

Report to the General Assembly

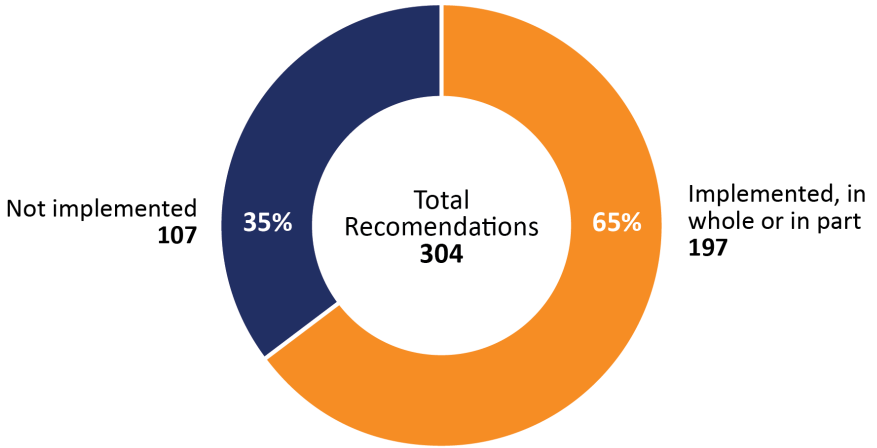
Follow-up on JLARC Reports

2017



JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

JLARC Performance: Recommendations



Reports published 2013-2016

Report No. 496

©2017 Joint Legislative Audit and Review Commission

<http://jlarc.virginia.gov>



September 11, 2017

Members of the Virginia General Assembly

Dear Members:

In JLARC's biennial *Report to the General Assembly*, JLARC staff report on agency performance, recap actions taken on key recommendations, and highlight recommendations that are still outstanding. In recent years, JLARC studies have had impact on a broad range of public policy areas in Virginia, including public education, economic development, health care, state contracting, and veterans services.

I would like to express my gratitude for your support of JLARC's vital work for the Commonwealth of Virginia. By taking action on a wide range of JLARC recommendations, the General Assembly has expressed its commitment to efficiency and effectiveness in state government.

Cordially,

A handwritten signature in black ink that reads "Hal E. Greer". The signature is written in a cursive, flowing style.

Hal E. Greer
Director

Contents

| | |
|---|-----------|
| Mission, Goals, and Performance | 1 |
| JLARC Reports 2013–2016: Follow-up | |
| Medicaid Spending, Eligibility Determination, and Non-emergency Transportation | 3 |
| Virginia Economic Development Partnership..... | 7 |
| Water Resource Planning and Management | 10 |
| State Contracts..... | 12 |
| Veterans Services | 16 |
| Department of Motor Vehicles..... | 18 |
| Workforce Development Programs..... | 19 |
| Line of Duty Act..... | 21 |
| Cost of Public Higher Education | 22 |
| State IT Governance..... | 25 |
| Virginia Port Authority..... | 26 |
| Ongoing Evaluation and Oversight..... | 28 |
| Fiscal Analysis Services..... | 31 |
| About JLARC Reports | 33 |

JLARC Mission, Goals, and Performance

Mission

JLARC provides the Virginia General Assembly with objective and rigorous oversight of state agencies and programs.

Goals

JLARC's goals are grounded in the state statutes that established its authority:

- Provide the General Assembly with objective, non-partisan analysis and evaluation for use in legislative decision making.
- Assess state agencies and programs for efficiency and effectiveness.
- Offer timely, actionable recommendations and options for improvement.
- Cultivate an exemplary work environment that sustains high levels of productivity and employee satisfaction.

Performance

JLARC reports on its own performance to the General Assembly every two years. In FY16 and FY17, JLARC staff presented and published 100 research products: reports, briefings, fiscal impact reviews, and policy memos.

JLARC recommendations are intended to improve the efficiency and effectiveness of state government. When implemented, the recommendations can result in substantial savings to the state. Since JLARC was established in 1975, the Commission's work has saved an estimated cumulative \$1.2 billion (adjusted for inflation to 2016 dollars).

JLARC uses three performance measures to track its own agency performance: recommendations, savings, and legislation introduced.

Recommendations implemented through legislative or administrative action

| | |
|---|-----|
| Recommendations made 2014–2017 | 304 |
| Recommendations implemented, in whole or in part..... | 197 |
| Percentage implemented..... | 65 |

Savings attributable to implementation of recommendations

| | |
|----------------------------------|----------------|
| Estimated savings FY16–FY17..... | \$42.7 million |
|----------------------------------|----------------|

Savings at higher education institutions due to procurement reforms, elimination of unnecessary supervisory positions, and identification of revenue sources to supplant student fees: \$19.3 million; savings due to reductions in state agency retirement contributions as a result of pension reform: \$23.4 million. (Savings attributed to pension reform are for FY16 only.)

