FSP has functioned since the 1940s, originally operating within the Department of Education before moving to the Department of Purchases and Supply in 1967. The Division of Purchases and Supply (DPS) within the Department of General Services (DGS) is now designated, in §2.1-445.1 of the *Code of Virginia*, as the State entity responsible for the acquisition of surplus property from the United States government.

The purpose of the Federal Surplus Property program is to redistribute items which the federal government has declared as surplus. The federal government distributes property to the states and allows states to donate the property for a modest service charge to eligible "donees." "Donees" are State agencies, political subdivisions, and non-profit organizations which have been certified as eligible to receive federal surplus property.

In Virginia, FSP personnel visit designated military bases and agencies of the federal government to view and acquire surplus property. Surplus property ranges from military items such as tents, boots, and camouflage uniforms to typewriters, trash trucks, hospital beds, and large farming equipment. Acquiring federal surplus property can save donees thousands of dollars over the cost of purchasing the property new.

> *A correctional institution recently acquired a 1968 six-ton dump truck for a service charge of $275. The federal government's original acquisition cost for the truck was $23,675. The estimated cost of a new truck today is $48,000.*
>
> *A town in southwest Virginia acquired a 1971 loader during 1987 to be used by its Public Works Department. The FSP service charge paid by the town was $10,000 (including the cost to transport the loader from Europe). The federal government's original acquisition cost was listed as $22,803. The estimated cost to purchase a new loader in 1987 was $65,000.*

Property which is acquired for redistribution to Virginia agencies and political subdivisions is either picked up by the donee from the federal agency or stored and distributed from one of two warehouse locations. FSP owns a 42,000 square foot facility on Darbytown Road in Henrico and leases a 20,000 square foot warehouse in Wytheville. During FY 1987, 20 FTEs were authorized for FSP. Eighteen full-time staff and one part-time hourly employee were employed.

The FSP program must operate under the supervision of the General Services Administration (GSA) of the United States government. The GSA enforces the regulations contained within the "Federal Property and Administrative Services Act of 1949." Under this Act each state's federal surplus program is required to submit a "State Plan of Operation" to be approved by the GSA. These State Plans typically define how service charges are determined, who is eligible to purchase the surplus property, and how the property is to be utilized by the donees.

Federal Surplus Property has demonstrated both financial and operational problems during its first year as an internal service fund, and significant improvements are necessary in both areas. While its general charging structure is broad enough to comply with federal requirements, the revenue realized from charges has failed to cover program expenses for the past two years. The collection of accounts receivable on a timely basis also warrants improvement. The primary operational problems are related to property redistribution and equipment adequacy. Over the past four fiscal years, more property has been brought in by FSP than has been donated. Thus, end-of-year inventories have grown significantly. Vehicle and equipment needs also hampered FSP operations because the funds to purchase replacements were not readily available.

FINANCIAL CONSIDERATIONS

The review of FSP's financial condition focused on two areas: rates and charges, and billing procedures. This review indicated that FSP is in questionable financial condition. The fund has not covered the cost of its operations for the past two fiscal years, due in part to one factor that appears to be beyond the control of FSP. And although a survey of donees indicates that donees are satisfied with billing procedures, the collection of accounts receivable requires additional emphasis.

Rates and Charges

Assessment of FSP's broad charging structure showed that the structure is in compliance with federal limits that are imposed. However, low rates in conjunction with a decline in the quality of goods that are available from the federal government have caused financial difficulties for FSP. As a result, FSP has incurred net losses during FY 1986 and FY 1987.

Compliance with Federal Charging Guidelines. As noted previously, Virginia's State Plan generally defines the service charges that will be assessed for surplus property. Acquisition cost (the original cost of the property when it was purchased new by the federal government) is the basis on which FSP is required to calculate charges. Federal guidelines, which are incorporated into the State Plan, are quite broad allowing the State program to consider factors such as condition of the property, the need for the property, and various handling expenses such as the cost to store and display the items. FSP can charge from zero to 25 percent of the acquisition cost for some property, and up to 35 percent for property which had a lower acquisition cost (Table 15). The total of all FSP charges for the year may not exceed 20 percent of the acquisition cost of all property sold. The charging structure devised by FSP was accepted by the General Services Administration in 1984.

Table 15

GENERAL GUIDE FOR VIRGINIA FEDERAL SURPLUS PROPERTY'S PER-ITEM SERVICE CHARGES

Charge Percentage of Acquisition Cost	Acquisition Cost
0 - 35%	$0 - $3,000
0 - 30	3,001 - 10,000
0 - 25	10,001 - above

Source: State Plan of Operation, Virginia Federal Property Agency.

An assessment of average charges imposed over the past four years shows that FSP has been abiding by the 20 percent cap set for service charges. In fact, the charges have averaged seven to 11 percent of total acquisition cost (Table 16).

FSP personnel in Virginia, as well as in six of eight states that were contacted, indicated that the quality of available surplus property has been decreasing in recent years. According to Virginia FSP staff, this condition has generally made it more difficult to turn federal surplus property over and to impose higher service charges.

Table 16

REVENUES, ACQUISITION COST, AND SERVICE CHARGES FOR FEDERAL SURPLUS PROPERTY FY 1984 - 1987

Fiscal Year	Revenues	Acquisition Cost of Property Donated	Average Service Charge
1984*	$554,951	$5,037,895	11%
1985*	532,050	4,856,694	11%
1986*	510,136	7,021,957	7%
1987	540,953	7,047,292	8%

*The figures for FY 1984 - 1986 show FSP before it was designated as an internal service fund.

Source: DGS financial statements and State Agency Monthly Donation Report of Surplus Personal Property.

Cost of Operation. An assessment of FSP's revenues and expenses shows that FSP has not taken in adequate revenues to cover the cost of its operation for FY 1986 and FY 1987 (Table 17). In fact, FSP's net profit has generally declined over the past four years.

Table 17

REVENUES, EXPENSES, AND NET PROFIT
FOR THE FEDERAL SURPLUS PROPERTY PROGRAM
FY 1984 - 1987

Fiscal Year	Revenues	Expenses	Net Profit (Loss)
1984*	$554,951	$534,671	$ 20,280
1985*	532,050	518,068	13,982
1986*	510,136	580,748	(70,612)
1987	540,953	606,148	(65,195)

*The figures for FY 1984 - 1986 represent the financial position of FSP before it was designated as an internal service fund.

Source: DGS financial statements.

Despite a reduction in operating expenses, FSP revenue decreased by four percent from FY 1984 to FY 1985 with a subsequent reduction in net profit of 31 percent. Revenue decreased by another four percent in FY 1986, resulting in a net loss of $70,612. This trend continued into FY 1987, when a net loss of $65,195 occurred.

This decline appears to be caused by a combination of low service charges and poor quality property. While FSP does not have control over the quality of available property, it must continuously charge at levels that will cover the cost of operation. If the quality of available property is such that property is not of interest to eligible donees or the assessment of charges that would cover operations makes the property "unsalable," consideration should be given to discontinuation of the program.

Recommendation (19). Federal Surplus Property should set service charges at levels that cover the cost of its operation. If this is impossible due to the quality of available federal surplus property, the Department of General Services should assess the long-term prospects for FSP and consider submitting a proposal to JLARC outlining options for FSP including elimination of the function.

A further assessment of FSP's fund balance shows that FSP still maintains a positive balance despite the losses incurred during FY 1986 and FY 1987 (Table 18). FSP's fund balance is primarily composed of fixed assets. A

Table 18

FUND BALANCE ANALYSIS
FOR FEDERAL SURPLUS PROPERTY

Fiscal Year	Fund Balance
1984*	$883,937
1985*	894,207
1986*	761,621
1987	692,549

Components of the FY 1987 Fund Balance

Assets		
Cash Resources	$ 65,386	
Accounts Receivable	70,607	
Prepaid Expenses	--	
Fixed Assets**	604,188	
Total Assets		$740,181
Liabilities		(minus)
Accounts Payable	$ 2,902	
Accrued Leave Liabilities	44,730	
Advance Due to General Fund	--	
Total Liabilities		$ 47,632
Fund Balance		$692,549

*The figures for FY 1984-1986 represent the financial position of FSP before it was designated as an internal service fund.

Source: DGS financial statements.

total of $604,188 is held in fixed assets composed of land, buildings, and machinery and equipment. The recent losses have reduced FSP's cash resources. (Cash resources have been reduced from $474,954 in FY 1984 to $65,386 in FY 1987, primarily due to construction and renovation costs related to the FSP warehouse in Richmond.)

FSP's FY 1987 cash resources were assessed in accordance with the guideline recommended in Chapter II (Exhibit 9). This calculation resulted in a negative number, confirming that funds should not be transferred from FSP to the general fund. This finding is further supported by FSP's losses in recent years.

Exhibit 9

ASSESSMENT OF FEDERAL SURPLUS PROPERTY CASH RESOURCES
FY 1987

Maximum Allowable Cash Resources	-	Annual Expenses x 0.17
	=	$606,148 x 0.17
	=	$103,045
Amount of Reversion	=	Actual Cash Resources - Maximum Allowable Cash Resources
	=	$65,386 - $103,045
	=	-$37,659

Source: JLARC staff analysis.

Billing Procedures

Most FSP property is purchased from the FSP warehouses with donees receiving an invoice which serves as the bill for their selections. A "Distribution Document and Invoice" is issued each time a purchase is made by a donee. This invoice describes the items and notes the service charges associated with them. This allows the donee to identify the charges associated with all items purchased. A copy of the invoice is sent to the Bureau of Fiscal Services (BFS) for collection of the payment. This billing procedure allows donees to readily check all charges.

Users are generally satisfied with these billing procedures. Three questions regarding billing were included on the survey mailed to a sample of 45 donees. None of the donees were dissatisfied with the accuracy or timeliness of billing or with the response of FSP staff when billing discrepancies occurred (Table 19). Seventy-six percent of the donees reported that they had never had a complaint about billing.

While users are satisfied with the accuracy and the timeliness of bills, collection of those bills should be improved. A review of the outstanding accounts receivable as of April 1987 indicated that only 30 percent were current (due for less than 31 days). Twenty-eight percent were outstanding for 31 to 60 days, 23 percent were outstanding for 61 to 90 days, and 19 percent were outstanding for more than 91 days. A total of $32,277 in payments were outstanding for at least 61 days.

The Bureau of Fiscal Services, which is responsible for collecting the accounts receivable, should more aggressively follow up on these overdue accounts. Since the majority of donees are not State agencies, there is a

Table 19

SURVEY RESPONSES REGARDING BILLING
BY FEDERAL SURPLUS PROPERTY

Question: Please indicate your overall level of satisfaction with Federal Surplus Property's performance regarding:

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
Accuracy of Billing	46%	55%	--	--
Timeliness of Billing	41%	60%	--	--

Question: When billing discrepancies have occurred, have Federal Surplus Property staff resolved the problem satisfactorily?

Yes	No	Never Had A Complaint	Don't Know
22%	--	76%	2%

N = 45.

Note: Totals may not equal 100 percent due to rounding.

Source: JLARC staff survey of FSP donees.

potential for default on these payments, particularly in the case of non-profit agencies. Of the $32,277 noted as being outstanding for at least 61 days, only 15 percent ($4,771) was owed by State agencies. FSP may want to consider taking further action against donees which do not pay within a specified time, such as denying their requests to purchase additional property until the balance is paid.

Recommendation (20). The Department of General Services should take two steps to aggressively follow up on overdue Federal Surplus Property accounts. First, the Bureau of Fiscal Services should aggressively follow up on accounts which are outstanding for over 60 days. Second, the administrator of surplus property programs should take corrective action against donees which have accounts that are outstanding for more than 90 days.

OPERATIONAL CONSIDERATIONS

During the course of this review, FSP operations were in a state of transition. First, FSP was in the process of automating its inventory, accounting, and customer data bases. Much data that would have assisted in an operational examination was not readily available, as automation had not been completed.

Second, unhappy with the occurrence of year-end losses and suspected operational problems, DPS management had begun to examine the FSP operation. Some changes were under way when this review began. On June 1, 1987, the State Surplus Property manager was appointed as an acting administrator for both surplus property programs and was charged with reorganizing the two programs under one administrator. In light of this change, FSP was primarily examined as a separate entity, although the expected effect of changes planned under the joint administration was also considered.

Six areas were examined to generally assess FSP operations. These areas were:

- the percentage of surplus property donated within a year,
- the advertising of goods by FSP,
- the adequacy of the equipment and facilities used by FSP,
- a comparison of Virginia's program with FSP programs operated in eight other states,
- DPS' decision to combine the operation of the federal and State surplus property programs, and
- customer satisfaction with FSP services.

The FSP program showed evidence of operational problems, particularly in the areas of property redistribution and equipment adequacy. These and other problems have been recognized by DPS management, who have charged the newly appointed administrator with taking corrective action.

Percentage of Property Redistributed

FSP's property donation has lagged behind the acquisition of property for the last four years, and ending inventories have steadily risen. As shown in Table 20, during FY 1984 through FY 1987 the value of property received by FSP exceeded the value of donated property by almost $5 million. For the same period, ending inventories increased from $3.1 million to nearly $5.5 million. The ending inventory in FY 1984 equalled 48 percent of property received, while in FY 1987 this figure had risen to 61 percent.

FSP staff offered a number of explanations for this problem including: FSP had not done a good job selecting property, an unacceptably

Table 20

FINANCIAL REPORT ON FEDERAL SURPLUS PROPERTY'S
RECEIPT, DONATION, AND INVENTORY OF SURPLUS PROPERTY
FY 1984 - 1987

Fiscal Year	Property Received	Property Donated	Other Distribution*	Ending Inventory
1984**	$ 6,337,966	$ 5,037,895	$ 707,392	$3,073,824
1985**	5,294,668	4,856,694	370,462	3,141,336
1986**	8,143,740	7,021,957	295,929	3,967,190
1987	8,851,948	7,047,292	360,999	5,410,847
TOTAL	$28,628,322	$23,963,838	$1,734,782	

*Includes items returned to the federal government or used by FSP.

