

CHAPTER 13

INTERNAL SERVICE FUNDS

SCOPE

An Internal Service fund is defined as a fund that primarily provides either benefits or goods or services to other funds, departments, or agencies of government on a cost-reimbursement basis, with the goal to 'break-even' rather than make a profit. An Internal Service fund can supply goods or services to entities outside of government, but the predominant participants must be government(s).

The State of Indiana includes six (7) agencies that administer Internal Service funds.

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13.1 STATUTORY AUTHORITY

IC 11-10-6-6, **Industry and farm products revolving fund; establishment; review; revenues**, states: “The industry and farm products revolving fund is hereby established. The state budget agency shall annually review the revolving fund for the purpose of determining whether the current level is adequate to meet the expenditures required to sustain offender employment programs, and shall report to the state budget committee its recommendations regarding any changes in the amount of the fund. All revenues derived from the sale of goods produced or manufactured by the department, from the lease of farm land and appurtenances operated by the department's industry and farm program, or from the employment of offenders by other state agencies or political subdivisions shall be paid into the fund to be expended in the manner provided by law.”

IC 4-13-1-4, **Department of Administration Duties and functions**, states in part: “The department shall, subject to this chapter, do the following:

(5) Maintain and operate the following for state agencies:

- (A) Central duplicating.
- (B) Printing.
- (C) Machine tabulating.
- (D) Mailing services.
- (E) Centrally available supplemental personnel and other essential supporting services.

The department may require state agencies to use these general services in the interests of economy and efficiency. The general services rotary fund is established through which these services may be rendered to state agencies. The budget agency shall determine the amount for the general services rotary fund.

(6) Control and supervise the acquisition, operation, maintenance, and replacement of state owned vehicles by all state agencies. The department may establish and operate, in the interest of economy and efficiency, a motor vehicle pool, and may finance the pool by a rotary fund. The budget agency shall determine the amount to be deposited in the rotary fund.”

Included in ‘other essential supporting services’ would be the **Aviation Division**. The IDOA has delegated its responsibility for operating the aviation division to the **Indiana State Police**, who accepted this delegation through a Memorandum of Understanding.

IC 4-13-1.7-11, **Federal Surplus Property Revolving fund; establishment**, states: (a) With the approval of the state board of finance, a revolving fund may be established for the department to expedite transfers under this chapter. (b) The fund established under this section shall be reimbursed from the governmental body receiving the transfer of the federal surplus supplies.

IC 4-13.1-2-7 **Office of Technology Rotary fund** states: “The office may establish a rotary fund necessary to perform the functions of the office.”

PL 182-2009, **State Personnel Department**, states on page 2053: “The department may establish an internal service fund to perform the functions of the department.” The SPD offers centralized

human resources services to state agencies. As noted in State Budget Agency Financial Management Circular 2009-1, Human Resources, "State agencies shall use the HR services provided by the Indiana State Personnel Department."

IC 5-10-8-7 (b), **Group insurance; self-insurance; health services; disability plans; trust fund for prefunding state contributions and OPEB liability**, states: "With the consent of the governor, the state personnel department may establish self-insurance programs to provide group insurance other than life or long term care insurance for state employees and retired state employees. The state personnel department may contract with a private agency, business firm, limited liability company, or corporation for administrative services. A commission may not be paid for the placement of the contract. The department may require, as part of a contract for administrative services, that the provider of the administrative services offer to an employee terminating state employment the option to purchase, without evidence of insurability, an individual policy of insurance."

And in (d) "The state personnel department shall adopt rules under IC 4-22-2 to establish long term and short term disability plans for state employees (except employees who hold elected offices (as defined by IC 3-5-2-17)). The plans adopted under this subsection may include any provisions the department considers necessary and proper. . . . "

PL 229-2011, **State Budget Agency**, states on page 3346: "The agency may establish an internal service fund to perform central accounting operations." The Budget Agency offers accounting services for smaller agencies.

Governmental Accounting Standards Board (GASB) statement #10, **Accounting and Financial Reporting for Risk Financing and Related Insurance Issues**, paragraph 63 states in part: "If a single fund is used to account for an entity's risk financing activities, that fund should be either the general fund or an internal service fund." The State of Indiana has chosen to account for their self-insurance funds as internal service funds. Self-insurance funds are administered by both Department of Administration (IDOA), Department of Natural Resources (DNR), and Indiana State Police (ISP).

13.2 ACCOUNTING THEORY

Internal service funds are divisions of the State and should keep financial records as prescribed by the Governmental Accounting Standards Board (GASB). As a proprietary fund type, they use the full accrual basis of accounting, which is the same basis as used for private-sector business enterprises.

Interdepartmental billing (ID Bills) are used by internal service funds to secure reimbursement from agencies provided with certain services. Account numbers beginning with 64 (revenues) and 65 (expenses) are used for the transactions of these funds. No approvals from the agency billed are required by the ENCOMPASS financial accounting system for these transactions to be processed. A dispute process is available in the case of a wrongful billing.

13.3 INTERNAL CONTROLS

All departments of government should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations.

Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are part of the internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making.

13.4 BUSINESS PROCESSES

13.4.1 Department of Correction – PEN Products

The Institutional Industries fund accounts for revenues and expenses incurred from the operation of inmate employment program, PEN Products. Goods produced or manufactured as a result of the program are sold to state agencies and political subdivisions of the State as well as to the general public.

PEN Products is a division of the Indiana Department of Correction. Indiana's prison industries and farms manufacture goods and provide services using offender labor.

PEN Products sells office and dormitory furniture, park and patio furniture and equipment, a full line of cleaning products, laundry services, printing, food products, offender clothing, and detention furniture. Offenders also work in a number of joint ventures with private industry.

Although a part of PEN sales are to private organizations, the predominant share of sales is to governmental units.

Charges to individual agencies are based on product purchased by the agency.

13.4.2 Department of Administration

The Administrative Services Revolving of the Department of Administration offers certain services as described here, to State government.

13.4.2.1 Motor Pool Rotary Fund

The Motor Pool Rotary Fund accounts for the operation and maintenance of State garages including the servicing and repair of all automotive equipment owned or controlled by the State. Revenues consist of charges to user agencies.

IDOA Fleet Services provides a variety of vehicle services to state agencies. In addition to repairing and servicing state-owned vehicles, Fleet Services manages state agency vehicle purchases, the registration and titling of state-owned vehicles, long-term vehicle lease agreements (leased from Fleet Services to state agencies), vehicle auctions, and provides car wash and towing services for state vehicles. Fleet Services also works closely with the State's contractor for daily rental vehicles. Details of these services and the Fleet Management Policy are available at www.in.gov/idoa/2458.htm.

Charges are based on vehicle use, including type of vehicle used and miles driven.

13.4.2.2 Printing and General Services Rotary Funds

IDOA has consolidated printing, copying, and mailing services through a contract with a single on-site vendor, which provides a single point of contact for printing, duplication, and mailing services. Services provided by the vendor are numerous and affect agencies in different ways; an overview of these services can be found at www.in.gov/idoa/2455.htm

Beginning in state fiscal year 2017, the vendor will direct bill agencies for services performed. Previously, the vendor invoiced IDOA, and IDOA then ID billed each agency for their respective charges.

13.4.3 Office of Technology

The Indiana Office of Technology's (IOT) mission is to provide cost-effective, secure, consistent, reliable enterprise technology services to its partner agencies so they can better serve Hoosier taxpayers. Specific goals are:

- Establish standards for the technology infrastructure of the state.
- Focus state information technology services to improve service levels to citizens and lower costs of providing information technology services.
- Bring the best and most appropriate technology solutions to bear on state technology applications.
- Improve and expand government services provided electronically.
- Provide the technology and procedures for the state to do business with the greatest security possible.

Charges to individual state agencies are based on services provided, such as the number of transactions performed in the PeopleSoft financial accounting system, or the technical equipment used by the agency. See www.in.gov/iot for more detail.

13.4.4 State Personnel Department

The State Personnel Department (www.in.gov/spd) administers health insurance (risk management) funds, as well as administration of centralized employee benefits to state agencies.

Charges are based on the number of employees of each agency.

13.4.4.1 Human Resource Services

Human resource services provided to the executive branch of government include policies, procedures and best practices that are equitable, ethical and timely. State Personnel services include hiring assistance, training, employee relations, benefits, performance management and compensation to our employees. The costs of these services are reimbursed through charges to the agencies.

13.4.4.2 Self-Insurance Health Care & Disability

The State Employee Disability fund and various State Employee Health Insurance funds are utilized as internal service funds to administer disability and health insurance benefits for which the state

has chosen to adopt a policy of risk management. Administration of health care payments is contracted to outside parties.

13.4.5 Indiana State Police

The Indiana State Police (www.in.gov/isp) administer certain insurance funds and the Aviation Rotary fund.

13.4.5.1 Aviation Services

As of July 1, 2010, the maintenance and accounting for aviation rotary funds, a part of State fleet management, was delegated to ISP as they have principal responsibility for aviation assets.

Charges are made to other agencies requiring use of the aircraft fleet.

13.4.5.2 Self-Insurance Health Care & Disability; Pension Fund

The State Police Health Insurance fund, for which the state has chosen to adopt a policy of risk management, is administered through contracts with outside parties and accounted for in internal service funds.

The State Police Employees' LTD 20% fund accounts for revenues and expenses incurred to provide for payment up to two years of long-term disability benefits equal to twenty percent of salary.

The State Police maintains a pension fund for police employees through a pension trust contract with the Treasurer of State.

13.4.6 State Budget Agency

The State Budget Agency (www.in.gov/sba) operates a centralized accounting service for State agencies with a limited staff. The SBA financial staff maintains expertise in technical and accounting functions in order to more efficiently and accurately record financial transactions of those agencies.

Fees charged to the individual agency are based on the number of transactions processed.

13.4.7 Department of Natural Resources

The Conservation and Excise Police Health Insurance fund administers health insurance and disability for conservation and excise police officers.