Legislation introduced in 2016 and 2017 in response to JLARC recommendations

| | |
|----------------------------------|-----|
| Bills and budget amendments..... | 101 |
|----------------------------------|-----|

Recommendations are tracked for reports published over the prior four calendar years. The status of all recommendations made over these four years is reflected in the performance measures. Only actions taken since the last *Report to the General Assembly* (which is published every two years) are included in the following pages.



Medicaid Spending, Eligibility Determination, and Non-emergency Transportation

Series of three reports issued in 2015 and 2016

In 2016 JLARC completed a two-year review of Virginia's Medicaid program. The review included research on the Medicaid eligibility determination process, to ensure that only eligible Virginians were receiving Medicaid services, as well as a review of the cost-effectiveness of services for those eligible recipients. JLARC also conducted research on the performance and cost of Medicaid non-emergency transportation services.

JLARC's report on Medicaid eligibility determination found that, even though the state can increasingly use electronic data sources for eligibility verification, state policy does not maximize the use of this data to mitigate the risk of unnecessary spending. Eligibility workers are not required to search for unreported income or assets, and the data is not used to proactively identify assets that Virginia is required to recover from the estates of deceased Medicaid recipients. Additionally, due to a backlog and ongoing delay in the processing of renewals of Medicaid eligibility, the state spent an estimated \$21-38 million on benefits for ineligible recipients in FY14.

This report identified a number of targeted ways to reduce Medicaid spending on eligible recipients, focusing on recommendations for the Department of Medical Assistance Services (DMAS) to implement stronger oversight, better eligibility screening, greater use of data, and stronger contract provisions

and enforcement of contract compliance. Most recommendations were directed to high spending categories: Virginia's existing managed care program for families and children, and long-term services and supports (LTSS), which are in the process of transitioning to a managed care model.

JLARC's report on non-emergency transportation recommended changes to performance standards for the transportation broker that provides these services, which are federally mandated. The goal of the recommendations is to improve performance and reduce the risk that unreliable transportation poses for the most vulnerable and medically fragile Medicaid recipients.

ACTION TAKEN to improve policies and resources for determining financial eligibility for Medicaid

The General Assembly sought to improve both the policies and resources used to ensure that all Medicaid recipients meet the financial eligibility requirements.

Through budget language, the General Assembly directed that income be verified for all Medicaid applicants, even those who reported no income, and that all available resources, such as local property tax and DMV databases, be used to search for unreported assets.

The General Assembly also used budget language to encourage financial institutions with branches in Virginia to collaborate with the Department of Social Services (DSS) to maximize participation in the Asset Verification Service program.

Another budget provision directed DSS to develop and submit a plan to the Chairs of the House Appropriations and Senate Finance Committees to incorporate real estate property records into the Asset Verification System.

ACTION TAKEN to reduce delay in renewing eligibility

Legislation required DMAS to change Virginia's Medicaid application so that applicants "opt in" by default, to consent for electronic renewal, and are offered the choice to "opt out." (The default had previously been to "opt out.")

ACTION TAKEN to improve resources for asset recovery

Through budget language, the General Assembly directed DMAS to develop a plan to improve Virginia's asset recovery process by obtaining access to data sources to identify assets, including real estate and financial assets. The new budget provisions will allow DMAS to better identify and prioritize recoverable assets.

ACTION TAKEN to improve reliability of eligibility screening for LTSS

The General Assembly enacted legislation to strengthen DMAS oversight of functional screenings for LTSS eligibility, with a focus on reliability, by directing DMAS to develop training and certification for LTSS eligibility screeners, to develop a process to test for consistency across screeners, and to validate that the eligibility screening tool is appropriate for screening children.

The General Assembly also directed DMAS to improve the reliability of the LTSS screenings that are performed in hospitals, to ensure that such screenings do not lead to unnecessary institutionalization.

ACTION TAKEN to remove conflict of interest from decisions about LTSS services

The General Assembly enacted legislation that requires that MCOs, rather than providers, develop the LTSS plans of care.

ACTION TAKEN on incentives for MCOs to serve more recipients in lower cost, community settings

DMAS implemented a blended capitation rate with established target mixes under the contract for managed long-term services and supports. The new rate structure provides an incentive for MCOs to re-balance enrollment away from institutional care and toward home and community-based care.

ACTION TAKEN on cost-sharing for high-income families

Through budget language, the General Assembly directed DMAS to propose cost-sharing requirements based on family income. These requirements, which would apply to one subset of recipients (within the optional 300 percent of SSI category), could not be adopted unless approved by the federal Centers for Medicare and Medicaid Services and the General Assembly.

ACTION TAKEN to reduce unnecessary spending through managed care

The General Assembly directed DMAS to remove higher-than-necessary spending from the data used to set capitation rates, to rebase administrative spending, and to make technical adjustments to the rate-setting process. This action ended the perpetuation of some inefficient spending.

The General Assembly enacted legislation directing DMAS to strengthen the profit cap from its current eight percent down to three percent. The new profit cap includes incentives for MCOs to continue to improve cost-effectiveness by allowing MCOs to keep half of profits between three percent and 10 percent. The new profit cap will also be applied under the new system of managed LTSS.