**The figures for FY 1984-1986 represent FSP before it was designated as an internal service fund.

Source: State Agency Monthly Donation Report of Surplus Personal Property.

high number of items had been stored for over two years without selling, and donees' needs were not always being considered. In fact, seventy-three percent of FSP customers surveyed during this study stated that they had never been contacted by FSP to determine whether they had specific property needs.

Corrective measures are being taken by the acting administrator to address the redistribution problem and its probable causes. Items which have been stored for two or more years are being identified and returned to the federal government. Screening objectives will be determined and the property selected will be examined for compliance with stated criteria. In addition, to set and periodically revise screening objectives, FSP should regularly contact donees to solicit information regarding their surplus property needs.

Recommendation (21). DPS management should monitor the success of the changes instituted to increase the donation of federal surplus property. At the end of FY 1988, the amount of property donated should increase while ending inventory should be significantly lower than at the end of FY 1987.

Advertising of FSP Goods

According to the acting administrator for surplus property, another major reason for poor sales was inadequate marketing of the program. FSP instituted the mailing of a bimonthly flyer, DPS Surplus Showcase, in August 1986 to stimulate donee interest. Until that time, flyers had been mailed three to four times a year. The acting administrator has indicated that changes are planned for the Showcase to make it a more focused publication that will be mailed every two to four weeks.

Surveyed donees were asked whether they had received the DPS Surplus Showcase and whether it had met their needs for information about available property. Eighty-six percent of the respondents noted that they had received the Showcase, and 78 percent stated that it had met their needs. Only two percent responded that the Showcase had not met their needs, while nine percent did not know.

Adequacy of Equipment and Facilities

Internal service funds need to plan for the replacement of vehicles and major equipment to ensure that equipment needs are met at all times and that the fund does not incur disproportionate replacement costs in any one year. FSP seemed to be heading towards an unfavorable equipment position during FY 1987.

> *A van that was being used by FSP staff became inoperable and had to be replaced. FSP, however, did not have the funds to purchase a new van at the time. SSP therefore purchased the van in the spring of 1987 and allowed FSP to repay SSP for the purchase over the course of four months.*
>
> *FSP's two forklifts were also worn out and should have been replaced during FY 1987. With the functional merger of the two surplus operations, however, the State Surplus Property forklift will be shared with the federal program, eliminating the immediate need to purchase forklifts.*

A review of the vehicles on FSP's equipment inventory list revealed that only one of the 31 cars, trucks, tractors, and trailers had a manufacture date of 1980 or later. Sixteen of the vehicles had been obtained by FSP as surplus items - 14 from federal surplus and two from other State agencies. While this use of surplus vehicles represents a savings in acquisition cost, the use of such vehicles must be carefully monitored to ensure that excessive funds are not being used to maintain obsolete vehicles which have out-lived their usefulness. This problem was noted by the DGS auditor in 1985. The audit report noted that during FY 1984 over $11,000 had been spent by FSP repairing one 1972 tractor.

The final area examined was the adequacy of the Richmond warehouse facility. The warehouse appeared to be adequate in terms of security and square footage. Improvements planned by the acting administrator for surplus property seemed warranted. These improvements included increasing the lighting, painting the walls, and changing the manner in which items are displayed.

Recommendation (22). The surplus property administrator should develop a vehicle and equipment replacement schedule for Federal Surplus Property. This would ensure that equipment needs are met at all times and that disproportionate replacement costs are not met in any one year.

Virginia's FSP Operation Compared with Eight Other States

The operation of Virginia's FSP program was compared with FSP programs in eight other states. Two of the eight states were chosen on the basis of having a National Entitlement Percentage (NEP) similar to Virginia's. The NEP is a measure developed by the General Services Administration which considers a state's population and per capita income to determine the state's "fair share" of federal surplus property. The NEP is used to determine the proportion of higher quality goods that a state is entitled to receive. Virginia's NEP was 1.98, while Mississippi's percentage was 1.97 and South Carolina's was 2.07 for 1986 - 1988. North Carolina and West Virginia were chosen as examples of programs in two states which border Virginia while four additional states (Delaware, Indiana, Louisiana, and New Hampshire) were randomly chosen.

Virginia was compared with the other states on six criteria:

- whether the administration of the federal and state surplus property programs were combined or separate,
- whether the program was self-supporting or received a general fund appropriation,
- number of staff employed,
- number of eligible donees served,
- sales revenue for FY 1986, and
- National Entitlement Percentage rating given by the General Services Administration.

Five of the other states had combined the administration of their surplus property programs (Table 21). All but one FSP program was self-supporting, although the programs were classified as different types of funds including revolving, enterprise, and internal service funds. The number of employees ranged from three in Delaware and New Hampshire to 24 in West Virginia. These differences in staffing levels appear to reflect differences in the size of the FSP program and the sharing of staff in the combined programs.

The number of eligible donees also varied significantly ranging from 200 in New Hampshire to 2,000 in West Virginia. Total sales for FY 1986 also ranged from $38,000 in New Hampshire to $600,000 in South Carolina. The GSA determined that all of the states generally had high NEPs (72 to 123) except Indiana. Indiana's manager indicated that although the federal government judges the effectiveness of a program by the NEP realized, the program only purchases property which can readily be donated.

Table 21

COMPARISON OF FEDERAL SURPLUS PROPERTY PROGRAMS IN NINE STATES (MAY 1987)

State and NEP Rating	Administration of FSP & SSP	Funding Mechanism	Number of Employees	Number of Eligible Donees	Total Sales for FY 1986	Percentage of NEP Realized
Delaware (0.21)	Combined	Moving toward self-support, receives a supplemental appropriation.	3	400 - 500	N/A	94
New Hampshire (0.33)	Separate	Self-supporting (internal service fund).	3	200	$ 38,000	80
West Virginia (1.26)	Combined	Self-supporting (enterprise fund).	24*	2,000	N/A	123
Mississippi (1.97)	Combined	Self-supporting (revolving fund).	20	1,200	$544,000	N/A
VIRGINIA (1.98)	Separate until June 1987 when combined	Self-supporting (internal service fund).	18	1,075	$480,071	91
South Carolina (2.07)	Combined	Self-supporting (enterprise fund).	15	800	$600,000	80
Louisiana (2.58)	Combined	Self-supporting (enterprise fund).	11	N/A	N/A	N/A
Indiana (2.63)	Separate	Self-supporting (revolving fund).	5	1,400	$170,000	30
North Carolina (3.41)	Separate	Self-supporting.	15	1,750	$550,000	72

N/A = Not Available

*Total Staff for FSP, SSP, and Inventory Control Sections.

Source: JLARC staff interviews of FSP program staff in other states.

The comparison indicated that Virginia was one of the larger programs examined in terms of staffing level and NEP rating. For the six states reporting FY 1986 sales revenue, however, Virginia's program was fourth, exceeding the sales revenue of only two small programs (New Hampshire and Indiana). This supports the finding that sales of federal surplus by the Virginia program have been lower than desired. Six of the federal surplus managers in other states confirmed the Virginia FSP contention that the quality of federal surplus goods was lower than the quality of items available several years ago. Five managers noted, however, that their profits for the past one to two years had actually increased. Four of these states had programs with combined federal and state surplus property program administration.

Joint Administration of the Surplus Property Funds

In June 1987, the director of the Division of Purchases and Supply decided to place the two surplus property programs under one administrator. This is a fairly common structure, with a total of 33 of the states having combined programs. The SSP manager was appointed as the acting administrator of the two programs. While combining management of the two programs was a goal in itself, the acting administrator was also charged with correcting the financial and operational problems suffered by FSP. A transition team composed of the acting administrator, the State Surplus Property officer, and three FSP staff (the two warehouse managers and a screener) were appointed to plan the transition.

Combining the two programs under one administrator should have a number of positive effects including: reduced competition between the programs, financial savings because of merged administration, the introduction of new ideas into program operations, and the sharing of equipment and vehicles. In addition, the change could bring about staffing reductions. Given that Virginia appears to have more staff than other states with comparable total sales, the merged structure could present the opportunity for staffing efficiencies.

User Satisfaction

One thousand and seventy-five agencies and organizations were listed as eligible donees during FY 1987. A major proportion of these donees had not purchased from FSP since its establishment as an internal service fund. JLARC staff surveyed 72 eligible donees, but 27 had not purchased recently enough to adequately respond to questions. These 27 donees were therefore eliminated from the sample, and the responses of the remaining 45 were examined.

The user survey asked a number of questions, which are summarized in Table 22. As shown, at least 85 percent of the customers surveyed indicated that they were satisfied with the prices charged and the variety, quality, turnover, and display of the property. Ninety-three percent of the users were very satisfied or satisfied with the accessibility of the FSP warehouse, while 100 percent indicated satisfaction with warehouse hours and service by FSP personnel. Finally, the majority of users felt that problems were encountered infrequently, but when they did occur, FSP responded satisfactorily.

Table 22

SURVEY RESPONSES REGARDING FEDERAL SURPLUS PROPERTY'S ITEMS FOR SALE, SERVICES, AND STAFF PERFORMANCE

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
Prices charged for FSP property	42%	49%	9%	--
Variety of property	26%	60%	14%	--
Quality of property	11%	77%	9%	2%
Turnover of property	8%	78%	15%	--
Warehouse display of property	35%	58%	7%	--
Accessibility of FSP warehouse	33%	60%	7%	--
Warehouse hours	23%	77%	--	--
Service provided by FSP personnel	55%	46%	--	--

Have FSP staff responded when you have indicated a need for a particular item?

Yes	No	Never Made a Request	Don't Know
67%	4%	25%	4%

When you have had complaints about the services provided to your agency or organization, have FSP staff addressed the problem adequately?

Yes	No	Never Had a Problem	Don't Know
27%	--	71%	2%

N = 45.

Note: Totals may not equal 100 percent due to rounding.

Source: JLARC staff survey of FSP donees.

VII. MAINTENANCE AND REPAIR PROJECTS

The Bureau of Buildings and Grounds (BOBG), within the Division of Engineering and Buildings, is responsible for the maintenance of 36 buildings at the seat of government. BOBG has historically received a general fund appropriation for routine maintenance within most of these buildings and has charged the occupying agencies for non-routine maintenance, renovation, and construction. The Maintenance and Repair Projects (MRP) internal service fund was established on January 1, 1985, to finance all maintenance and repair required for five buildings: the Capitol, the General Assembly Building (GAB), the Jefferson Building, the Highway Building, and the Highway Annex.

These five buildings, which will be referred to as the "original" MRP buildings, are occupied by three entities: the State Corporation Commission (SCC) and the Virginia Department of Transportation (VDOT), which are special fund agencies, and the legislative agencies of the General Assembly. (The VDOT Aluminum Building was added in April 1987 as a sixth internal service fund building. Due to its recent designation as an internal service fund building, it was not reviewed during this study. Maintenance expenses for the Governor's Office, which is also located within the Capitol, are paid by the general fund appropriation rather than the internal service fund.)

Previous studies and reviews have been extremely critical of the maintenance and repair area. It appears, however, that BOBG has taken steps to strengthen service provision. Customer agency representatives generally report that BOBG has provided better maintenance and repair services since it ceased carrying out construction and renovation work. And the creation of a Maintenance Management Center should improve the scheduling, tracking, and monitoring of maintenance work.

Numerous areas for improvement still exist, however. Overhead charges assessed for maintenance services are not calculated on a sound or consistent basis, and should be revised to ensure equitable charging. A major flaw in the coding of maintenance work completed in the Capitol has resulted in legislative agencies being charged excessive amounts for service during FY 1986 and FY 1987. And the fund balance should be reverted to the general fund as Maintenance and Repair Projects operates on a break-even basis.

In addition, inspection of contract custodial crews should be strengthened. Service agreements should be developed with those agencies that do not have them. And finally, efforts should be undertaken to improve communications with customer agencies.

PROGRAM OVERVIEW

The Maintenance and Repair Projects internal service fund provides all maintenance and repair services for the six buildings occupied by the legislative agencies, the SCC, and VDOT. BOBG functions as the administrator of this program. The Bureau is responsible for routine, non-routine, emergency, and preventive maintenance and repairs for the MRP buildings.

Staffing

To fulfill its responsibilities, BOBG employs a maintenance and repair staff consisting of such trades as electricians, plumbers, and heating and air conditioning (HVAC) mechanics. BOBG also employs a small day custodial crew and an administration unit. In addition, BOBG procures the services of contract maintenance and repair crews and contract custodial crews to supplement the work of its staff.

The majority of BOBG's maintenance and repair staff are not assigned to a specific building, but work in different buildings according to their assigned maintenance tasks. Some units directly provide services to internal service fund agencies, while others do not (Figure 2). A number of supervisors provide direct services by inspecting projects and investigating complaints regarding maintenance in the internal service fund buildings.

Less than 25 of BOBG's authorized 215 FTEs are permanently assigned to the internal service fund buildings (Table 23). Of these permanently assigned positions, 12 FTEs are custodial; the remaining permanent assignments are HVAC (5 1/6 FTEs) and security (7 FTEs).

Table 23

PERSONNEL ASSIGNMENTS IN ORIGINAL MAINTENANCE AND REPAIR PROJECT BUILDINGS
FY 1987

Building	Number of Custodial Workers	Number of HVAC Workers	Number of Security Workers
Capitol	2 2/3 FTEs	1 1/6 FTEs	--
GAB	2 5/6	1 1/6	--
Highway Building and Annex	4 2/3	2 1/3	5 FTEs
Jefferson	1 5/6	1/2*	2
TOTAL	12 FTEs	5 1/6 FTEs	7 FTEs

*A HVAC position was assigned half-time to the Jefferson Building during FY 1987 due to a significant amount of renovation and construction in the building. This position will not be assigned to the Jefferson Building after the completion of the work.

