

Office of the  
Legislative Fiscal Analyst

## **FY 2005 Budget Recommendations**

Joint Appropriations Subcommittee for  
Executive Offices and Criminal Justice

Utah Department of Corrections  
**Data Processing Internal Service Fund**

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**1.0 Summary: Utah Department of Corrections Data Processing Internal Service Fund**

The Department of Corrections (UDC) runs an Internal Service Fund (ISF) to finance its enterprise technology needs. UDC’s Data Processing (DP) ISF charges Corrections’ other operating units between \$95 and \$102 per computer “port” per month. The DP ISF then uses this revenue to manage networks, servers, and the O-TRACK inmate data system.

	<b>Analyst FY 2005 Base</b>	<b>Analyst FY 2005 Changes</b>	<b>Analyst FY 2005 Total</b>
<b>Financing by Revenue Source</b>			
Dedicated Credits - Intragvt Rev	1,695,200		1,695,200
<b>Total</b>	<u>\$1,695,200</u>	<u>\$0</u>	<u>\$1,695,200</u>
<b>Expenditures by Program</b>			
ISF - DOC Data Processing	1,695,200	225,000	1,920,200
<b>Total</b>	<u>\$1,695,200</u>	<u>\$225,000</u>	<u>\$1,920,200</u>
<b>Profit/(Loss)</b>	<u>\$0</u>	<u>(\$225,000)</u>	<u>(\$225,000)</u>
<b>FTE/Other</b>			
Total FTE	7.0	0.0	7.0
Authorized Capital Outlay	\$315,500	\$0	\$315,500
Retained Earnings	\$236,700	\$0	\$236,700

## **2.0 Issues: Department of Corrections Data Processing Internal Service Fund**

### **2.1 Refund of Contributed Capital**

Upon creating the Department of Corrections Internal Service Fund, the State contributed to it \$922,800 in capital. In addition, during FY 2003, the ISF generated more than \$233,000 in year-end cash. The Analyst recommends the Internal Service Fund use its cash to repay the General Fund \$225,000 of contributed capital in FY 2004.

### **2.2 Carry-forward Capital Outlay Authorization**

Internal Service Funds across the state have in the past perpetually accumulated authority to purchase capital. Once the authority was granted, it never went away, even if the project for which it was granted was cancelled. Senate Bill 15 (2004 GS), *Carryover of Authorized Capital Outlay Amendments*, would lapse authority at the end of each fiscal year unless specific carry-forward permission is granted by the Legislature. Pending S.B. 15, the Analyst recommends FY 2004 intent language that would expressly authorize the carry-forward of \$374,500 in capital outlay authority for Corrections' Data Processing Internal Service Fund.

### **2.3 Rate Setting**

The Budgetary Procedures Act states that the Legislature must approve Internal Service Fund rate increases, but that ISFs may reduce rates without prior approval. Corrections' legislatively authorized rate for FY 2004 is \$110 per network device per month. An enacted FY 2003 rate of \$102 per port per month generated profits in the ISF. As the ISF is intended to break even, the Analyst recommends an FY 2005 rate of \$100 per device per month.

### 3.0 Utah Department of Corrections Data Processing Internal Service Fund

**Recommendation** The Analyst recommends \$1,695,200 in revenue, \$1,920,200 in expenses, \$315,500 in capital outlay authorization, and 7 full-time equivalent employees for the Department of Corrections Data Processing Internal Service Fund. The Analyst also recommends that the ISF return \$225,000 in contributed capital to the General Fund.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	1,743,000	1,625,600	1,695,200	69,600
<b>Total</b>	<u>\$1,743,000</u>	<u>\$1,625,600</u>	<u>\$1,695,200</u>	<u>\$69,600</u>
<b>Expenditures</b>				
Personal Services	253,700	252,000	251,400	(600)
In-State Travel	2,600	7,700	7,700	
Current Expense	31,400	35,900	38,200	2,300
DP Current Expense	907,200	1,050,700	1,068,600	17,900
DP Capital Outlay	310,200	275,700	325,700	50,000
Other Charges/Pass Thru	4,500	3,600	228,600	225,000
<b>Total</b>	<u>\$1,509,600</u>	<u>\$1,625,600</u>	<u>\$1,920,200</u>	<u>\$294,600</u>
<b>Profit/(Loss)</b>	<u>\$233,400</u>	<u>\$0</u>	<u>(\$225,000)</u>	<u>(\$225,000)</u>
<b>FTE/Other</b>				
Total FTE	4.0	4.5	7.0	2.5
Authorized Capital Outlay	\$442,000	\$429,500	\$315,500	(\$114,000)
Retained Earnings	\$236,700	\$236,700	\$236,700	\$0

\*Non-state funds as estimated by agency

**Purpose** “Internal Service Funds are defined as funds used by the State to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost-reimbursement basis. They are set up to take advantage of economies of scale, to avoid duplication of effort, and to accurately identify costs of specific governmental services.”<sup>1</sup>

The Department of Corrections Data Processing Internal Service Fund (DP ISF) provides centralized computer service to all departmental entities. This service includes networking, file sharing, database administration, and system development. One of the ISF’s major products is the Offender Tracking System (O-TRACK), a volume of detailed information on each of the offenders processed by the Department of Corrections. The DP ISF does not purchase distributed computing equipment such as personal computers or printers for UDC operating entities.

<sup>1</sup> Allred, Steven, et al. *Internal Service Funds: Cost Structure and Budget Impact*. Office of the Legislative Fiscal Analyst. August 20, 2002. p. 1.