ACTION TAKEN to optimize DMAS use of data

The General Assembly addressed several recommendations by enacting legislation to require detailed reporting by MCOs on spending and utilization of services. The General Assembly established a requirement that DMAS analyze the information from MCOs and report annually to the General Assembly on trends in MCO spending and efforts to address undesirable trends.

ACTION TAKEN to improve Medicaid non-emergency transportation

The General Assembly enacted legislation that required DMAS to enter into a new contract for Medicaid non-emergency transportation services in 2017. The new contract will enable DMAS to implement some of the report's other recommendations.



Virginia Economic Development Partnership

Report issued in 2016

In 2016 JLARC reported on the management and accountability of the Virginia Economic Development Partnership (VEDP). Most of the recommendations from this report have been implemented or are in progress.

This report found that VEDP lacked many of the fundamental components of organizational management needed to operate efficiently and effectively and to coordinate well with partners. Several key elements of effective and efficient management were missing from VEDP's operations: a deliberate strategy to meet its statutory responsibilities, adequate operational guidance for staff to carry out their job responsibilities, useful performance measures, and effective coordination with external partners.

IMPACT AWARD

The VEDP report was awarded a Certificate of Impact by the National Legislative Program Evaluation Society.

Certificates of Impact are awarded in recognition of reports that have a significant impact on public policy.

VEDP administers 10 incentive grant programs and awarded \$384 million to companies over the past decade. During this time period, many of the projects supported through VEDP-administered incentive programs did not meet their performance requirements. This report found that VEDP's approach to administering incentive grants exposed the state to avoidable

risk of fraud and financial loss, and increased the potential that state grant funding was not efficiently allocated.

VEDP lacked comprehensive written policies and procedures for critical aspects of grants administration, and its approach did not consistently prioritize projects that would create high-quality jobs and have the greatest economic benefit for Virginia's regions.

The report found that until recently the VEDP board of directors had played a minimal role in holding VEDP accountable. An effective governing board was necessary to address systemic management and accountability deficiencies.

ACTION TAKEN to address management issues at VEDP

Through legislation, the General Assembly took action to address many of the management deficiencies at VEDP. Among other changes, the legislation required VEDP to (i) develop and regularly update a strategic plan that includes specific goals and objectives and quantifiable performance measures for these goals and objectives; (ii) develop and update biennially a comprehensive marketing plan; and (iii) develop a process to evaluate the agency's ability to work with other state, regional, and local economic development organizations.

ACTION TAKEN to strengthen VEDP administration of incentive grants

The General Assembly enacted legislation to strengthen VEDP's administration of state incentive grants. Among other changes, the new legislation creates a separate division within VEDP, with staff responsible for administering incentive grants, and requires that VEDP staff seek board approval before allowing extensions to contractual deadlines. The legislation requires local Commissioners of the Revenue to provide all tax information necessary to facilitate VEDP's administration and enforcement of performance agreements with companies that have received incentive grants.

ACTION TAKEN to improve governing and oversight capacity of the VEDP board

The General Assembly enacted legislation that will improve the governing and oversight capacity of the VEDP board of directors. Among other changes, the new legislation clarifies that the board is a supervisory board, establishes requisite qualifications for board members, and creates an internal auditor position, which reports directly to the board.

ACTION TAKEN to hold VEDP accountable for addressing systemic deficiencies

In accordance with recommendations in the JLARC report, the General Assembly authorized the Comptroller to withhold \$1.5 million in general funds until notified by the House Appropriations and Senate Finance committees that VEDP has submitted specific evidence of its progress toward meeting certain JLARC recommendations.



Water Resource Planning and Management

Report issued in 2016

Water resource planning and management ensures—through permitting, state and local plans, and locally developed water supply projects—that water will be available to meet human and environmental purposes. This report found that the efforts by the Department of Environmental Quality (DEQ), if successful, would bring groundwater use in eastern Virginia to sustainable levels. Sustainability is tenuous, though, because growth in both permitted and unpermitted use is likely.

This report found that although Virginia statute designates human consumption as first priority, industrial consumption currently “crowds out” human consumption. Industrial users hold permits for more than 60 percent of permitted groundwater in eastern Virginia. Through changes to the permitting process, or through completion of large water supply projects, the statutory priority could be restored, and higher costs to residential customers and businesses could be prevented.

This report found that regional planning was not sufficiently coordinated or aligned geographically to allow localities to collaborate on water supply projects. A stronger state role in project planning would help to ensure that less costly efforts—conserving water and fixing leaky infrastructure—are considered before costly high-risk projects.

ACTION TAKEN to improve planning and sustainability

In accordance with the JLARC recommendations, DEQ is improving its predictive models and planning, and working with large permitted groundwater users in eastern Virginia to ensure sustainability.

In 2017 the General Assembly appropriated funds for an additional monitoring site in eastern Virginia to monitor land subsidence, one of the effects of lower groundwater levels.