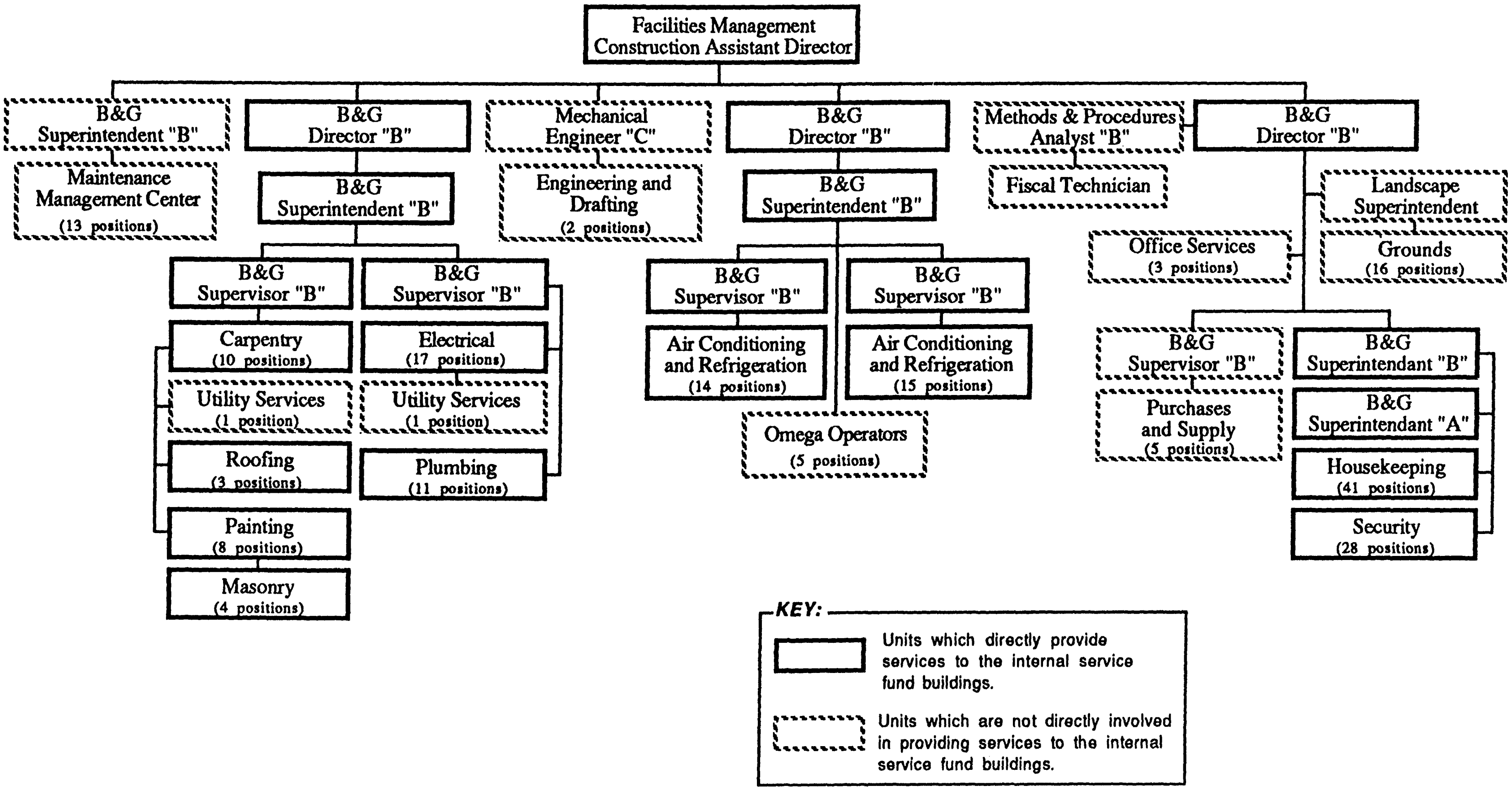
Source: JLARC staff analysis of BOBG data.

Expenditures

The five original internal service fund buildings represent approximately 24 percent of BOBG's total building maintenance responsibilities

Figure 2

Organization of the Bureau of Buildings and Grounds



Source: JLARC staff graphic.

-- about 831,000 of the 3.5 million square feet maintained. The total cost for maintaining the original MRP buildings in FY 1987 was $2,898,547. Sixty-six percent ($1,919,791) was for expenses which are generally beyond the control of BOBG such as utilities, insurance, and contracted services (Table 24). Utilities represented the largest single line item expense, accounting for $1,139,447 or 39 percent of all costs incurred in the MRP buildings during FY 1987.

Table 24

MAINTENANCE AND REPAIR PROJECT
EXPENDITURES BY BUILDING FY 1987

Line Item Expenditures	General Assembly	Capitol	Highway	Highway Annex	Jefferson	Total Buildings
Contract M/R Service	$ 59,384	$ 15,834	$ 24,169	$ 40,295	$ 29,492	$ 169,174
Contract Custodial Service	172,124	89,884	66,584	158,953	99,742	587,287
BOBG Labor Costs	206,890	111,814	110,060	148,966	106,631	684,361
BOBG Material & Supplies Costs	36,553	18,173	15,446	20,237	9,825	100,234
BOBG Overhead	61,434	30,061	30,251	42,911	29,504	194,161
Utilities	357,331	86,432	134,429	391,280	169,975	1,139,447
Insurance	6,221	3,825	1,731	4,727	2,978	19,482
Miscellaneous	781	1,390	542	1,489	199	4,401
TOTAL	$900,718	$357,413	$383,212	$808,858	$448,346	$2,898,547

Source: BOBG financial statements.

Contracted costs incurred during FY 1987 included custodial and maintenance and repair services. These services accounted for 26 percent of all expenditures during the year. Costs for contracted custodial services ranged from $66,584 in the Highway Building to $172,124 in the GAB. Maintenance and repair contracts are used for such projects as HVAC and electrical system consultations, elevator maintenance, large-scale painting jobs, and asbestos removal. Contracted maintenance service represented six percent of all MRP costs for the five buildings.

The costs most directly under the control of the Bureau are BOBG's labor costs, overhead costs, and material and supply costs. Labor costs accounted for 24 percent, or $684,361, of the total expenditures in the MRP buildings. Materials and supplies accounted for approximately three percent of total expenditures. BOBG employed an overhead rate of 20 percent during the year, which resulted in overhead costs of $194,161 or seven percent of total MRP expenditures.

Overall, the cost per square foot to maintain the five MRP buildings decreased from FY 1986 to FY 1987. The average cost per square foot for all maintenance and custodial services in the MRP buildings during FY 1987 was $3.49, compared to $3.64 per square foot in FY 1986 (Table 25). However, different MRP buildings showed different trends between FY 1986 and FY 1987. The Highway and Highway Annex buildings experienced much higher expenditures during FY 1986 due to the fact that a great deal of renovation work was being performed in these buildings. Both contracted maintenance crews and BOBG crews were used to do the renovations.

The GAB cost per square foot also increased by five percent from FY 1986 to FY 1987. BOBG personnel attributed this increase to the fact that full service contract cleaning was implemented during the last six months of FY 1987. Another reason is that FY 1987 was the first year that overhead charges were assessed on legislative maintenance bills. Overhead charges of $61,434 for the GAB were assessed for FY 1987.

The square foot cost in the Capitol also increased from FY 1986 to FY 1987 by approximately 24 percent. BOBG attributed this increase to large expenditures made for electrical work, implementation of full service contract cleaning halfway through the year, and assessment of $30,061 for overhead charges.

Anticipated expenditures for FY 1988 are on average nine percent higher than FY 1987 expenditures (Table 26). Total expenditures are expected to be $3,173,630 during FY 1988. Sixty-nine percent of the FY 1988 anticipated expenses will be in areas that are generally beyond the control of BOBG.

Three factors contribute to this overall expected growth. First, all buildings at the seat of government were reappraised and the new values resulted in substantial insurance premium increases. For example, the GAB's insurance costs increased from $6,221 in FY 1987 to $44,475 in FY 1988. Overall, total insurance costs for the five MRP buildings will increase from the FY 1987 total of $19,482 to $73,745 in FY 1988. This insurance increase represents a growth of nearly 300 percent. Second, the Bureau of Fiscal Services was notified by one major utility provider that rates for FY 1988 would increase approximately 10 percent. Thus, the projected expenditures for utilities are expected to increase from $1,139,447 in FY 1987 to $1,207,915 in FY 1988. A third factor influencing the increased costs for FY 1988 is that, for the first time, each of the MRP buildings will receive full service contract cleaning for an entire fiscal year. Contracted custodial costs will increase by 31 percent from $587,287 in FY 1987 to $767,710 in FY 1988.

The Capitol has the largest anticipated cost increase for FY 1988, with a projected increase of $83,272 or 23 percent. The three factors previously mentioned account for 79 percent of this increase. Also, a projected increase for labor costs of $25,941 was allowed due to the age of the building and number of repair projects that are planned for the facility. The GAB has the second largest anticipated cost increase for FY 1988, with a projected increase of $139,167 or 15 percent. Increases for insurance, the custodial contract, and utility costs account for 95 percent of GAB's projected cost increase.

Table 25

AVERAGE COST PER SQUARE FOOT FOR
MAINTENANCE AND CUSTODIAL SERVICES FOR THE
MAINTENANCE AND REPAIR PROJECT BUILDINGS
FY 1986 - 1988

FY 1986

Building	Amount Expended	Square Feet	Average Cost Per Square Foot
Capitol	$ 289,131	65,575 Sq. Ft.	$4.41
General Assembly	855,481	357,984	2.39
Highway	501,131	84,000	5.97
Highway Annex	940,182	180,800	5.20
Jefferson	438,702	142,610	3.08
Total	$3,024,627	830,969 Sq. Ft.	$3.64

FY 1987

Building	Amount Expended	Square Feet	Average Cost Per Square Foot
Capitol	$ 357,413	65,575 Sq. Ft.	$5.45
General Assembly	900,718	357,984	2.52
Highway	383,212	84,000	4.56
Highway Annex	808,858	180,800	4.47
Jefferson	448,346	142,610	3.14
Total	$2,898,547	830,969 Sq. Ft.	$3.49

FY 1988

Building	Anticipated Expenses	Square Feet	Average Cost Per Square Foot
Capitol	$ 440,685	65,575 Sq. Ft.	$6.72
General Assembly	1,039,885	357,984	2.90
Highway	418,600	84,000	4.98
Highway Annex	780,685	180,800	4.32
Jefferson	493,775	142,610	3.46
Total	$3,173,630	830,969 Sq. Ft.	$3.82

Source: JLARC staff analysis.

Table 26

ANALYSIS OF COSTS GENERALLY BEYOND THE CONTROL OF THE BUREAU OF BUILDINGS AND GROUNDS FY 1987 and FY 1988

	General Assembly	Capitol	Highway	Highway Annex	Jefferson	Total
FY 1987						
Total Expenditures	$ 900,718	$357,413	$383,212	$808,858	$448,346	$2,898,547
Noncontrolled Costs	595,841	197,365	227,455	596,744	302,386	1,919,791
% Noncontrolled Costs	66%	55%	59%	74%	67%	66%
FY 1988 Budget						
Total Budget	$1,039,885	$440,685	$418,600	$780,685	$493,775	$3,173,630
Noncontrolled Costs	719,565	254,340	272,355	595,580	341,155	2,182,995
% Noncontrolled Costs	69%	58%	65%	76%	69%	69%
Growth from FY 1987 Expenditures to FY 1988	15%	23%	9%	(3%)	10%	9%

Note: Costs generally beyond the control of BOBG (noncontrolled costs) include: custodial and maintenance contracts, insurance, utilities, and miscellaneous expenses such as freight charges.

Source: JLARC staff analysis.

The maintenance funded by the MRP only represents a part of the maintenance and repair work completed within the MRP buildings. Capital outlay appropriations also fund major maintenance projects as well as renovations and construction. Capital outlay funds of $5,036,190 were appropriated during the 1986-1988 biennium for renovations within the buildings that BOBG maintains. Of that total, $1,722,617 was earmarked for projects within the Capitol and General Assembly Building such as HVAC improvements, replacement of a chiller and cooling tower, and steam valve replacement.

Maintenance and Repair Services

BOBG employed workers in nine different trades during FY 1987 to complete maintenance and repair projects in the MRP buildings: plumbers, electricians, HVAC mechanics, carpenters, painters, mason/plasterers, trade helpers, groundsmen, and sheet metal workers. These workers perform a variety of tasks -- from the simple job of changing light bulbs, to more complex projects involving numerous workers in one or more trades.

BOBG's service desk receives numerous calls during the course of the year requesting emergency and routine maintenance services. Table 27 illustrates the volume of service requests received by BOBG for a six month period from January 1, 1987, through June 30, 1987. During this period,

Table 27

BUREAU OF BUILDINGS AND GROUNDS SERVICE REQUESTS
RECEIVED FROM MAINTENANCE AND REPAIR PROJECT BUILDINGS
JANUARY 1, 1987 - JUNE 30, 1987

Month	Monthly Total All Buildings	Monthly Total MRP Buildings	Percentage MRP Buildings
January 1987	1,568	441	28%
February 1987	1,559	385	25%
March 1987	1,523	314	21%
April 1987	1,685	363	22%
May 1987	1,054	263	25%
June 1987	1,123	263	23%
Total	8,512	2,029	
Monthly Average	1,419	338	24%

DETAIL BY MAINTENANCE AND REPAIR PROJECT BUILDING

	General Assembly	Capitol	Highway	Highway Annex	Jefferson
Total Service Calls	602	444	173	338	478
Average Calls Per Month	100	74	29	56	80
Average Calls Per Month Jan. - Mar.	136	76	28	61	79

Source: JLARC staff review of BOBG service call log.

