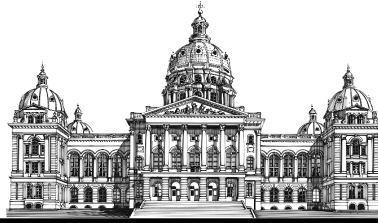


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Payment Processes for Interagency Services

ISSUE

Lack of uniformity regarding funding for services provided by certain State agencies to other State agencies.

AFFECTED AGENCIES

This *Issue Review* considers services provided by agencies within the Administration and Regulation Appropriations Subcommittee. The primary agencies affected as service providers are:

Office of the Auditor of State	Department of Personnel
Department of General Services	Department of Revenue and Finance
Department of Inspections and Appeals	Office of State-Federal Relations
Department of Management	Office of the Treasurer of State

However, the budgets of all State agencies could potentially be affected by changes concerning funding for services provided by the above agencies.

CODE AUTHORITY

Chapter 11.5B	Office of the Auditor of State
Chapter 18	Department of General Services
Chapter 10A	Department of Inspections and Appeals
Chapter 8	Department of Management
Chapter 19A	Department of Personnel
Chapter 421	Department of Revenue and Finance
Chapter 7F	Office of State-Federal Relations
Chapter 12	Office of the Treasurer of State

BACKGROUND

The above listed agencies provide services to other State agencies. While many of these services are funded through a direct appropriation to the service-providing agency, others are funded through some form of repayment procedure from the service-receiving agency. The repayment procedures are established through various means including:

- The Code of Iowa. Provisions which allow interagency charging may be set forth in the Code of Iowa. For example, Section 11.5B, Code of Iowa, authorizes the Office of the Auditor of State to charge specific agencies for the costs of audits.
- Appropriations bills. Appropriations bills may contain language authorizing service-providing agencies to charge service-receiving agencies. For example, SF 484, Administration and Regulation Appropriations Bill, specifies that the Department of Inspections and Appeals may charge State agencies for services provided.
- Historical agreements. Previous verbal agreements or letters of understanding may determine how much State agencies will be assessed for administrative services and whether or not some agencies will pay. For example, agencies which contributed staff to the Department of Inspections and Appeals during the 1986 reorganization are not charged for hearing services. Agencies which did not contribute staff are charged on an hourly basis.

Because the approach to funding services by administrative agencies has varied, there is a lack of uniformity regarding:

- How services are funded. Some are funded through a direct appropriation to the service-providing agency, others are funded through charges paid by the service-receiving agency.
- How payments from service-receiving agencies are classified. Payments are typically deposited in a revolving fund or into the General Fund in categories including: "refunds and reimbursements," "intrastate transfers," "intrastate reimbursements," or "other."

This lack of uniformity causes various problems:

- The budget system is difficult to understand. There does not appear to be consistent logic for why some services are funded through an appropriation and why others are funded through charges paid by the service-receiving agency.
- Oversight of service-providing agency budgets is difficult. It is difficult to determine what portion of the budget is for overhead, what portion is vitally necessary to provide services, and what the effect of budget cuts will be. Also, it is difficult to track the flow of funds.
- Service-providing agencies could potentially charge service-receiving agencies without authority, essentially circumventing the legislative priority-setting process.
- An agency may decide it needs a service, ask another agency to provide the service, and set up a payment system, with no instruction from the Legislature.
- An agency could decide to perform a function and charge other agencies for it without legislative direction.
- A service-providing agency could potentially charge service-receiving agencies even though the Legislature may have expected the agency to provide services using the General Fund appropriation.

CURRENT SITUATION

The attachment categorizes services provided by the eight agencies by funding source and repayment procedure. Methods currently used to fund services include a direct appropriation to the service-providing agency, some form of payment by the service-receiving agency, or a combination of both.