ACTION NEEDED to prioritize water for human consumption

► The Groundwater Management Act could be amended to require the State Water Control Board to (i) issue permits for groundwater withdrawals for industrial consumption only after meeting human consumption requests, (ii) reduce permitted withdrawal amounts for industrial consumption as necessary to meet human consumptive needs, and (iii) establish a limit on the proportion of overall permitted withdrawal capacity to be granted to a single permit holder. (Recommendations 12, 13, and 14)

ACTION NEEDED to improve water resource planning

► DEQ should work to identify the state's rivers and streams at highest risk of water shortfall, then establish a methodology to determine the reasons for the predicted shortfalls. (Recommendation 4)

► The State Water Control Board and DEQ should (i) designate regional water planning areas, (ii) require regional groups to evaluate projects, (iii) identify cost-effective water supply strategies, and (iv) evaluate whether to provide incentives for regional collaboration and financing of regional water supply projects. (Recommendations 6, 7, 8, and 22)



State Contracts

Report issued in 2016

State entities spent more than \$6 billion in state contracts in FY15, mostly for goods and services related to transportation, construction, and information technology. Interest in this study topic was prompted by problems that arose from several recent high-profile contracts.

This report found that some statewide contracting policies did not adequately support the state's interests by protecting against high prices and poor quality goods and services. Agencies needed guidance on how to balance cost and quality when contracting with certified small businesses.

ACTION NEEDED

Several recommendations for changes to state contracting policies are still unimplemented.

The recommendations, which would protect the state against contract-related risk, are directed to DGS, VITA, and the General Assembly.

This report also found that statewide contracting policies did not adequately protect the state's interests against contract-related risk. Most procurement staff do not seek assistance from the Office of the Attorney General (AG) to develop contracts, and at times they add provisions to contracts that have not undergone legal review. The contract provisions used by agencies were developed piecemeal, were located in various policy manuals and agency templates, and had not undergone a routine or comprehensive legal review.

ACTION TAKEN to protect against high-priced contracts

In response to the report's recommendations, the General Assembly took action to establish clear parameters for awarding contracts to small businesses.

ACTION TAKEN to make greater use of legal services in developing contracts

Two of this report's recommendations have been implemented by the AG's office. First, the AG developed and published information for agencies about the legal services it provides for contract development. Second, the AG has reviewed all the contract provisions that are developed by the state's central procurement agencies to ensure that provisions adequately protect the state's interests, and these contract provisions have been changed to reflect the AG's recommendations.

ACTION TAKEN to support fairness in state contracting

In response to the report's recommendations, the General Assembly took action to allow for greater competition among vendors for construction contracts.

ACTION NEEDED to improve the development of contracts

► The Department of General Services (DGS) and the Virginia Information Technologies Agency (VITA) should develop and disseminate statewide policies for ensuring that agencies identify and mitigate risks when they are writing contract provisions. These include policies on (i) consistently identifying and managing contract-related risks through an analytical, formal process; (ii) including in all high-risk contracts an explanation of how vendors' performance will be monitored and evaluated; and (iii) requiring all contracts to contain specific performance or quality assurance measures and penalties that would be imposed when vendors underperform. (Recommendations 10, 11, and 21)

► DGS should develop a mandatory training program for procurement staff on the identification and management of contract-related risks and VITA should work with DGS to design

a comprehensive training program for the procurement and administration of IT contracts. (Recommendations 9 and 15)

► VITA and DGS should determine how their agencies' staffing levels should be modified to ensure that they, as the state's central procurement agencies, effectively assist other agencies in the procurement of agency-specific contracts. (Recommendations 14 and 28)

ACTION NEEDED to strengthen contract administration

► DGS and VITA should develop and disseminate statewide policies for ensuring that agencies effectively oversee and manage the implementation of contracts once they are in force. This includes guidelines that agencies should follow on staffing the administration of contracts, particularly those deemed to be high risk. (Recommendations 17, 19, and 20)

► DGS and VITA should develop and disseminate statewide policies describing standard procedures for contract administrators to follow for (i) reporting on the status and performance of contracts, (ii) documenting and reporting on unsatisfactory vendor performance, and (iii) enforcing contract provisions. (Recommendations 22 and 23)

ACTION NEEDED to ensure agency compliance with state contracting laws and policies

► DGS should broaden its focus beyond procurement to include ensuring agency compliance with state laws and policies regarding the development and administration of contracts. DGS should assist agencies with development and administration of contracts. (Recommendations 27 and 28)

ACTION NEEDED to protect the state against contract-related risk

► The General Assembly may wish to consider adding a definition of "high-risk contract" to the Code of Virginia and requiring that, before execution, all contracts that meet the definition be reviewed and approved by the AG's office and the respective central procurement agency (DGS or VITA). (Recommendation 16)

- ▶ The General Assembly may wish to require DGS and VITA to develop a comprehensive training program on contract administration that would be mandatory for agency staff who are tasked with administering high-risk contracts. (Recommendation 18)
- ▶ The General Assembly may wish to consider adopting budget language to require DGS, VITA, and the AG's office to collaborate on the development of a central database to collect information about high-risk state contracts that could be used to track these contracts' performance. (Recommendation 30)



Veterans Services

Report issued in 2015

The Virginia Department of Veterans Services (DVS) provides a variety of services to the state's veterans, such as helping them obtain federal benefits and employment, and connecting them with mental health or rehabilitative services.