BOBG's service desk received a total of 8,512 service requests, of which approximately 24 percent were attributed to the five MRP buildings. This 24 percent figure seems appropriate as the MRP buildings constitute 24 percent of BOBG's total building maintenance responsibilities. The GAB recorded the largest number of calls, averaging 100 per month. During the months the legislature was in session, the number of service requests increased 36 percent in the GAB and three percent in the Capitol.

MRP agencies are charged for every maintenance and repair service trip that is rendered to their buildings. These service trips can be for routine, emergency, or preventive maintenance tasks and can be initiated by either MRP customer agencies or BOBG supervisors inspecting for preventive maintenance. BOBG kept monthly service trip records for two of the five MRP buildings during FY 1987.

> *BOBG registered 1,072 service trips to the General Assembly Building during FY 1987. This total equated to a monthly average of 89 service trips. However, during the months the legislature was in session, the monthly average increased 20 percent to 107 trips per month. BOBG registered 16,576 hours in the GAB, completing these tasks at a labor cost of $206,890.*
>
> *BOBG registered 745 service trips during FY 1987 to the Capitol, which equated to a monthly average of 62 per month. During the months the legislature was in session, service trips to the Capitol increased only six percent, for an average of 66 per month. A total of 9,434 hours were required to complete these tasks, with labor costs of $111,814.*

Custodial Services

The majority of daily cleaning services are provided by contract custodial crews overseen by BOBG custodial personnel. BOBG also directly employs a limited number of custodians to take care of emergency cleaning during the day and to help keep buildings in orderly condition during busy times of the year.

Contract Custodians. Each MRP building has a separate custodial contract that is paid directly by the internal service fund. BOBG secures these contracts, which include detailed specifications of the tasks that must be performed, through competitive bidding.

Specified services mandated in the custodial contracts include such tasks as: vacuuming and spot cleaning carpets; dusting surface areas (including furniture, window-sills, and others); emptying waste baskets, ash trays, and trash receptacles; cleaning glass doors and partitions; cleaning and stocking restrooms; and cleaning light and wall fixtures.

Exhibit 10 illustrates the costs and basic provisions of the custodial contracts for each MRP building. The total number of required work hours shown are the estimates given by the contractors to complete the specifications for each building. If the contractor felt that additional work was needed to complete the work, the crews completed this work at no additional cost to the State. Thus, the contract crews must work the minimum hours specified in the contracts. Any non-requested overtime that is worked is not charged. A separate hourly rate is assessed for any overtime work that is requested by the MRP occupants or BOBG.

BOBG is responsible for overseeing the fulfillment of the custodial contracts for each of the MRP buildings. The Bureau assigns one custodial

Exhibit 10

CUSTODIAL CONTRACT PROVISIONS
MAINTENANCE AND REPAIR PROJECT BUILDINGS

General Assembly Building

Effective Dates of Contract: December 1, 1986 - June 30, 1988

Total Price for Contract Period:		$338,163	(19 months)
$21,206 per month January-March	=	$127,236	
$13,599 per month April-December	=	$176,787	
$17,070 semi-annual carpet shampoo	=	$ 34,140	

Hourly Charge for Requested Additional Work: $5.52 per hour
Total Amount of Required Work Hours:
166.5 hours per day January-March
90.0 hours per day April-December

Capitol Building

Effective Dates of Contract: May 26, 1987 - June 30, 1989

Total Price for Contract Period:		$315,008*	(25 months)
$12,468 per month January-March	=	$ 74,808	
$11,920 per month April-December	=	$226,480	
$ 5,668 semi-annual carpet cleaning	=	$ 11,336	

Hourly Charge for Requested Additional Work: $9.25 per hour
Total Amount of Required Work Hours:
72 hours per day January-March
64 hours per day April-December

Highway Building

Effective Dates of Contract: December 1, 1986 - November 30, 1988

Total Price for Contract Period:		$201,044	(24 months)
$8,056 per month	=	$193,344	
$3,850 semi-annual carpet shampoo	=	$ 7,700	

Hourly Charge for Requested Additional Work: $8.50 per hour
Total Amount of Required Work Hours: 64 hours per day

*Total Price includes $2,384 for services May 26-31, 1987 which was incurred because the contract was implemented mid-month.

Exhibit 10 (Continued)

Highway Annex Building

Effective Dates of Contract: December 1, 1986 - November 30, 1988

Total Price for Contract Period:		$400,254	(24 months)
$15,955 per month	=	$382,920	
$ 8,667 semi-annual carpet shampoo	=	$ 17,334	

Hourly Charge for Requested Additional Work: $8.50 per hour
Total Amount of Required Work Hours: 124 Hours per day

Jefferson Building

Effective Dates For Contract: September 22, 1986 - June 30, 1988

Total Price for Contract Period:		$202,602**	(21 months)
$ 9,105 per month	=	$191,205	
$ 4,181 semi-annual carpet shampoo	=	$ 8,362	

Hourly Charge for Requested Additional Work: $8.50 per hour
Total Amount of Required Work Hours: 60 Hours per day

**Total price includes $3,035 for services September 22-30, 1986, which was incurred because the contract was implemented mid-month.

Source: DGS custodial contracts.

inspector to each of the MRP buildings nightly to ensure that contract specifications are met. Tasks that are not satisfactorily completed are recorded by the inspector. If the problem is not corrected by the contract cleaners the following day, the fee paid to the contractor is reduced.

In a recent situation, one MRP building experienced significant problems with its contract custodial services. The quality of the cleaning services provided in the Capitol was determined to be substandard during FY 1987. BOBG staff verified that the service provision was inadequate and not up to specifications. The custodial contract was therefore terminated in May 1987. A new contract has been procured with a different vendor, and a legislative staff representative reported being satisfied with custodial services at the time of this review.

JLARC staff observed several instances where oversight on the part of the BOBG custodial supervisors still needs to be improved. On several different occasions, contracted custodial personnel were observed to be eating, talking, and using the phones during time when they were charging the State for custodial work. For example:

> *On one occasion, a legislative staff member entered a remote office area on the 10th floor of the General Assembly Building and found three contract custodial workers relaxing, talking, and listening to a radio during time they were to be working.*
>
> *During July 1987, two long distance telephone calls were made after 6:30 at night from a legislative staff member's office. BOBG is investigating the calls, as it appears they were placed by contract custodial staff.*
>
> *Custodial crews were observed signing in over a one-week period. The observations took place in the General Assembly Building and involved a total of seven and a half hours. During this time, a total of 14 calls were made by contracted custodial personnel from the lobby phone in the General Assembly Building. The majority of these observed calls appeared to be personal in nature.*

The custodial contracts specify that custodial workers are not to eat, drink, use the telephone, or take breaks during the course of their work schedule due to the limited time available for cleaning. The work activities of the private custodial crews need to be more closely monitored by the BOBG custodial inspectors to ensure that all specifications in the contracts are met.

Recommendation (23). The Bureau of Buildings and Grounds should monitor the activities of the contracted nightly custodial crews more closely to ensure that prohibited activities such as using State phones and taking breaks do not occur.

BOBG Custodians. BOBG also employs a total of 17 day custodians to take care of emergency and other limited cleaning duties during the day. These staff are responsible for responding to building occupants' needs for custodial services, for ensuring that the restrooms are stocked, and for carrying out emergency cleaning tasks.

Nine and five-sixths of the day positions are permanently assigned to MRP buildings. All of the MRP service recipients surveyed felt that the day positions were needed in their buildings. The occupants of the General Assembly Building, in particular, felt that the day person assigned full-time was particularly helpful and needed. However, there were two areas where the users questioned the policies relating to the day positions: work schedules for the workers, and the length of time spent by the shared day position in the GAB.

Several of the agency representatives noted that some day custodians did not seem to have specific jobs and in some instances had to be told when a routine job needed to be completed. This was verified by BOBG custodial management and the day custodians themselves, who agreed that written, specific tasks are not assigned to these positions.

BOBG should develop a schedule of cleaning tasks to be completed by the day custodians each week. A copy of the schedule should be sent to agency representatives to foster a shared understanding of the role of the day custodians. In addition, custodial supervisors should perform more structured inspections to ensure that tasks are being satisfactorily performed.

Recommendation (24). The Bureau of Buildings and Grounds should develop a schedule of custodial tasks to be completed each week by the day custodians in the internal service fund buildings. Also, custodial supervisors should perform more structured inspections to ensure that tasks are being satisfactorily completed.

An additional concern relates to the assignments of day custodians. A total of three day custodians are assigned to the General Assembly Building, the Capitol, and the Bell Tower. The General Assembly Building and the Capitol are each assigned one full-time day custodian. The third position works in all three buildings.

Several agency representatives questioned the necessity of using the shared position for four hours daily within the General Assembly Building when the legislature is not in session. This worker's daily schedule includes: four hours in the General Assembly Building, two and a half hours in the Capitol, and one and a half hours in the Bell Tower. This allocation of time between the three buildings seems appropriate during the legislative session. When the session is over, however, there is a reduced need for the worker's services in the GAB.

Additional daily custodial services are needed in the Capitol and Bell Tower during the non-session due to the large number of tourists that visit these buildings. Cleaning of the Bell Tower is not included in any custodial contract, and the day custodians assigned to the Capitol are totally responsible for cleaning the building. The shared day custodian's time should be adjusted in the spring and summer to allow for more complete cleaning of the Bell Tower and Capitol while reducing the time spent in the General Assembly Building.

Recommendation (25). The Bureau of Buildings and Grounds management should shift assignment of the day custodial position assigned to the Capitol, General Assembly Building, and Bell Tower to ensure that custodial services are being provided at the most essential locations. This would include reducing the worker's hours in the General Assembly Building during the months that the legislature is not in session.

FINANCIAL CONSIDERATIONS

Three areas of concern were examined to review the internal service fund's financial condition: the calculations used to determine the rates and charges assessed for maintenance and repair services, the fund's billing procedures, and the retention of an unnecessary fund balance. While portions of the rate and charge calculations are appropriate, significant problems exist with the calculation of overhead. These problems are not new and have caused difficulties for several years. Difficulties also exist with the MRP billing process, and the legislature has been overcharged for certain items over the past two years. Corrective action is necessary to improve the accuracy of billing. And finally, a $131,065 balance in the Maintenance and Repair Projects internal service fund should be transferred to the general fund.

Rates and Charges

BOBG's service charges are composed of hourly labor costs, material and supply costs, and an overhead component used to recover administrative costs. To review the charges levied on MRP customer agencies, the three components making up the charges were assessed. Materials and supplies are charged at cost in a straightforward manner, and no difficulties were found in this area. The calculation of labor and overhead rates and charges is more complicated, however, and is based on actual salary levels, fringe benefit costs, and percentages of time spent on particular tasks. While the current labor rates appear appropriate and accurate, the methodology for computing the overhead rate should be revised to more accurately reflect administrative costs.

Labor Rates. The hourly labor rates currently in use by BOBG were approved by JLARC in July 1987 (Table 28). These labor rates were calculated by the Bureau of Fiscal Services by determining the average hourly rate of all BOBG employees in each of the trades and adding fringe benefit percentages.

This method of calculating labor rates is logical and straightforward. Salary information needed to calculate the hourly rate for each of the trades is readily available and easy to verify. Each fringe benefit considered in the calculation is based on defensible data or standards and can be readily calculated and verified.

The overtime component is based on the overtime paid to BOBG workers during the previous fiscal year. (The overtime differential is not charged at the time of the services but is incorporated through the fringe benefit calculations.) The annual leave and sick leave percentages are based on the lowest rate of accrual for any BOBG employee and assume that this allocation of leave will be taken by each employee each year. The other factors included in the fringe benefit percentage are standard amounts set by either the State or federal government.

The hourly rates in FY 1988 increased for two reasons. First, a 4.56 percent merit increase for all State workers was passed by the General Assembly, and this increase was incorporated in the average salaries for each of the trades. Second, the cost of fringe benefits increased 1.14 percent. The percentages incorporated for Social Security and Medical/Hospitalization were increased due to federal and State policy decisions, while the overtime rate for FY 1988 (based on the overtime worked by BOBG during FY 1987) increased from the previous year.

Overhead Charges. The overhead charge is determined by multiplying the sum of the cost of labor, materials, and supplies by a percentage rate approved by JLARC. A 20 percent overhead rate was charged during FY 1987. When JLARC approved the 20 percent rate for FY 1987, it did so with the stipulation that the overhead rate for FY 1988 be lowered to 18

Table 28

BUREAU OF BUILDINGS AND GROUNDS LABOR RATES
FOR FY 1987 and FY 1988

Trade	Hourly Labor Rate FY 1987	Hourly Labor Rate FY 1988
Plumber	$12.21	$12.79
Electrician	12.62	12.67
HVAC Mechanic	14.62	15.44
Carpenter	13.73	13.88
Painter	14.08	14.55
Mason/Plasterer	14.36	14.20
Trade Helper	8.42	--*
Groundsmen	9.44	10.20
Watchmen	7.69	8.35
Housekeeping/Custodial	9.98	10.41
Sheet Metal	12.31	13.86

	Percent of Salary	
Fringe Benefit	FY 1987	FY 1988
Social Security	7.10%	7.33%
Group Life Insurance	1.00	1.00
Virginia State Retirement System	12.84	12.84
Annual Leave	5.77	5.77
Sick Leave	5.77	5.77
Holidays	4.23	4.23
Overtime	4.05	4.66
Medical/Hospitalization	6.09	6.39
Total Percentage of Salary:	46.85%	47.99%

*No direct charge for trade helper positions is assessed to MRP buildings. No rate was therefore approved.