*Refunded contributed capital can offset other subcommittee priorities*

The Department of Corrections' internal service fund reflects on its financial statements \$922,800 in contributed working capital. This contributed capital resulted from the donation or capitalization of state-owned equipment, or from acquisition of equipment using state resources. The contributed capital likely allowed UDC's ISF a "head-start" at the Fund's inception. As a result of it, the ISF needed less operating revenue to acquire assets.

In Fiscal Year 2003, the Internal Service Fund collected from its customers \$233,000 more in revenue than it had expenses – including capital depreciation. The ISF's customers paid the rates that generated this revenue using General Fund resources.

Given that the Internal Service Fund no longer requires the "head-start" provided by contributed capital, and further given that the ISF had operating profits in FY 2003, the Analyst recommends the DP ISF return to the General Fund \$225,000 of contributed capital in FY 2004.

*Non-lapsing intent language will allow DP ISF flexibility to acquire assets across fiscal year*

Beyond monitoring budgetary profits and losses, the Legislature must approve an internal service fund's capital acquisitions. During the 2003 Interim, the Executive Appropriations Committee studied Internal Service Funds' policy toward authorized capital outlay. The committee found that, under current law, if not used in a given fiscal year, this permission accumulates on agency books, and may be used at any time without further legislative action.<sup>2</sup>

Authorized Capital Outlay is permission to acquire capital assets like computers, cars, software, equipment, and other items with an individual value of more than \$5,000 per unit. It is granted by the Legislature to Internal Service Funds in appropriations acts.

The committee found that authorized capital outlay impacts depreciation costs, ISF budgets, ISF rates, and therefore, costs in appropriated agencies. It realized that authorized capital outlay should not accrue unchecked. As such, it recommended a bill – Senate Bill 15 (2004 GS) – under which authorized capital outlay lapses at the end of each fiscal year unless specific carry-forward authorization is granted by the Legislature.

Pending S.B. 15, the Analyst recommends the Legislature grant the Department of Corrections carry-forward capital outlay authorization of \$374,500. The Legislature could do so through intent language that mirrors the provisions of S.B. 15, as follows:

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<sup>2</sup> Allred, Steven, et al. *The Growth of Carry Over Capital Outlay Authorization in Internal Service Funds*. Office of the Legislative Fiscal Analyst. July 15, 2003. p. 1.

*The Legislature intends that all but \$374,500 in prior year capital outlay authorization granted to the Department of Corrections Data Processing Internal Service Fund shall lapse on July 1, 2004. The Legislature further intends that \$374,500 in non-lapsing FY 2004 authorization shall be used to upgrade and expand O-TRACK development and production hardware.*

*Rate of \$100 per device per month more in-line with projected costs*

The Budgetary Procedures Act also calls upon the Legislature to approve rates for internal service funds. The Act states that ISFs must get legislative approval before charging increased rates, but that it may establish new rates for new products, or reduce rates for existing produces, before getting the Legislature's sign-off.

For Fiscal Year 2004, the Legislature approved \$110 per device per month as the rate charged by the Department of Corrections' internal service fund. The Department, however, only charged \$102. At that rate, the Department's ISF generated a profit. UDC's budget submission assumes a rate of only \$95 per device per month for FY 2004 and FY 2005.

The Analyst recommends the Legislature approve \$100 per device per month as the DP ISF rate for FY 2005. This level will keep the ISF closer to "break-even" than did \$110, and allow the Department flexibility to reduce the rate to \$95 as currently projected.

**4.0 Additional Information: UDC Data Processing Internal Service Fund**

**4.1 Funding History**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Financing by Revenue Source</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>
Dedicated Credits - Intragvt Rev	1,573,100	1,792,700	1,743,000	1,625,600	1,695,200
<b>Total</b>	<b>\$1,573,100</b>	<b>\$1,792,700</b>	<b>\$1,743,000</b>	<b>\$1,625,600</b>	<b>\$1,695,200</b>
<b>Financing by Program</b>					
ISF - DOC Data Processing	1,573,100	1,792,700	1,743,000	1,625,600	1,695,200
<b>Total</b>	<b>\$1,573,100</b>	<b>\$1,792,700</b>	<b>\$1,743,000</b>	<b>\$1,625,600</b>	<b>\$1,695,200</b>
<b>Expenditures</b>					
Personal Services	254,900	260,000	253,700	252,000	251,400
In-State Travel	10,400	9,600	2,600	7,700	7,700
Out of State Travel	500				
Current Expense	28,100	46,400	31,400	35,900	38,200
DP Current Expense	1,370,700	1,340,500	907,200	1,050,700	1,068,600
DP Capital Outlay	212,500	278,500	310,200	275,700	325,700
Other Charges/Pass Thru	3,600	4,600	4,500	3,600	228,600
<b>Total</b>	<b>\$1,880,700</b>	<b>\$1,939,600</b>	<b>\$1,509,600</b>	<b>\$1,625,600</b>	<b>\$1,920,200</b>
<b>Profit/(Loss)</b>	<b>(\$307,600)</b>	<b>(\$146,900)</b>	<b>\$233,400</b>	<b>\$0</b>	<b>(\$225,000)</b>
<b>FTE/Other</b>					
Total FTE	5.0	4.5	4.0	4.5	7.0
Authorized Capital Outlay	\$0	\$417,000	\$442,000	\$429,500	\$315,500
Retained Earnings	\$150,100	\$3,300	\$236,700	\$236,700	\$236,700

\*Non-state funds as estimated by agency.