This report found that DVS operations needed additional coordination and improvement. For example, because DVS did not use a staff time allocation system, it was difficult to know whether staff resources were appropriately prioritized. Many staff were not familiar with other programs in the DVS system, and programs lacked referral protocols to transfer veterans across DVS programs. The agency was not strategic in communicating externally, especially to veterans.

The DVS benefits program did not collect and use feedback from veterans or sufficiently monitor the rates of approval for benefits applications across its various offices. DVS did not have enough information to understand why some benefits offices were more successful than others in helping veterans obtain federal benefits.

Virginia Veterans and Family Support, a program created to refer veterans to mental health and rehabilitative services, was attempting to provide some of those services directly. Program staff needed additional direction to meet their statutory mandate.

The Virginia Values Veterans program was having only a minimal effect on employers' decisions to hire veterans. Because the employer training and certification process was overly complicated, some employers were reluctant to participate.

ACTION TAKEN to ensure better service for veterans

In accordance with the report's recommendations, DVS hired additional communications staff, developed a communications plan, and published a "Virginia Veterans Resource Guide." DVS is collecting and using feedback from veterans seeking benefits assistance, and using its BeneVets system to monitor workload and quality.

The General Assembly took a series of actions in 2016 and 2017 to improve the Virginia Veterans and Family Support program. In accordance with the findings of a workgroup chaired by the Secretary of Veterans Affairs, the General Assembly enacted legislation to fully clarify the mission of the program.

ACTION NEEDED to better allocate DVS staffing resources

► DVS should use a time allocation system, require staff to use the system, and use reported staff time to assess the allocation of staffing resources to ensure efficient and effective program operations. (Recommendation 2)

ACTION NEEDED to make the Virginia Values Veterans program more usable and accessible

► DVS should submit a plan to make the Virginia Values Veterans program more effective and less time-consuming for employers who participate. (Recommendation 15)



Department of Motor Vehicles

Report issued in 2015

Virginia's Department of Motor Vehicles (DMV) is responsible for several state functions related to revenue collection, driver licensing, and identification. This report found that spending and staffing were similar to other states; DMV was generally well managed; and efforts to minimize error and fraud were reasonable. This report also identified several aspects of DMV operations that could be improved. For example, the training and guidance materials for DMV staff were not sufficiently useful and accessible, and new hires at DMV Select offices did not always receive training. At the time of the review, there were several IT security concerns that needed to be addressed through a security audit plan. The report also identified problems with long customer wait times at DMVs in Northern Virginia.

ACTION TAKEN to strengthen training and IT security

In accordance with the JLARC recommendations, DMV improved its staff guidance and training, developed an IT security audit plan, and hired a second senior IT auditor.

ACTION NEEDED to reduce customer wait times in Northern Virginia

► Virginia's DMV should develop a proposal to reduce wait times at high-volume customer service centers in Northern Virginia. This action could be directed by the General Assembly through budget language. (Recommendation 4)



Workforce Development Programs

Report issued in 2014

Earlier actions were reported in the 2015 edition, Report to the General Assembly: JLARC Impacts (jlarc.virginia.gov)

The purpose of workforce development programs is to meet the needs of employers by producing a high quality workforce. Well-coordinated, effective programs are vital to sustaining a strong state economy. This report found that, in general, workforce programs in Virginia were not well aligned with the needs of employers. Programs were often developed without sufficient input from employers and without the effective use of labor market data. Further, workforce development programs were not sufficiently coordinated to serve statewide economic priorities. Stronger state-level governance and oversight were needed to support an efficient statewide system.

ACTION TAKEN to strengthen the Board of Workforce Development

The General Assembly took action to strengthen the Board of Workforce Development, creating an executive director position and adding board members who represent state economic development priorities. The board was directed to evaluate the alignment of state workforce programs with employers' workforce needs.

ACTION TAKEN to meet labor market demand through education and training programs

The General Assembly directed the Virginia Community College System to expand workforce development credentials and certifications to meet labor market demands.

The Virginia Community College System provided training for deans and chief academic officers on best practices for incorporating employer input and labor market information into their program development processes.

The Virginia Department of Education is developing new requirements to consider labor market information when deciding whether to approve new K-12 career and technical education courses.

ACTION NEEDED to increase use of labor market data to improve workforce development efforts

► The economic services division of the Virginia Employment Commission should be required to actively assist state and local workforce development programs in targeting their resources to programs that reflect the state's labor market. (Recommendation 10)

ACTION NEEDED to further strengthen the authority of the Board of Workforce Development

► The Board of Workforce Development should be given responsibility for developing new policies specific to agencies' workforce development programs, in consultation with the governor and the boards of the respective state agencies. (Recommendation 27)



Virginia's Line of Duty Act

Report issued in 2014

Earlier actions were reported in the 2015 edition, Report to the General Assembly: JLARC Impacts (jlarc.virginia.gov)

The Line of Duty Act (LODA) program provides health insurance and a death benefit for public safety officers permanently disabled or killed in the line of duty. JLARC reported on the program's administration and costs and identified ways to improve its operations and financial sustainability.