Source: JLARC staff analysis of BOBG's rate requests.

percent. This 18 percent rate was based on a recommendation made in a Senate Finance and House Appropriations Committees study in 1986. (Final action on the FY 1988 overhead rate has been deferred until completion of this report.)

An examination of the Bureau of Fiscal Services' methodologies for determining and applying the overhead rate revealed that inconsistences exist in both. Similar activities are treated differently for no justifiable reason.

An overhead rate is calculated for the entire Bureau of Buildings and Grounds by comparing Bureau administrative costs to total budget expenditures (with several modifications). This rate is then applied to most charges assessed for internal service fund activities and to all special maintenance charges assessed for non-internal service fund agencies. The current procedures appear to have arisen through negotiations between the Bureau of Fiscal Services and the staff of the joint committees.

Inconsistencies are evident in the calculation of the rate as well as in the application of the rate. The cost of utility bills is not included in the total Bureau expenditures figure, and the overhead rate is not applied to the cost. However, the cost of insurance, which would appear to require less administrative effort than utilities, is included in the total Bureau expenditure figure, and overhead is assessed on insurance charges paid by MRP agencies.

A similar situation occurs with contract costs. Contract custodial costs are excluded from the total expenditure figure and the overhead rate is not applied to these bills. The cost of contracted maintenance and repair services is included in the total expenditure figure, however, and overhead is charged for these services.

Similar activities should be treated consistently in rate calculations, and the treatment should be determined by sound data and decisions concerning the amount of indirect costs (overhead) actually incurred. BFS therefore needs to revise its overhead methodology.

Recommendation (26). The Bureau of Fiscal Services should revise its overhead methodologies to eliminate inconsistent treatment of similar activities. The methodologies should provide for fair and equitable compensation for overhead expenses incurred in the conduct of Maintenance and Repair Projects activities. The revised methodologies and resultant rate should be presented to JLARC for approval prior to June 1988. The current rate of 20 percent should continue until the new methodologies are approved.

Billing Procedures

At the beginning of each fiscal year, the Bureau of Fiscal Services (BFS) bills the legislative agencies for routine maintenance expenses that are budgeted for the coming year. (The House and Senate Clerks pay for maintenance of the floors occupied by the senators and delegates in the General Assembly Building and for approximately 85 percent of the Capitol.) BFS includes the costs for routine maintenance and repair, preventive maintenance, custodial contracts, insurance, and utility bills in the budgets they develop. Each agency is to receive monthly expense updates comparing its portion of the anticipated budgeted expenses with the actual expenses that have been incurred for each building. Monthly bills are sent for any non-routine, special tasks performed by BOBG.

The State Corporation Commission and the Virginia Department of Transportation are charged for BOBG's services in the same way as the legislative agencies. However, these agencies are billed every six months for maintenance expenses, as opposed to once each year.

Historically, billings for BOBG's services to the legislative agencies have created controversy. The legislative agencies tended to feel that they were paying premium prices for inferior services, while the Bureau felt that the expectations and demands of the agencies were very high. A billing dispute in December 1985, resulting from cost overruns in the General Assembly Building and the Capitol, was the impetus for the Joint Senate Finance and House Appropriations Committees report in 1986. This report analyzed the cost overruns and billing procedures implemented by BOBG and made recommendations to resolve the dispute.

Assessment of MRP billing shows that some steps have been taken to improve billing procedures for MRP services. A service agreement signed prior to FY 1987 assisted in clarifying which services are routinely performed and how costs for these routine services are assessed. In addition, MRP budgets for FY 1987 were reasonably accurate. Budget figures were within 15 percent of actual expenditures for each building. However, significant difficulties still exist with BOBG billing. BOBG workers frequently make errors on their timesheets which result in inaccurate charges if not caught. And the cost code structure for MRP billing is inadequate, further contributing to inaccurate charges.

Service Agreement. Prior to FY 1987, BOBG and legislative agencies signed an annual service agreement specifying which services were to be performed as routine and which services were to be charged on a non-routine basis. The service agreement also lists proposed capital outlay projects for the General Assembly Building and the Capitol, as well as explanations of budgeting and accounting procedures used for the MRP fund.

The legislative service agreement defines routine services as "actions that correct, preserve, restore or prevent deterioration of the condition or appearance of [a] facility." Examples of routine services include: maintenance of rest room fixtures; replacement of light bulbs, light switches, and sockets; maintenance of fire alarm systems and sprinklers; repair and replacement of door hardware, ceiling tiles, and venetian blinds; scheduled painting of floors; repairs to existing concrete, brick, and masonry walls and floors; and roof repairs and inspections.

Non-routine services modify, alter, renovate, or add to a facility, or comply with a request that is for the MRP agency's convenience. Non-routine services are tasks such as installation or relocation of plumbing fixtures, hanging of office materials (pictures, bulletin boards, draperies, plaques), oiling and repairs of office equipment, and replacement of locks on desks and file cabinets.

Some maintenance services are contracted to private sector firms. Examples of these services include: elevator maintenance, window cleaning, cleaning of building exteriors, large-scale painting jobs, maintenance of some sophisticated HVAC equipment, and asbestos removal.

The service agreement has helped the legislative entities understand the services that BOBG provides and how billing will be performed. It also gives BOBG a basis for differentiating between routine and non-routine tasks. The State Corporation Commission and the Virginia Department of

Transportation, however, do not have service agreements with BOBG. Because these agencies must plan for and have resources available to cover the costs of maintenance and repair services, service agreements should be signed with these agencies also. The Bureau of Buildings and Grounds also needs to ensure that proposed service agreements are presented in time for changes to be made and the agreements to be signed prior to the beginning of the fiscal year. As of October 5, 1987, the service agreements for FY 1988 had not been sent to the legislative entities.

Recommendation (27). The Bureau of Buildings and Grounds should develop service agreements for the State Corporation Commission and the Virginia Department of Transportation. These agreements should be similar to the legislative service agreement, and signed by the Director of the Department of General Services as well as the head of each customer agency. All service agreements should be signed prior to the beginning of each fiscal year.

Accuracy of Billings. The Bureau of Fiscal Services (BFS) is responsible for all billing for the Maintenance and Repair Projects fund. BFS uses worker timesheets to determine the Bureau's labor costs for various maintenance charges. Worker timesheets list the worker's name and trade, the code numbers for the buildings in which the work was completed, the cost codes for the type of work completed, and the number of hours worked. These timesheets are supposed to be reviewed by BOBG foremen for correct codes and task-related information.

To verify the accuracy of the timesheets completed by BOBG, JLARC requested that BFS track all worker timesheets that had to be corrected from June 6, 1987, through June 26, 1987. For these 21 days, a total of 57 mistakes were caught by BFS. These 57 mistakes represented only obvious inconsistencies that could be identified by BFS, and it is likely that numerous others went undetected. The mistakes involved the use of incorrect cost codes. Thirty-nine (69 percent) of the mistakes related to buildings funded by the MRP. Twenty-six of these 39 mistakes were for services rendered in the Capitol.

Based on the labor rate for these charges, a total of $2,768.30 would have been charged incorrectly if the mistakes had not been identified. Considering that this amount was generated over a 21-day period, the costs over the course of a year could be significant. The dollar value of these mistakes points out the need for better verification of worker timesheets by BOBG personnel.

BOBG has an internal operating policy for overseeing worker timesheets. This policy states that the supervisor of each position is to "monitor each employee's weekly timesheets for timeliness, accuracy and completeness." However, this policy does not specify the steps that must be followed to ensure proper review of the timesheets.

Recommendation (28). The Bureau of Buildings and Grounds should develop formal, mandatory procedures for the review of worker timesheets. These procedures should include: routine comparisons of timesheets to original work orders and verification of cost codes, building numbers, trade descriptions, and number of hours worked.

An additional billing deficiency relates to charges made for maintenance performed within the Capitol. Currently, the Capitol has only two building codes, one for the Governor's area and one for the legislature's area. The legislature is to be billed 100 percent for services on the first, second, and fourth floors and the mezzanine. The Governor's Office is to cover services on the third floor.

However, the service agreement between the legislature and DGS states that the costs for the following building-wide maintenance tasks are to be charged 85 percent to the legislature and 15 percent to the Governor's Office:

- work which is done on the main chiller, control air compressors, main cooling tower, main pumps, steam supply, and elevators;
- maintenance of the Omega (Capitol complex central control system located in the James Monroe Building) connection to the chiller;
- window cleaning, roof repairs, roof flagpole maintenance, exterior painting, caulking, custodial cleaning, and utility line work.

A third cost code is needed to account for the shared building-wide costs. A memo from the DGS Division of Administrative Services dated January 8, 1986, stated that a third cost code would be established by BFS to account for the sharing of these costs. The third cost code has not been established, however.

Significant problems have arisen because of the limited coding structure now in place. While reviewing the use of the current codes, JLARC staff discovered that BFS had been charging costs inappropriately. During FY 1986 and FY 1987, the only services that were charged 85 percent to the legislature and 15 percent to the Governor's Office were custodial services and utility payments. One hundred percent of the other building-wide services were charged to the legislature.

This situation arose because BFS assumed that maintenance workers were calculating the percentage breakouts on their own and entering relevant data under two separate codes. Maintenance workers, however, were not aware of this expectation and were charging the legislature 100 percent for all tasks they performed.

JLARC staff attempted to calculate the dollar value of these overcharges, but the level of detail contained in worker timesheets made this calculation impossible. The Bureau of Fiscal Services also noted that it would be a time-consuming process to track down all of the inappropriate charges. BOBG staff asserted that the charges would be small estimating that only 39 hours of labor had been improperly charged to HVAC tasks during FY 1987.

Recommendation (29). The Bureau of Fiscal Services should establish a third cost code for the Capitol. This cost code should be used to account for services specified in the service agreement to be charged 85 percent to the legislature and 15 percent to the Governor's Office. The code should be in use by January 1, 1988.

Accuracy of Budget Projections for Routine Maintenance. During the last six months of FY 1985, when the Maintenance and Repair Projects internal service fund was established, BOBG developed maintenance budgets for the MRP buildings and billed customer agencies based on budget estimates. At the end of the fiscal year, the MRP buildings had incurred very large cost overruns, and the occupying agencies were subsequently billed for the difference. The additional billings raised controversies and resulted in the joint committees study in 1986. Since FY 1986, however, BFS has been budgeting for the MRP buildings, and the accuracy of the budgets has improved over the last two fiscal years (Table 29).

Overall, the total variance for FY 1986 was six-tenths of one percent. In other words, the FY 1986 total budget estimate for the five MRP buildings was within 0.6 percent of the total expenditures that were incurred, resulting in a net surplus of $16,896. However, certain MRP buildings showed large budget shortages or overages. Cost overruns were incurred for two of the MRP buildings for a total of $109,027. One of these buildings, the Capitol, incurred cost overruns of approximately 31 percent. Also, The Highway Building incurred the largest budget surplus, and at the end of the fiscal year approximately 12 percent of budgeted funds were unexpended.

The budget estimates for FY 1987 were more consistent than those in FY 1986. Overall, the total budget estimate for the MRP buildings was within 2.1 percent of expenditures, resulting in a net surplus of $61,184. Although the total estimate was not as accurate as it was in FY 1986, the large fluctuations between the MRP buildings did not occur. The General Assembly Building incurred the largest budget surplus, and at the end of the fiscal year approximately 14 percent of budgeted funds were unexpended. The Jefferson Building incurred the largest budget shortage, and at the end of FY 1987 an additional $38,416, or nine percent, was needed to cover cost overruns. If a budget surplus exists at the end of the fiscal year, the agency is given a credit by BFS. The agency receives additional billings when cost overruns occur.

Unnecessary Fund Balance

Since the MRP fund operates on a break-even basis by giving agencies credits for budget overages or collecting budget shortages, it is unnecessary for MRP to maintain a fund balance. Despite this break-even orientation, a fund balance of slightly over $130,000 has been maintained for the past two years.

The fund balance developed because some services performed during FY 1985 were paid for and treated as "profit" during FY 1986. Because of the timing and treatment of payment, the services provided in FY 1985 were actually paid for with general fund monies, and funds did not result from overpayments by customer agencies serviced by the internal service fund. The $131,065 fund balance should therefore be reverted to the general fund.

Table 29

COMPARISON OF BUREAU OF BUILDINGS AND GROUNDS
BUDGETED EXPENSES VERSUS ACTUAL EXPENSES
FY 1986 - FY 1987

FY 1986

Building	Annual Budget	Expended as of 6/30/86	Balance Available	Percent Unexpended
Capitol	$ 221,646	$ 289,131	$(67,485)	(30.4%)
General Assembly	912,397	855,481	56,916	6.2
Highway	566,784	501,131	65,653	11.6
Highway Annex	943,536	940,182	3,354	.4
Jefferson	397,160	438,702	(41,542)	(10.5)
TOTAL	$3,041,523	$3,024,627	$ 16,896	

TOTAL VARIANCE = \$16,896 ÷ \$3,041,523 = 0.6%

FY 1987

Building	Annual Budget	Expended as of 6/30/87	Balance Available	Percent Unexpended
Capitol	$ 353,390	$ 357,413	$ (4,023)	(1.1%)
General Assembly	1,045,239	900,718	144,521	13.8
Highway	387,231	383,212	4,019	1.0
Highway Annex	763,941	808,858	(44,917)	(5.9)
Jefferson	409,930	448,346	(38,416)	(9.4)
TOTAL	$2,959,731	$2,898,547	$ 61,184	

TOTAL VARIANCE = \$61,184 ÷ \$2,959,731 = 2.1%

Source: DGS financial statements.