1. Direct appropriation. Funds are appropriated directly to the service-providing agency. The service-receiving agency does not pay for the service.
2. Payment is made by the service-receiving agency. These funds are handled in various ways, including being deposited in a revolving fund or classified as "intrastate transfers," "refunds and reimbursements," "intrastate reimbursements," or "other."
 - a) Revolving funds. For the purposes of this *Issue Review*, a revolving fund is a pool of money designated to maintain a function of State government. Funds remaining at the end of a fiscal year do not revert to the General Fund.
 - i) Appropriated. The service-providing agency is authorized by the Legislature to spend a set amount from the revolving fund for administering the functions of the fund.
 - ii) Non-appropriated. The service-providing agency may spend from the fund as needed to pay for expenses incurred in operating the fund and performing the related functions.
 - b) "Intrastate transfers," "refunds and reimbursements," "intrastate reimbursements," and "other." These are actually distinct line items and ideally would maintain unique purposes. However, there is currently no consistent method of coding charges received.

When a service is funded through a combination of a direct appropriation and charging, this often means that some agencies are charged for services while other agencies receive the services courtesy of the General Fund appropriation and are not required to pay.

ALTERNATIVES

1. Appropriate funds for all administrative services to the agency receiving the benefit of the services. The agency which provides the service would be paid by the agency receiving the services.

Revolving funds could be established for all services or revolving funds could be abolished entirely. If all services were to be funded through "intrastate transfers," "refunds and reimbursements," or "intrastate reimbursements," clear guidelines would need to be adhered to regarding classification.

This alternative would reduce the potential for a service-providing agency to retain excess money in its budget, whether revolving funds or transfers were used for payment. However, it is possible that a service-providing agency could prioritize which agencies to provide service to based on the service-receiving agency's ability to pay.

2. Appropriate funds for all administrative services to the agency which provides the service. Eliminate all payback provisions, including revolving funds and "intrastate transfers," "refunds and reimbursements," and "intrastate reimbursements."

While this procedure would avoid paperwork and moving funds from agency to agency for redeposit into the General Fund, it would also eliminate cost controls. It may allow for excess in service-providing agency budgets when actual costs are not associated with and charged to a certain agency.

In addition, it would aggravate the problem of administrative agencies having to absorb cuts for other agencies. For example, because the Department of General Services pays rent for other agencies, the Department has had to absorb budget cuts when anticipated rent increases for other departments are not fully-funded.

3. Leave the system as is but provide clear guidelines regarding how to classify and track payments made by service-receiving agencies to service providers.

BUDGET IMPACT

The primary benefit of any revisions would be the ability to perform oversight. Less significant, yet potential, fiscal benefits of charging service-receiving agencies include:

1. A reduction in General Fund requirements. When a State agency is funded largely from federal funds and other funds, reimbursements would be paid from these sources. This is already occurring, but more non-General Fund dollars could possibly be secured.
2. Efficiencies within service-providing agencies. If service providers were required to charge to recoup their costs, they would have to become as efficient as possible, as service-receiving agencies will only pay the cost of services rendered, especially if similar services can be obtained from outside sources.

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Interagency Services Provided By Administration and Regulation Appropriations Subcommittee Agencies

AGENCY	FUNDING	REPAYMENT PROCEDURE	AUTHORITY TO CHARGE
Office of the Auditor of State			
Audits of Direct Agencies	Direct Appropriation & Charges	"Refunds and Reimbursements"	Section 11.5B, <u>Code of Iowa</u>
Department of General Services			
Telephone Services	Direct Appropriation & Charges	Revolving Fund - Unappropriated	Section 18.9(1), <u>Code of Iowa</u>
Information Services	Direct Appropriation & Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Customer Services	Direct Appropriation		
Utilities	Direct Appropriation & Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Office Rentals	Direct Appropriation & Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Purchasing	Charges	Revolving Fund - Appropriated	Section 18.9(1), <u>Code of Iowa</u>
Printing	Charges	Revolving Fund - Appropriated	Section 18.57, <u>Code of Iowa</u>
Mail	Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Postage	Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Vehicle Dispatch Services	Charges	Revolving Fund - Appropriated	Section 18.9(1), <u>Code of Iowa</u> & Section 18.119, <u>Code of Iowa</u>
Risk Insurance	Charges	"Intrastate Reimbursement"	Section 18.9(1), <u>Code of Iowa</u>
Department of Inspections and Appeals			
Administrative Hearings	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Performance of Audits	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484