ACTION TAKEN to support LODA program sustainability

In accordance with recommendations in the JLARC report and the findings of a legislative workgroup, the General Assembly made major changes to the LODA program to reduce costs and improve the long-term sustainability of the program. Program administration was transferred to the Virginia Retirement System and the Department of Human Resource Management (DHRM).

A health insurance plan was established for LODA beneficiaries under the administration of DHRM, and the LODA eligibility criteria were modified. Nearly all of the recommendations from the LODA report have been implemented.



Cost of Public Higher Education

Series of five reports issued in 2013 and 2014

Earlier actions were reported in the 2015 edition, Report to the General Assembly: JLARC Impacts (jlarc.virginia.gov)

The JLARC higher education series identified a number of key findings related to the rising cost of public higher education and Virginia's four-year institutions. Declining state general funds were a major contributor to the increase in tuition and fees, and institutions found it challenging to adapt to the decline. This was especially true for institutions that rely heavily on state general funds for revenue; enroll fewer out-of-state students (who pay much higher tuition than in-state students); or enroll fewer students from high-income families.

Academic and administrative spending were not major contributors to rising costs. In fact, spending on instruction was at or below the national average. Faculty salaries were also generally at or below the nationwide average. The report did find a marginal decline in average teaching loads. This decline was consistent with national trends and not likely to substantially increase costs. Administrative spending was generally less than the national average, although Virginia institutions may have had too many supervisory layers in their organizational structures. Some institutions did not fully leverage their institutional buying power when making purchases.

Non-academic spending, in contrast, was a primary contributor to rising costs in recent years. Non-academic services accounted for 56 percent of increased spending (FY02–FY12). Many institutions exceeded the five percent annual cap (in the Appropriation Act) on non-academic fee growth. Because of this growth, non-academic fees, excluding housing and dining, accounted for more than one-third of all tuition and fees paid by students.

Virginia institutions tended to spend more per student on facilities than their peer institutions in other states. The state and institutions have relied heavily on debt to expand and improve campuses, and institutions charge students to repay the debt service. These charges further inflate fees.

Student aid fell short of state goals, and aid allocation was not consistent with state-recognized financial need. Low- and middle-income students had more unmet need than higher-income students, and several public institutions awarded considerable financial aid to high-income students.

ACTION TAKEN to reduce student costs

The General Assembly set limits on how much student fees can subsidize athletic programs, and directed institutions to be transparent about athletic fees and consider raising revenue through campus recreation and fitness facilities.

Through budget language, the General Assembly directed institutions to implement JLARC recommendations to improve administrative efficiency. These include reviewing organizational structures and revising policies to eliminate unnecessary supervisory positions. Institutions are still in the process of conducting organizational reviews, but they have already reported about \$500,000 in savings. Institutions are still working to maximize their purchasing power, but they report saving more than \$4 million in FY16 and nearly \$7 million in FY17.

Through budget language, the General Assembly is laying the groundwork for more rigorous prioritization of capital projects. The State Council of Higher Education for Virginia (SCHEV) has

been directed to develop better guidelines on instructional and research space, and the Department of Planning and Budget has been directed to revise its formula for maintenance reserve allocations.

Recent budget language stipulated that “given the increased investment from the general fund, it is the expression of the General Assembly that the institution seek to minimize tuition and fee increases.” Budget language also directed a more comprehensive approach to setting faculty salary goals and participating in national faculty teaching load assessments.

ACTION NEEDED to further reduce student costs

- ▶ The General Assembly could require an evaluation of all services and activities, in addition to intercollegiate athletics, funded by mandatory non-E&G fees. The General Assembly could reduce the annual limit on the growth of student fees, remove exemptions, and prohibit institutions from exceeding the annual limit without authorization. (Recommendations 5, 6, and 7)
- ▶ SCHEV should strengthen the rigor of the decision-making process for higher education capital funding, through the use of an improved prioritization process. (Recommendation 9)
- ▶ The allocation of Virginia Student Financial Assistance Program funds should be changed so that aid is more equitably distributed across Virginia’s public four-year institutions, and toward low and middle-income students. This could be done through the Appropriation Act. (Recommendations 15 and 16)



State IT Governance

Report issued in 2014

Earlier actions were reported in the 2015 edition, Report to the General Assembly: JLARC Impacts (jlarc.virginia.gov)

Virginia's IT governance structure is partially centralized and requires cooperation between the Virginia Information Technologies Agency (VITA) and other state agencies.

This report identified concerns about VITA's ability to carry out its mission, because its responsibilities were not clearly delineated in statute. This report found overlap between leadership roles and insufficient state agency involvement in central IT decisions.