Recommendation (30). JLARC should direct the Comptroller to transfer $131,065 in excess funds from the Maintenance and Repair Projects internal service fund to the general fund.

OPERATIONAL CONSIDERATIONS

Selected efficiency measures and customer agency satisfaction were assessed to review the operational procedures of the Bureau of Buildings and

Grounds. Generally, the review found that BOBG has improved its provision of maintenance services since the decision was made to contract renovation and construction projects.

The implementation of many of the recommendations of a 1985 study by Applied Management Engineering (AME) has also contributed to this improvement, although more work is needed. Customer agency staff expressed mixed opinions regarding BOBG's service provision. Improved communication between staff of BOBG and the MRP agencies served through the internal service fund warrants particular attention.

Efficiency Measures

In 1985, the Secretary of Administration was directed by the 1985 Appropriations Act to contract for "an evaluation of the practices, procedures and work standards" of the Bureau of Buildings and Grounds. Applied Management Engineering was hired in July 1985 to perform the evaluation. AME's evaluation made 27 recommendations in the areas of verification of BOBG's repair and maintenance inventory, productivity, preventive maintenance, procedures, organization, and staffing.

The majority of AME's recommendations addressed Bureau operations which did not specifically relate to the focus of this study. Several of the recommendations, however, did address concerns that directly affect MRP efficiency. An examination of BOBG's response to these recommendations revealed that actions are being taken to better schedule maintenance tasks and document their completion, that some changes have been made to affect worker productivity, and that assigned preventive maintenance tasks are being performed in a timely manner.

Scheduling and Documenting Work Tasks. The most serious concern cited by AME was BOBG's lack of a complete and documented work control system. AME found a number of deficiencies related to the need for a work control system including:

- incomplete identification of maintenance needs,
- informal work request procedures -- work requests were generally communicated verbally with no use of structured work request forms,
- few records regarding how the workforce was utilized,
- no priority system to identify the order in which to complete work,
- little planning for how workers were to be used, and
- insufficient job planning -- few estimates of time required to complete tasks.

In January 1987, the Bureau created a Maintenance Management Center (MMC) which was designed to address the deficiencies noted above. The MMC will be fully automated, and all service requests, work orders, and tracking of jobs will be processed through this center. According to BOBG staff, the system should be fully operational by June 1988. In the meantime, BOBG has begun to fill out detailed work orders and timesheets to track the work done and costs associated with each maintenance project.

BOBG staff are also acting on the AME recommendation to institute better job scheduling. Each of the maintenance sections is in the process of instituting weekly work assignments, and the HVAC unit has been making weekly assignments for a number of months. (Workers continue to receive regular supervision under this method of assignment).

> *Each HVAC worker is assigned an estimated 40 hours of work to perform each week. If a worker takes significantly longer than the estimated time to perform an assigned task, the worker must justify that time. The workers are not informed of the time estimates for the tasks.*

The MMC should further simplify the task of making weekly assignments by generating and determining the priority of all outstanding service needs. Time estimates related to task completion will also be generated for supervisors to use as guidelines in evaluating workers' performance.

Productivity of Workers. AME examined BOBG worker productivity using a work sampling technique. Work sampling involves making a number of observations of work activities and classifying each activity within one of several categories. Three work categories were considered by AME: direct productive, indirect productive, and non-productive. Direct productive activities include the time spent performing the assigned task -- for example, hammering nails. Indirect productive activities involve the time spent performing activities that support the assigned task -- for example, picking up nails from the storeroom or locating a hammer. Non-productive activities include time spent which does not assist in accomplishing the assigned task -- for example, taking a break or waiting for needed materials to be delivered.

The results of these observations were compared to "target productivity percentages" which were designed by AME. BOBG's direct productive time was found to be low, indirect productive time was high, and non-productive time was about equal to the target figure (Table 30). AME's analysis showed that excessive time spent on activities such as job preparation, travel time, and work delay were the principal reason for reduced productivity.

Several changes that are under way should help BOBG improve its productivity. First, the establishment of weekly assignments within each craft should reduce job preparation time (time required to receive assignments and gather tools and supplies for the assignments).

Second, creation of the Maintenance Management Center should help reduce travel time. MMC staff will check for and reserve materials needed for known maintenance needs. If the stockroom is out of the necessary materials, the task will be held by the Center until the items arrive. The problem of inadequate tools and supplies being brought by workers on service calls was noted by representatives of six of the seven user agencies. In fact, three

Table 30

BUREAU OF BUILDINGS AND GROUNDS WORKER PRODUCTIVITY PERCENTAGES COMPARED WITH AME'S TARGETS

Work Category	Observed BOBG Productivity	AME's Target Productivity
Direct Productive	49.1%	63%
Indirect Productive	34.6%	22%
Non-Productive	16.3%	15%
TOTAL	100%	100%

Source: "Evaluation of Bureau of Buildings and Grounds Practices, Procedures, Productivity, and Work Standards," Applied Management Engineering, October 1985.

representatives noted that multiple trips to the shop were the norm for obtaining the tools and supplies needed to perform requested maintenance and repair tasks.

BOBG supervisors have also begun to group small tasks in areas close to each other to reduce travel time. For example, one worker has been assigned to regularly and systematically check buildings for burned out bulbs. One unit has also designated one worker to handle emergency calls within a specific number of buildings to reduce the disruption of planned maintenance activities. This should help to further reduce travel time.

> *The buildings at the seat of government have been separated into HVAC service zones, with each zone having a worker on-call to handle emergency services in that zone. When emergency tasks are not being performed, the worker has lower priority tasks to complete. Prior to the specific assignment of being on-call for emergencies, workers were often pulled from important assignments to handle emergencies.*

Completion of Preventive Maintenance Tasks. BOBG established a preventive maintenance program in late 1982. Under the program, equipment in each State-owned building is to be inventoried and is assigned a number. (This is referred to as cataloging.) The preventive maintenance schedule is then determined for each item. This data is entered into a computer which issues preventive maintenance work orders.

In examining BOBG's preventive maintenance program, AME concluded that the program was "active but not effective." Preventive maintenance requirements for only three buildings (33 percent of the square footage maintained by the Bureau) had been entered on the computer. Few workers were assigned to preventive maintenance, and only 46.5 percent of the work orders generated by the computer were accomplished. AME recommended five additional positions for BOBG to ensure that all preventive maintenance tasks for which work orders were generated could be completed promptly.

BOBG has implemented some changes in this area. The director has communicated to his superintendents that preventive maintenance is to have priority after emergency and urgent jobs are completed. As a result, BOBG reports that preventive maintenance work orders are now completed within the time scheduled. Ninety-five percent of the equipment within the buildings maintained by the Bureau has also been cataloged, according to BOBG staff. Once all cataloging is complete, preventive maintenance tasks will be determined and entered into the computer. A comprehensive preventive maintenance program is expected to be implemented by July 1, 1988.

User Satisfaction with Service Provision

To determine customer agency satisfaction with maintenance services, MRP agency representatives were surveyed. Questions were included on the survey regarding four areas of service delivery:

- timeliness of response for routine service requests and for emergency services,
- adequacy of the number of staff responding to service requests,
- perceived ability of the workers to make the repairs, and
- timeliness of maintenance project completion.

The users based their responses on their observations of work performed by BOBG.

There was little consensus of opinion on the level of satisfaction with the four service delivery areas (Table 31). Overall, the users felt that BOBG has provided better maintenance and repair services since BOBG began contracting out construction and renovation work in April 1985. However, user satisfaction with BOBG's service provision ranged from satisfied to not satisfied depending upon the service area being discussed.

Regarding satisfaction with the timeliness of responses, representatives from three agencies were satisfied with routine service responses. Four agencies' staff reported that the type of routine service requested affected response time. For emergency services, four respondents were satisfied with the response time, one indicated that the trade involved in dealing with the service request determined how quickly workers would respond, while two representatives were not satisfied in general with emergency response time. Several respondents also noted that their definition of emergency services and BOBG's definition were different and therefore the perceived need for quick service was not always considered the same by both parties.

Table 31

USER OPINIONS REGARDING THE BUREAU OF BUILDINGS AND GROUNDS MAINTENANCE

	Satisfied	Mixed Opinions (Depends On Service Requested)	Not Satisfied
Timeliness of response for routine service requests	3	4	0
Timeliness of response for emergency service requests	4	1	2
Adequacy of supplies and tools when responding to service requests	1	3	3
Adequacy of staff to complete service requests	5	2	0
Demonstrated knowledge to make the repairs	3	3	1
Completion of work requests in a reasonable time	5	2	0

Source: JLARC staff analysis of user agency responses.

For example, one agency representative noted a problem with water leaking from the ceiling over an office space. BOBG did not consider this an emergency. The agency representative felt that the potential for damage to electronic office equipment and furnishings qualified as an emergency and that the response time should have been quicker.

All but two agency representatives felt that BOBG generally sent adequate staff to complete maintenance and repair tasks. The two representatives that expressed a mixed opinion stated that for some tasks they were satisfied with the number of workers sent, but for other tasks too many workers were sent to complete the service request. One user, in particular, felt that delegation of work responsibilities among the workers was a problem and that several trades were called to correct a problem because no one was sure which trade would be needed.

When asked whether Bureau personnel responding to service requests demonstrated the knowledge to make needed repairs, three respondents stated yes, three had mixed opinions depending on the trades involved, and one indicated that there seemed to be a general lack of knowledge of how to make needed repairs. Five of the respondents were satisfied with the time required to complete service requests. However, two considered the time taken to complete some tasks to be excessive.

While opinions on most areas were fairly mixed, there was a strong consensus among the users regarding their discontent with the heating and air conditioning (HVAC) systems in their buildings. This area was repeatedly pointed out as a problem, especially in the General Assembly Building.

User responses regarding HVAC problems are further supported by maintenance statistics in this area. Nineteen percent of all the service requests made to the BOBG service desk by MRP users from January 1, 1987, to June 30, 1987, were for HVAC complaints and problems. The occupants of the General Assembly Building registered the largest number of HVAC service requests, averaging 28 calls per month.

Further, a review of HVAC labor costs in the General Assembly Building reflected the high demand for HVAC service requests in the building. Labor charges for HVAC expenditures represented 35 percent of all labor costs for the GAB, as compared to 18 percent for the Capitol (Table 32).

When questioned about the HVAC problems in the General Assembly Building, BOBG management stated that the Bureau is currently in the last phase of its project schedule for the HVAC system in the GAB -- the installation of the system's mixing boxes. These boxes regulate incoming air with air currently in the building to determine the temperature needed by the system. Until these boxes are installed, the HVAC system cannot be balanced, and the regulating of temperatures on the various floors will be problematic. Balancing of the system is scheduled for completion by the start of the 1988 Legislative Session.

Another important item which became evident through the survey is that improved communications are generally needed between BOBG and internal service fund agencies. For example, one agency representative would like the BOBG workers to simply notify the agency receptionist when working in his agency. He would then know that BOBG has responded to his service calls. He also suggested that BOBG routinely notify agencies when task completion will be delayed due to lack of parts or other circumstances. BOBG could also distribute preventive maintenance and day custodian schedules to help agencies stay informed of maintenance activities and give an indication of the volume of work being performed by BOBG.

Agencies also need to take steps to improve communication. For example, the definition of "routine maintenance" changed somewhat when the service agreements were developed with the legislative agencies. If agencies are unclear as to what is covered, they should check the agreement. If questions still exist, the agencies should then request written clarification from BOBG. This would help clarify expectations on the part of both the agency and BOBG, and enable BOBG to clarify gray areas in subsequent agreements.

Table 32

LABOR EXPENDITURES FOR THE CAPITOL AND GENERAL ASSEMBLY BUILDINGS (FY 1987)

	General Assembly Building			Capitol Building		
Trade	Hours Charged	Costs	Percentage of Labor Costs	Hours Charged	Costs	Percentage of Labor Costs
Plumber	1,132.8	$ 13,832	7%	511.4	$ 6,244	6%
Electrician	1,753.7	22,067	11	1,686.5	20,831	19
Carpenter	1,667.8	21,411	10	515.0	6,532	6
Painter	1,160.4	16,338	8	697.8	9,825	9
Mason/Plasterer	431.0	5,749	3	448.2	6,400	6
HVAC Mechanic	4,980.3	72,760	35	1,361.4	19,875	18
Custodian (Day)	5,310.1	52,995	26	4,082.7	40,756	36
Storekeeper	29.3	306	0.1	21.2	217	0.2
Roofer/Sheet Metal	87.5	1,077	0.5	74.5	917	0.2
Truck Driver	22.8	137	0.1	34.1	205	0.1
Watchman	--	--	--	1.5	12	0.01
TOTALS	16,575.7	$206,672*	100%**	9,434.3	$111,814	100%**

*Labor data was taken from the BFS inventory system and does not directly match figures reported from the accounting system used in the overview section.

**Percentages may not add to 100 percent due to rounding.

Source: JLARC staff analysis of BFS labor charge information.

Recommendation (31). BOBG should take steps to improve communications with internal service fund agencies. This would include having workers notify agencies when work is being performed, notifying agencies when a partially completed task will be delayed, and annually distributing preventive maintenance and day custodian schedules to affected agencies. In addition, agencies should ensure that they understand service agreements and seek written clarification when they have questions concerning maintenance services.

APPENDIXES

APPENDIX A

GLOSSARY OF TERMS

Back-Ordering - the process of ordering items which were out-of-stock when the original order was filled.

Direct Production Tasks - time spent by workers performing assigned tasks. An example would be time spent by a BOBG worker repairing a leak in the ceiling.

Donees - State agencies, political subdivisions and non-profit organizations that are eligible to receive federal surplus property for a modest service charge.

Economic Order Quantities (EOQ) - the optimal lot size that should be ordered at one time to balance inventory carrying costs with ordering and delivery costs.