Interagency Services Provided By Administration and Regulation Appropriations Subcommittee Agencies

AGENCY	FUNDING	REPAYMENT PROCEDURE	AUTHORITY TO CHARGE
Surveys/Inspections of Health Facilities	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Inspections of Child Foster Care Facilities	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Inspections of County Care Facilities	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Inspections of Barber Shops, Beauty Salons, and Tanning Beds	Direct Appropriation		
Investigatory Services for State Agencies	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Medicaid Fraud Investigations	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Administrative Hearings Conducted by the Employment Appeal Board	Direct Appropriation & Charges	"Intrastate Transfer"	Section 10A.107, <u>Code of Iowa</u> & SF 484
Department of Management			
Strategic planning, policy and budget development, and administrative oversight	Direct Appropriation		
Department of Personnel			
Administer health, dental, life, and long term disability insurance	Direct Appropriation		
Administer worker's compensation	Direct Appropriation & Charges	"Intrastate Reimbursement"	Section 19A.32, <u>Code of Iowa</u>
Administer unemployment insurance	Direct Appropriation		
Administer compensation programs, the job evaluation system, leave programs, pretax programs	Direct Appropriation		

Interagency Services Provided By Administration and Regulation Appropriations Subcommittee Agencies

AGENCY	FUNDING	REPAYMENT PROCEDURE	AUTHORITY TO CHARGE
Administer the Human Resources Information Program	Direct Appropriation		
Administer the Affirmative Action Program and Equal Employment Opportunity	Direct Appropriation		
Administer recruitment and provide application services for State jobs	Direct Appropriation		
Negotiate collective bargaining agreements for State government	Direct Appropriation		
Represent the State in hearings and appeals	Direct Appropriation		
Conduct 19B investigations	Direct Appropriation		
Provide consultation and advice on human resources issues	Direct Appropriation & Charges	"Intrastate Reimbursement"	No statutory or session law authorization
Provide training services	Direct Appropriation & Charges	Revolving Fund - Unappropriated	Section 19A.12, <u>Code of Iowa</u>
Administer the Educational Assistance Program	Direct Appropriation		
Administer the Employee Assistance Program	Direct Appropriation & Charges	"Intrastate Reimbursement"	No statutory or session law authorization
Administer the performance evaluation system	Direct Appropriation		
Conduct third step grievances	Direct Appropriation		
Administer the position classification system	Direct Appropriation		
Administer the IPERS investment program	Direct Appropriation		
Administer the Retirement Benefits Services Program	Direct Appropriation		
Administer the STAR program	Charges	"Intrastate Reimbursement"	No statutory or session law authorization

Interagency Services Provided By Administration and Regulation Appropriations Subcommittee Agencies

AGENCY	FUNDING	REPAYMENT PROCEDURE	AUTHORITY TO CHARGE
Department of Revenue and Finance			
Administration of Motor Vehicle Fuel Tax	Direct Appropriation		
Centralized Debt Collection	Direct Appropriation		
Maintain State Accounting System	Direct Appropriation		
Administrative Functions on Licensing of Sales Tax Permit Holders Who Sell Household Hazardous Waste Material	Charges	"Refunds and Reimbursements"	Section 455E.11(15)(c), <u>Code of Iowa</u>
Licensing Permit Holders and Processing Quarterly Updates for the Environmental Protection Charge	Charges	"Refunds and Reimbursements"	Section 424.1(3)(5), <u>Code of Iowa</u>
Off-set of Payments	Charges	"Other"	Section 421.30, <u>Code of Iowa</u>
Office of State-Federal Relations			
Non-partisan State-Federal Relations Services	Direct Appropriation		
Office of the Treasurer of State			
Investment Services	Direct Appropriation		
Receipt Processing	Direct Appropriation		
Disbursement Processing	Direct Appropriation		
Coordination of State Financing	Direct Appropriation		
IPERS Investment Services	Charges	"Refunds and Reimbursements"	Section 97B.7, <u>Code of Iowa</u>
Pooled Money Investment Services	Charges	"Intrastate Transfer"	Section 12.8, <u>Code of Iowa</u>