ACTION TAKEN to clarify state IT governance

Nearly all of the recommendations from the IT governance report have been implemented. Most recently, the 2016 General Assembly enacted legislation to clarify VITA's statutory responsibilities and delineate the roles of state IT leadership.



Virginia Port Authority

Two reports issued in 2013

Earlier actions were reported in the 2015 edition, Report to the General Assembly: JLARC Impacts (jlarc.virginia.gov)

The Virginia Port Authority (VPA) is the third largest container port on the east coast. VPA operations have significant impacts on the state and on local economies. This report found that the VPA had been successful in competing for cargo against the other major container ports. State funding was found to be a relatively modest and decreasing proportion of VPA revenue. However, port authorities in other states were found to rely less on state funding for on-terminal projects.

At the time of the review, the governor had abruptly removed and replaced most members of the Board of Commissioners. This generated concern among some customers that port governance was unstable.

This report identified some problems with the organizational structure and channels of communication between the Board of Commissioners and VPA staff.

ACTION TAKEN to improve VPA governance structure

The VPA board hired a new CEO-Executive Director and established policy-based performance metrics. Together the VPA board and CEO-Executive Director reorganized the structure of the VPA and Virginia International Terminals.

ACTION TAKEN to improve stability of the VPA board

In accordance with the report recommendations, in 2017 the General Assembly amended the Code of Virginia to remove the provision that VPA board members serve “at the pleasure of the governor.”

FOLLOW-UP on financial viability of the Port of Virginia

Earlier in 2013, JLARC issued a report on its review of several consultant studies on the financial viability of the Port of Virginia. The review had been requested amid concerns about plans by the governor to privatize the port's operations.

Port volume had dropped from 2009 to 2011, and several consultants indicated that this was evidence that operations were financially unsustainable. The JLARC report did not concur, but instead determined that the port's basic operating model was sound, and that the drop in volume was a result of the global economic recession. According to the JLARC report, the Port of Virginia was “positioned to generate a net profit during the next five years.”

The JLARC finding was not accompanied by a recommendation, but the report was widely cited when the state reversed course on privatization. In FY15, the Port of Virginia reported a return to profitability, which continued in FY16, with a \$4.76 million operating profit, according to its annual financial report.



Ongoing Evaluation and Oversight

JLARC provides ongoing legislative evaluation and oversight of the state's economic development incentives, the Virginia Retirement System (VRS), the Virginia Information Technologies Agency (VITA), and the Virginia College Savings Plan (Virginia529). Ongoing evaluation and oversight help to ensure proper stewardship of the state's resources and taxpayer dollars.

Economic development incentives

In 2016 the General Assembly directed JLARC to undertake a new function: to review and evaluate economic development incentives and policies on an ongoing basis (2016 Appropriation Act, Item 33). Economic development incentives are largely funded through general fund appropriations or forgone general fund revenue.

In 2016 and 2017, JLARC took steps to initiate its evaluation of economic development incentives. The JLARC Economic Development Subcommittee was appointed to provide guidance to staff for developing the evaluation process and selecting the incentives to evaluate each year. A consultant specializing in economic impact modeling was hired to perform the evaluations. The first economic development reports will be briefed to the Commission in November 2017. One report will provide a broad assessment of spending and performance on all incentives, and a second report will provide in-depth evaluation of three film incentives.

Virginia Retirement System

JLARC regularly reports on the performance of VRS investments, the administration of benefits, changes in policy or personnel, and legislation affecting the system.

The VRS board made several changes to the compensation policy for investment professionals in response to concerns raised by JLARC staff. In 2013, the compensation policy was revised to better tie incentive awards to investment performance. This was done in response to concerns raised by JLARC staff that incentive awards were not clearly tied to investment performance.

In 2016, the board included further clarification in the compensation plan to better articulate (1) the use of an absolute return adjustment for incentive awards and (2) the inclusion of private sector organizations in the peer group for benchmarking total pay. These clarifications were included in response to a 2016 JLARC follow-up review of investment professionals' compensation. The review found that the compensation plan has clear goals and generally aligns with other public funds, but the use of these two practices lead to VRS professionals being paid more than most other large U.S. public fund managers. JLARC staff suggested that these practices should be reconsidered, and if kept, more clearly documented in the compensation plan.

VRS began electronically posting its board and committee meeting agendas and minutes in 2016 following a recommendation by JLARC staff. VRS board conducts its business in an open and transparent manner. However, JLARC staff found that electronic posting of meeting documents would further enhance the transparency of board and committee meetings.

Virginia Information Technologies Agency

JLARC is responsible for ongoing review and evaluation of VITA. Areas of review include VITA's infrastructure outsourcing contracts; adequacy of VITA's planning and oversight, including IT projects, security, and agency procurement; and cost effectiveness and adequacy of VITA's procurement services.