Fill Rate - a measure of the proportion of warehouse stock items delivered to those ordered by customers.

Full Service Cleaning - performance of all needed custodial tasks including vacuuming, dusting, cleaning and stocking of restrooms, emptying trash, and window cleaning.

Fund Balance - the equity of the fund representing the difference between assets and liabilities.

Gross Stock Adjustment Ratio - a measure of the relationship of inventory overages and shortages to the average monthly value of the total inventory.

Indirect Production Tasks - time spent by workers performing activities that support assigned tasks. An example would be time spent by BOBG workers picking up materials from the stockroom.

Internal Service Fund - a type of proprietary fund used to account for the services and goods provided by one State agency or department to other State agencies or departments using cost-reimbursement charges.

Inventory Error Rate - the proportion of items for which an inventory error, of more than a predetermined minimum amount, occurred.

Liquid Assets - cash or other assets which can be easily converted into cash. An example would be accounts receivable owed to the Central Warehouse.

Net Loss - the deficit incurred by a program or fund when operating expenses exceed operating revenues.

Net Profit - excess revenues collected by a program or fund once the operating expenses are subtracted from the operating revenues.

Non-operating Revenues - sources of income, for a program or fund, which are derived from means other than the basic provision of goods and services. An example would be funds realized from the sale of the internal service fund's surplus property.

Non-productive Tasks - time spent which does not assist in accomplishing assigned tasks. An example would be time spent by BOBG workers waiting for materials to be delivered.

Overhead Rate - a charge added to the cost of goods sold or services rendered to pay for the administrative and indirect costs of a program or fund.

Partial Cleaning - performance of only basic custodial tasks such as cleaning and stocking of restrooms and emptying trash.

Prompt Payment Discounts - discounts given by suppliers when goods are paid for within a prescribed period of time.

Proprietary Funds - governmental funds used to account for fiscal operations that are financed and organized similar to business operations in the private sector.

Reorder Points - the inventory levels at which additional stock should be ordered to ensure that inventory is not depleted before new stock arrives.

Staging Areas - areas used in warehouses to consolidate customer orders.

Switches - Inventory discrepancies that can be explained by assuming that the difference between one item being overstocked by a specific amount, and a similar item being understocked, by the same amount, results from incorrect filling of orders.

Trust and Agency Fund - a type of fiduciary fund used to account for money and property held by the State in the capacity of agency, custodian, or trustee for other governmental units, non-public organizations, or individuals.

Working Capital Fund - an outdated term previously used to describe governmental funds now designated as internal service funds.

APPENDIX B

JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION INTERNAL SERVICE FUND RESPONSIBILITY (FROM *CODE OF VIRGINIA*)

§2.1-196.1. Financial accounting and control. -- A. Unified financial accounting and control shall be established through the departments and agencies of the Commonwealth, in the manner prescribed in this chapter.

The Comptroller shall prescribe what accounts shall be kept by each state agency in addition to the system of general accounting maintained in the Comptroller's office. In prescribing what accounts shall be kept by each state agency, the Comptroller shall take care that there shall be no unnecessary duplication.

B. The Comptroller shall direct the development of a modern, effective and uniform system of bookkeeping and accounting, comprehending: (i) an efficient system of checks and balances between the officers at the seat of the government entrusted with the collection and receipt, custody and disbursement of the revenues of the Commonwealth; and (ii) a system of accounting, applicable to all state officers, departments, boards, commissions, agencies, and penal, educational and eleemosynary institutions maintained in whole or in part by the Commonwealth, which shall be suitable to their respective needs, considering their relation to each other and their relation to subordinate officers and officials. All systems so developed shall require the approval and certification of the Auditor of Public Accounts that they are adequate for purposes of audit and financial control.

As to the operation of merchandising activities, or other centralized support services provided by one state agency to other state agencies for which charges are made, the system of accounting therefor shall be designed to reflect all charges properly allocable thereto to the end that the net profit or loss therefrom shall be reflected. In the furtherance of this objective the Joint Legislative Audit and Review Commission may direct the Comptroller to establish under such terms and conditions as they may determine working capital fund accounts on his books and record therein the receipts and expenditures of these several functions. The Comptroller shall provide the agencies responsible for the operations of these functions with working capital advances with which to finance the operations pursuant to appropriations made by law. The Joint Legislative Audit and Review Commission may direct the Comptroller to transfer excess fund balances to the general fund or to remove from his books internal service fund accounts which are no longer considered appropriate and record the necessary transfer of funds.

Unit prices of services rendered by internal service funds shall be fixed so that all costs properly allocable to providing the services shall be fully recoverable.

APPENDIX C

TECHNICAL APPENDIX SUMMARY

JLARC policy and sound research practice require a technical explanation of research methodology. The full technical appendix for this report is available for inspection at JLARC, Suite 1100, General Assembly Building, Capitol Square, Richmond, Virginia 23219.

The technical appendix includes an explanation of the special methods and research employed in conducting the study Internal Service Funds Within the Department of General Services. The following areas are covered:

1. Review of Rate Setting Methodologies. The rate setting methodologies for the internal service funds were generally examined to determine whether the service charges equitably charged users for services received and whether the charges were sufficient to cover operational costs. Monthly financial statements and income statements for the funds were used in this review. This general examination resulted in a closer review of Maintenance and Repair Projects charges.

2. Development of A Cash Resources Guideline. Monthly financial statements for each of the Division of Purchases and Supply's four internal service funds were used to determine a cash resources guideline for maximum cash resources based on average expenses and time required to collect accounts receivable.

3. Assessment of Cash Resources. Using the cash resources guideline, each of the internal service funds within the Division of Purchases and Supply was examined for excess cash holdings. The guideline was not applied to the Maintenance and Repair Projects fund which operates on a break-even basis.

4. Turnover of Accounts Receivable Analysis. Monthly financial statements for three of the Division of Purchases and Supply's internal service funds were used to determine the average turnover of accounts receivable. These funds were Central Warehouse, Office of Graphic Communications, and Federal Surplus Property. State Surplus Property and Maintenance and Repair Projects do not generally have outstanding accounts receivable.

5. Division of Purchases and Supply Customer Agency Surveys. Surveys were mailed to a total of 214 customer agencies and organizations of the four internal service funds within the Division of Purchases and Supply. The data collected from 169 surveys were utilized to determine user satisfaction with the operational and financial operations of each fund.

6. Inventory Turnover Analysis. The Central Warehouse's monthly financial statements for FY 1987 were used in determining the average number of times the warehouse's inventory turned over during FY 1987.

7. Inventory Error Rate Analysis. The Central Warehouse's end-of-year Inventory Adjustments record, June 1987 quarterly inventory report, and the Consumer Price Index were used to determine an inventory error rate that would be comparable to the rate used in 1975 and 1982 JLARC reports on the warehouse.

8. Gross Stock Adjustment Ratio. The Central Warehouse's end-of-year Inventory Adjustments record and monthly financial statements for FY 1987 were used in determining the gross stock adjustment ratio for the warehouse's inventory.

9. Comparison with Private Sector Graphics Agencies. Representatives of 20 private sector graphics operations (listed in the Richmond Yellow Pages) were interviewed by telephone regarding the types of services provided and prices charged for their graphics operations. Data from ten comparable agencies were used to determine the competitiveness of the Office of Graphic Communications hourly service rates.

10. Interviews Regarding Federal Surplus Property Programs in Other States. Structured telephone interviews were conducted with representatives of federal surplus property programs in eight other states. The data collected were utilized to make operational and financial comparisons with Virginia's Federal Surplus Property program.

11. Service Request Analysis. The telephone log from the Bureau of Buildings and Grounds service desk was reviewed for the period of January 1, 1987, through June 30, 1987. The information in this log was utilized to determine the percentage of monthly service calls made by customer agencies serviced by the Maintenance and Repair Projects internal service fund.

12. Service Trip Analysis. The Bureau of Buildings and Grounds "Monthly Service Reports" for FY 1987 for the General Assembly Building and the Capitol were reviewed. The information in these reports was utilized to determine the aggregate and average number of service trips made to the buildings by Bureau personnel to conduct preventive, emergency, routine and non-routine tasks.

13. Time Sheet Analysis. Timesheets for maintenance and repair personnel employed by the Bureau of Buildings and Grounds which contained errors were tracked for a three-week period by the Department of General Services' Bureau of Fiscal Services. The timesheet errors were reviewed to determine the nature of the errors and the buildings to which the errors were attributed.

14. Maintenance and Repair Projects Customer Agency Surveys. A structured questionnaire was used to survey legislative agency heads and designated representatives of the seven customer agencies served by the Maintenance and Repair Projects internal service fund. The data collected were utilized to determine agency needs and user satisfaction with the operational and financial operations of the fund.

APPENDIX D

AGENCY RESPONSE

As part of an extensive data validation process, each State agency involved in a JLARC assessment effort is given the opportunity to comment on an exposure draft of the report. This appendix contains the response by the Department of General Services.

Appropriate technical corrections resulting from the written comments have been made in this version of the report. Page references in the agency response relate to an earlier exposure draft and may not correspond to page numbers in this version of the report.

COMMONWEALTH *of* VIRGINIA

DEPARTMENT OF GENERAL SERVICES

WENDELL L. SELDON
DIRECTOR

209 9th STREET OFFICE BUILDING
RICHMOND, VIRGINIA 23219
(804) 786-3311

October 9, 1987

Mr. Philip Leone, Director
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia

Dear Phil:

Thank you for the opportunity to comment on the "JLARC Exposure Draft, Internal Service Funds Within the Department of General Services" which was furnished September 21, 1987. I am pleased with the constructive nature of the recommendations contained in the report, and feel that implementation of many of them will assist us in improving the internal service fund programs under our direction.

As you know, this is my initial direct exposure to JLARC as an agency head, and I would like to convey my sincere appreciation to you and your staff who worked on the project for their professionalism, attitude, and most importantly, willingness to review and discuss what could be perceived as dissenting views.

You, your staff, my division directors and I have reviewed our initial response to the draft and most of our concerns have been resolved and included in your response of October 7, 1987, and Exposure Draft (2) dated October 12, 1987.

The only substantive exceptions which we take to the recommendations contained in the report relate to reversion of excess cash to the general fund. These concerns are specifically enumerated in our comments on Recommendation 5, page 2 (General Concerns); Recommendation 15, page 61 (Office of Graphic Communications); and Recommendation 18, page 75 (State Surplus Property).

If you have any questions concerning our comments, I will be happy to discuss them with you.

Sincerely,

Wendell L. Seldon

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Attachment

cc: The Honorable Carolyn J. Moss

DGS

DIVISION OF ADMINISTRATIVE SERVICES • DIVISION OF ENGINEERING & BUILDINGS
DIVISION OF PURCHASES & SUPPLY • DIVISION OF CONSOLIDATED LABORATORY SERVICES • DIVISION OF RISK MANAGEMENT

RESPONSE OF THE DEPARTMENT OF GENERAL SERVICES

TO THE

JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION'S

REVIEW OF INTERNAL SERVICE FUNDS WITHIN THE

DEPARTMENT OF GENERAL SERVICES

OCTOBER 9, 1987

GENERAL CONCERNS

Recommendation (1). During its next review of Section Two of the Code of Virginia, the Code Commission should substitute the term "internal service fund" for "working capital fund" in the instances in which it still appears. This revision would reflect currently accepted terminology and ensure consistency in the use of the terms and in the interpretation of the Code. (p.13)

DGS Response

CONCUR.

(Risk Management)

Recommendation (2). The Division of Risk Management should continue to be designated and budgeted as a trust and agency fund. The Auditor of Public Accounts and the Department of Accounts, however, may report the funds as internal service funds to comply with generally accepted accounting principles. (p.18)

DGS Response

CONCUR.

Recommendation (3). DGS should contract for the completion of an actuarial study for each of its self-insured programs. These studies should be undertaken when enough data has been collected to project future reserve needs. (p. 18)

DGS Response

CONCUR. Actuarial study will be initiated for Automobile Liability and Sheriffs Law Enforcement programs. Tort Liability, Public Officials Liability and Workers Compensation will be undertaken when enough data is available.

(General)

Recommendation (4). The Department of General Services should develop a comprehensive and consistent methodology for assessing administrative support

costs to its non-general fund sections. This methodology should serve as the basis for a cost allocation plan for administrative support services. This methodology and plan should be presented to JLARC for approval prior to implementation. The administrative support estimates contained in the plan should be communicated in writing to the division directors prior to June of each fiscal year to allow for accurate rate-setting. In addition, the internal service funds should not be charged for unbudgeted, random departmental expenses. (p. 21)

DGS Response

CONCUR. A department policy has been drafted that includes methodologies for allocating administrative support costs to the internal service funds. This is currently under review and will be submitted to JLARC for approval before it is issued.

Recommendation (5). Cash resources rather than fund balance should be reviewed in determining whether internal service funds have retained excessive earnings. This would ensure that fund transfers are based on liquid assets, rather than fixed assets or inventory. (p. 25)

DGS Response

Although we are in agreement with the revised guidelines for transferring funds from an internal service fund to the general fund, we suggest that the fund's new fixed asset replacement and improvement schedule be added as a fifth item under "Restrictions" in Exhibit 2, page 24. This would better enable us to replace obsolete equipment, as recommended in Recommendation 22.

I would be hopeful that the cash resources, which might appear excessive, would not be taken. An alternative would be for the funds to schedule gradual replacement of fixed assets over a number of years. However, reverting funds at this time would unnecessarily postpone needed replacement.

CENTRAL WAREHOUSE

Recommendation (6). Central Warehouse operations should be more closely supervised by Division of Purchases and Supply management. Accountants within the Bureau of Fiscal Services should periodically review the accounting practices followed by the internal service funds to ensure that they are appropriate. The Bureau of Fiscal Services should also regularly assist in the calculation of internal service fund rates. (p. 33)

DGS Response

CONCUR. The Division of Purchases and Supply (DPS) will request the Bureau of Fiscal Services (BFS) to become more involved in the fiscal aspects of the Central Warehouse. The accounting practice of using average price to calculate selling price and COGS was established in 1960 and used until JLARC approved the current methodologies in 1978 as the result of a MASD study. Until 1982, the COGS was calculated manually by backing out the service charge. In 1982, we began utilizing the computer for this calculation using the actual price and quantity on hand up to four receivings back.

Recommendation (7). **Central Warehouse should request a revised mark-up that will cover its operational costs and eliminate its cash deficit within five years. (p. 34)**

DGS Response

CONCUR.

Recommendation (8). **The Central Warehouse should discontinue the practice of accounting for prompt payment discounts as a source of non-operating revenue. The gross methods, which accounts for these discounts as reductions in purchase price and complies with generally accepted accounting principles, should be employed to account for prompt payment discounts. (p. 36)**

DGS Response

CONCUR. DPS management has no problems with using the gross method of accounting for prompt payment discounts.

DPS management did not institute the Internal Auditor's recommendation because of the extensive computer program change and related costs involved. The gross method was not considered.

Recommendation (9). **The Central Warehouse should take steps to improve inventory controls and decrease its inventory error rate. Special efforts should be taken to verify the accurate filling of orders. A formal policy should be developed which specifies how orders are to be checked. Central Warehouse management should spot check the accuracy of orders which have been verified by foremen, and foremen should be held accountable for inaccurately filled orders which have been checked. (p. 46)**

DGS Response

CONCUR. Emphasis will be placed on accuracy in picking, checking, and loading orders. A formal policy will be developed, and the foreman responsible for this function will have it included in his performance appraisals. Next level managers will be required to check orders.

Recommendation (10). **Central Warehouse should send quarterly price and item updates to its active customers. (p. 48)**

DGS Response

CONCUR. Steps have been taken to add another field to the catalog data base, and quarterly price and item updates will be sent to customers.

Recommendation (11). **Central Warehouse should place all refrigerated foods in insulated transport boxes to ensure that they remain at required temperatures during delivery. (p. 49)**

DGS Response

CONCUR. This will be addressed as a part of the corrective action stated in Recommendation 9.

Recommendation (12). Central Warehouse should maintain a file of all items and goods that are not accepted by customers. This file should contain information regarding the customer's name, location, reason for non-acceptance, and the warehouse's response to the situation. (p. 49)

DGS Response

CONCUR. The recommended file will be established.

Recommendation (13). Central Warehouse should have the Department of Information Technology move its property from the stock areas of the warehouse to Building Five. A barrier should be placed around DIT's property if theft is considered to be a possibility. (p. 52)

DGS Response

CONCUR. Non-Central Warehouse items will not be stored, except under extreme conditions, in the normal warehouse operational area.

Recommendation (14). The Central Warehouse should charge the Bureau of Buildings and Grounds, State Surplus Property, and the Division of Consolidated Laboratory Services for rent equivalent to the charges levied on the Department of Information Technology and the Division of Tourism. (p. 53)

DGS Response

CONCUR; however, the following history might be helpful. Since the Division of Engineering and Buildings had the responsibility for furnishing space at the seat of government and because they lost a rented warehouse used by agencies for storage effective June 1, 1978, DEB entered into a formal rental agreement with the Department of Purchases and Supply -- Central Warehouse to rent approximately 19,412 square feet of building #4 at an annual rental of $13,000. It was the responsibility of DEB to assign space, see that insurance was carried on items stored, etc. In 1982, after the Department of Purchases and Supply had become the Division of Purchases and Supply within the Department of General Services, the Department Director evaluated this matter and concluded that since the General Fund appropriated $600,000 for the purchase of the Central Warehouse and $200,000 toward some renovations that the lease would be canceled. Billing was discontinued September 30, 1981. The arrangements with the two agencies being charged were on a direct basis and not through DEB; therefore, DPS did not feel it was violating the Director's decision of not charging DEB.

OFFICE OF GRAPHIC COMMUNICATIONS

Recommendation (15). JLARC should direct the Comptroller to apply $15,414 in excessive cash from the Office of Graphic Communications internal service fund to the remaining balance owed on its working capital advance. (p. 61)

DGS Response

We request that JLARC not direct the Comptroller to apply $15,414 in excess cash from the internal service fund (ISF) to the remaining balance owed on its working capital advance, since the Office is in the process of procuring a personal computer and printer to assist with billings, job tracking, etc. The cost of equipment, communication wire, installation and software is estimated to be $10,000.

Recommendation (16). The Bureau of Fiscal Services should follow-up on all Office of Graphic Communications' accounts receivable which are outstanding over 30 days. In addition, OGC should review its billing procedures to ensure that practices and communications encourage prompt payment. (p. 66)

DGS Response

CONCUR. BFS is currently in the process of automating the accounts receivable function and anticipates that by the end of FY 87 all of the receivables within the agency will be recorded in this central system. It will allow BFS to shift its time allocations from maintaining accounts receivable files and posting transactions to aggressively pursuing collection of past due accounts.

Recommendation (17). The Office of Graphic Communications should work with Department of General Services management to replace one temporary artist position with a salaried artist position. In addition, the Office of Graphic Communications should maintain records of all service requests denied and overtime worked by staff. These records will provide OGC management with quantifiable justification for future staffing requests. (p. 69)

DGS Response

CONCUR. The temporary artist position will be replaced with a salaried artist position if an additional FTE can be acquired. Records will be maintained as suggested.

STATE SURPLUS PROPERTY

Recommendation (18). JLARC should direct the Comptroller to transfer $15,766 in excess funds from the State Surplus Property internal service fund to the general fund. (p. 75)

DGS Response

We request that JLARC not direct the Comptroller to transfer $15,766 in excess funds from the State Surplus Property ISF to the general fund at this time. The State Surplus Property Program had deferred the purchase of mailing equipment and wireless public address system estimated to cost $18,000 for use in the auction program.

FEDERAL SURPLUS PROPERTY

Recommendation (19). Federal Surplus Property should set service charges at levels that cover the cost of its operations. If this is impossible due to the quality of available federal surplus property, the Department of General Services should assess the long term prospects for FSP and consider submitting a proposal to JLARC outlining options for FSP including elimination of the function. (P. 91)

DGS Response

DPS is currently assessing the short term, as well as long term, prospects for FSP. The increased emphasis on marketing and acquiring better property has shown an increase in activity and profitability in the months of June, July, and August 1987. JLARC will be contacted should the long term prospects indicate a continued loss in the fund.

Recommendation (20). **The Department of General Services should take two steps to aggressively follow-up on overdue Federal Surplus Property accounts. First, the Bureau of Fiscal Services should aggressively follow-up on accounts which are overdue by 31 or more days. Second, the administrator of surplus property programs should take corrective action against donees which have accounts that are overdue by 61 or more days. (p. 95)**

DGS Response

As indicated in our response to Recommendation 16, BFS is in the process of automating all account receivables. Federal Surplus receivables have already been entered in the system and increased collection efforts have begun. The FSP program administrator intends to revoke eligibility for any entity with invoices outstanding for more than 90 days without an acceptable reason.

Recommendation (21). **DPS management should monitor the success of the changes instituted to increase the donation of federal surplus property. At the end of FY 1988, the amount of property donated should increase while ending inventory should be significantly lower than at the end of FY 1987. (p. 98)**

DGS Response

Substantial increase in property donated and service charges received has occurred in June, July, and August of 1987. Further, the percentage of entitlement has increased. The ending inventory of 1988 may be similar to 1987 if property quality from the Federal Government is substantially better in the last quarter. It is imperative that the program be flexible in acquiring property when the "getting is good."

Recommendation (22). **The Surplus property administrator should develop a vehicle and equipment replacement schedule for Federal Surplus Property. This would ensure that equipment needs are met at all times and that disproportionate replacement costs are not met in any one year. (p. 100)**

DGS Response

CONCUR. However, by not having this done previously FSP is faced with most of the current equipment deteriorated. The Division and FSP administrator are actively seeking alternatives to meet program needs. Time-mileage replacement schedule will be developed. It is strongly suggested that funds be retained to replace equipment based on projected replacement costs instead of depreciation. (See comment on Recommendation 5.)

MAINTENANCE AND REPAIR PROJECTS

Recommendation (23). The Bureau of Buildings and Grounds should monitor the activities of the contracted nightly custodial crews more closely to ensure that prohibited activities such as using State phones and taking breaks do not occur. (p. 123)

DGS Response

CONCUR. The Bureau of Buildings and Grounds (BOBG) presently provides one custodial contract inspector per ISF building each night to monitor and inspect contractor performance. It is not possible to continuously observe all custodial crews since they work on several floors at one time. We propose to develop specific inspection criteria for our contract inspectors that will allow for increased visual observation of the custodial crews. This should allow us to better identify and correct any noncompliance with the contract, such as workers eating, drinking, or using the telephone. If this refinement of procedures does not correct the problems, additional inspectors will be added, subject to receiving additional FTE's.

Recommendation (24). The BOBG should develop a schedule of custodial tasks to be completed by the day custodians in the internal service fund buildings each week. Also, custodial supervisors should perform more structured inspections to ensure that tasks are being satisfactorily completed. (p. 124)

DGS Response

CONCUR. We agree that a specific sequence of tasks should be scheduled for day custodial workers. These duties will be documented as recommended. However, experience has shown that we must provide the custodians to perform numerous, unscheduled tasks and respond to emergency situations. Within these parameters, we will attempt to reassign these workers to other tasks during the periods they are not required in the ISF buildings. Inasmuch as this may meet with objection from the building's occupants, we will advise them beforehand of our intentions regarding the custodians reduced presence.

Recommendation (25). The Bureau of Buildings and Grounds management should shift assignment of the day custodial position assigned to the Capitol, General Assembly Building, and Bell Tower to ensure that custodial services are being provided at the most essential locations. This would include reducing the worker's hours in the General Assembly Building during the months that the legislature is not in session. (p. 125)

DGS Response

CONCUR. See comments regarding Recommendation 24. We agree with a reduced presence of day custodial workers in the General Assembly Building during the period when the Legislature is not in session.

Recommendation (26). The Bureau of Buildings and Grounds should revise its overhead methodologies to eliminate inconsistent treatment of similar activities. The methodologies should provide for fair and equitable compensation for overhead expenses incurred in the conduct of Maintenance and Repair Projects activities. The revised methodologies and resultant rate should be presented to JLARC for approval prior to June 1988. The current

rate of 20 percent should continue until the new methodologies are approved. (p. 130)

DGS Response

CONCUR. The DGS Chief Fiscal Officer will review the current methodology used for calculating overhead rates and make any adjustments that may be needed to eliminate inconsistencies. This methodology will be submitted to JLARC for review and approval. In the future, the overhead calculation methodology and all other billing rates for BOBG will be submitted annually to JLARC for review and approval.

Recommendation (27). **The Bureau of Buildings and Grounds should develop service agreements for the State Corporation Commission and the Virginia Department of Transportation. These agreements should be similar to the legislative service agreement and signed by the Director of the Department of General Services as well as the head of each customer agency. All service agreements should be signed prior to the beginning of each fiscal year. (p. 133)**

DGS Response

CONCUR. We will initiate action in cooperation with the SCC and the Department of Transportation to effect written service agreements similar to that agreement in place with the legislative agencies.

Recommendation (28). **The Bureau of Buildings and Grounds should develop a formal, mandatory policy stating that supervisors are responsible for ensuring the accuracy of worker timesheets. Supervisors should routinely compare timesheets to original work orders and verify the cost codes, building numbers, trade descriptions, and number of hours worked. (p. 135)**

DGS Response

CONCUR. BOBG will prepare improved internal procedures to assure that responsible supervisory personnel review and verify the accuracy of entries on workers' timesheets. Training of new supervisors is continuing and initial indications are that the instances of erroneous entries have been significantly reduced.

Recommendation (29). **The Bureau of Fiscal Services should establish a third cost code for the Capitol. The cost code should be used to account for services specified in the service agreement to be charged 85 percent to the legislature and 15 percent to the Governor's Office. The code should be in use by January 1, 1988. (p. 136)**

DGS Response

CONCUR. A third cost code for the Capitol building has been established and its use implemented effective October 7, 1987.

Recommendation (30). **JLARC should direct the Comptroller to transfer $131,065 in excess funds from the Maintenance and Repair Projects internal service fund to the general fund. (p. 139)**

DGS Response

CONCUR. We agree that BOBG ISF has an excess fund balance of $131,065 at the end of fiscal year 1986. BOBG and BFS have no known need for retaining these funds and concur with the recommendation that this amount should revert to the general fund.

Recommendation (31). **BOBG should take steps to improve communications with internal service fund agencies. This would include having workers notify agencies when work is being performed, notifying agencies when a partially completed task will be delayed, and annually distributing preventive maintenance and day custodian schedules to affected agencies. In addition, agencies should ensure that they understand service agreements and seek written clarification when they have questions concerning maintenance services. (p. 151)**

DGS Response

CONCUR. We agree that BOBG should improve communications with the ISF agencies when work will be undertaken in their areas, particularly if this work will have a disruptive effect on any of the ISF offices. To the extent feasible, we will provide general preventive maintenance schedules in an effort to advise the agencies that these services will be taking place in their area. The nature of the preventive maintenance services may prevent our identifying the specific day or precise time of day that a particular service will be performed. We prefer to continue and improve this dialogue with the appointed agency contact person.

We also agree with the recommendation that the ISF agencies should seek written clarification from BOBG if there are questions concerning the maintenance services, or clarification required concerning the service agreement. We encourage this two-way communication.

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