JLARC staff conducted a review of Virginia's IT governance structure in 2014. (See page 25.) In addition to this review, JLARC staff kept the Commission apprised of developments related to VITA, including efforts to disentangle from the current central IT services contract with Northrop Grumman and transition to a new strategy for providing central IT services. In 2015, JLARC staff detailed the cost of severance benefits for employees who were laid off from VITA after a routine staffing review by Northrop Grumman. JLARC staff also assessed a consultant's review of the state's central IT services. The consultant was hired by VITA to review the services provided under the contract with Northrop Grumman and to determine how services should be provided when the contract expires in 2019. In September 2016, JLARC staff updated the Commission on the status of disentanglement from the Northrop Grumman contract and transition to the state's new central IT services model.

Virginia529

JLARC staff periodically report on the structure and governance of Virginia529, the structure of the investment portfolios, investment practices and performance, actuarial policy, and administration and management.

JLARC staff issued the second biennial status report on Virginia529 in July 2016, as required by the Code of Virginia. The report found that participation in the Prepaid529 program has decreased and that the Prepaid529 fund has underperformed long-term return assumptions and benchmarks. In contrast, participation in Virginia529's college savings program, Invest529, has increased and investment performance was stronger. Virginia529's board-approved operating budget increased by 27 percent between FY15 and FY18, largely due to increases in spending for personal services, marketing and communications, and the SOAR Virginia scholarship program.



Fiscal Analysis Services

JLARC staff provide a number of fiscal analysis services to the General Assembly, many of which are required by statute.

Fiscal impact reviews

JLARC was asked to review the fiscal impact statements for 16 bills in FY16 and FY17. The 2017 session marks the third highest number of fiscal impact reviews (13) that JLARC has conducted since it began providing the service in 2000. The bills JLARC reviewed were in the areas of public safety, general government, revenue, social services, and education.

Spending and benchmarking reports

JLARC staff issue annual reports on total state spending and on state spending for the K-12 Standards of Quality and produce an annual publication comparing Virginia to other states on taxes, demographics, state budget, and other indicators. These publications are popular sources of information for the General Assembly and the public, and are frequently referenced in the media.

Internal service funds

JLARC staff produce an annual review of internal service funds, which comments on the financial status of the funds. This memo is released in December for use by budget stakeholders during the legislative session.

JLARC Reports

JLARC's work is directed by resolution of the General Assembly or by the Commission. Reports are available in print and on the JLARC website, jlarc.virginia.gov.

Forthcoming in 2017 and 2018

- Virginia's Community College System
- Land Application of Industrial Residuals and Biosolids
- State Employee Total Compensation
- Early Childhood Development Programs
- Department of Professional and Occupational Regulation
- Department of Elections

Recent reports

- Prepaid529 Investment Management
- Managing Spending in Virginia's Medicaid Program
- Management and Accountability of the Virginia Economic Development Partnership
- Effectiveness of Virginia's Water Resource Planning and Management
- Impact of Regulations on Virginia's Manufacturing Sector
- Development and Management of State Contracts
- Operation and Performance of Department of Veterans Services
- Eligibility Determination in Virginia's Medicaid Program
- Performance and Pricing of Medicaid Non-Emergency Transportation
- Assessing the Performance of Virginia's DMV
- Efficiency and Effectiveness of K-12 Spending

Periodic updates

Virginia Compared to the Other States (annual)

State spending (annual)

State spending on the K-12 Standards of Quality (annual)

Oversight: Virginia Retirement System (semi-annual)

Oversight: Virginia529 (biennial)

Oversight: Virginia Information Technologies Agency (periodic)

Internal service funds (annual)

Joint Legislative Audit and Review Commission

The Joint Legislative Audit and Review Commission comprises 14 members of the Virginia General Assembly: nine delegates and five senators. The Auditor of Public Accounts serves on the Commission ex officio. The staff director is appointed by the Commission and confirmed by the General Assembly.

Commission members

Delegate Robert D. Orrock, Sr., Chair
Thomas K. Norment, Jr., Vice Chair

Delegate Terry Austin
Delegate Betsy Carr
Delegate M. Kirkland Cox
Senator Emmett W. Hanger, Jr.
Senator Janet D. Howell
Delegate S. Chris Jones
Delegate R. Steven Landes
Delegate James P. Massie III

Senator Ryan T. McDougle
Senator Thomas K. Norment, Jr.
Delegate John M. O'Bannon III,
Delegate Kenneth Plum
Senator Frank M. Ruff, Jr.
Martha S. Mavredes, Auditor of
Public Accounts, ex officio

Commission staff

Hal Greer, Director

Kate Agnelli
Lauren Axselle
Erik Beecroft
Sarah Berday-Sacks
Jamie Bitz
Justin Brown
Danielle Childress
Drew Dickinson
Kathy DuVall
Nick Galvin
Maria Garnett

Mark Gribbin
Betsy Jackson
Paula Lambert
Jeffrey Lunardi
Liana Major
Bridget Marcek
Joe McMahan
Ellen Miller
Jordan Paschal
Ellie Rigsby
Kimberly Sarte

Nathan Skreslet
Tracey Smith
Brittany Utz
Nichelle Williams
Christine Wolfe



JLARC.VIRGINIA.GOV

919 East Main Street, Suite 2101
Richmond, VA 23219