

F10A
Office of the Secretary
Department of Budget and Management

Operating Budget Data

(\$ in Thousands)

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$9,016	\$9,739	\$8,522	-\$1,217	-12.5%
Special Fund	6,863	7,817	7,937	120	1.5%
Reimbursable Fund	<u>81</u>	<u>190</u>	<u>187</u>	<u>-3</u>	<u>-1.8%</u>
Total Funds	\$15,959	\$17,746	\$16,646	-\$1,100	-6.2%
Contingent & Back of Bill Reductions			-83	-83	
Adjusted Total	\$15,959	\$17,746	\$16,563	-\$1,184	-6.7%

- The abolition of 12.0 regular and 4.5 contractual positions is the primary reason for the \$1.2 million decrease from fiscal 2005 to 2006.
- The fiscal 2006 deferred compensation contribution funding (\$83,358) of the State's match of up to \$600 in 401(k) fund contributions is withdrawn through budget reconciliation legislation.

Personnel Data

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>
Regular Positions	206.80	206.80	199.80	-7.00
Contractual FTEs	<u>8.20</u>	<u>10.00</u>	<u>5.50</u>	<u>-4.50</u>
Total Personnel	215.00	216.80	205.30	-11.50

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	6.37	3.19%
Positions Vacant as of 12/31/04	22.00	10.64%

Note: Numbers may not sum to total due to rounding.

For further information contact: Lori J. O'Brien

Phone: (410) 946-5530

F10A – DBM – Office of the Secretary

- As of December 31, 2004, the agency had 22.0 vacancies. However, of the 12.0 positions abolished in the Office of the Secretary, 6 are vacant. If those positions are excluded from the current number of vacancies, the recalculated vacancy rate would be 8.0%. This revised vacancy rate represents 16.0 vacant positions, 13.0 of which are in the Central Collections Unit.
- The largest number of abolitions is from the division of Capital Budget Analysis and Formation (5.0); the remaining abolitions are dispersed across the remaining divisions.

Analysis in Brief

Issues

Lax Oversight of Agency Spending Leads to Diversion of Health Insurance Dollars: DBM is asked to explain how in fiscal 2004 health insurance funding was used for purposes other than health insurance.

Incomplete Managing for Results Plan Submitted to the General Assembly: DBM submitted a State comprehensive Managing for Results report in February 2005. However, the report did not include any data for the performance measures. **The Department of Legislative Services recommends that DBM explain why it did not consider that results were an integral part of its 2005 State Managing for Results Comprehensive Plan and brief the committees on the plan.**

Indirect Cost Recovery: Problems with indirect cost recovery are described.

Recommended Actions

- | | <u>Funds</u> | <u>Positions</u> |
|--|--------------|------------------|
| 1. Amend Section 2. | | |
| 2. Amend Section 17. | | |
| 3. Add section restricting the pay of an Acting Secretary whose nomination as Secretary has been rejected. | | |
| 4. Add section applying across-the-board reductions to higher education institutions, unless otherwise stated. | | |
| 5. Add section establishing a subsidiary ledger account and reporting requirement for workers' compensation charges. | | |
| 6. Add section reducing Secretary's salaries for noncompliance with State fiscal laws, rules, and regulations. | | |

F10A – DBM – Office of the Secretary

7.	Add section requiring statement of federal revenues in the executive budget books.		
8.	Add section requiring budgeting of capital funds in separate eight-digit programs.		
9.	Add section defining the standards under which federal funds shall be used by the State.		
10.	Add section defining the process under which budget amendments may be used.		
11.	Add section providing for an annual report on indirect costs and other provisions.		
12.	Add section requiring a general fund forecast in the executive budget books.		
13.	Add section providing for reporting of budget data.		
14.	Add section requiring maintenance of accounting systems for certain programs.		
15.	Delete 2.0 full-time equivalent long-term vacancies.	\$ 124,382	2.0
16.	Delete 5.0 full-time equivalent Governor's Policy Fellows regular positions.	150,613	5.0
	Total Reductions	\$ 274,995	7.0

F10A
Office of the Secretary
Department of Budget and Management

Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) Office of the Secretary, Budget Analysis and Formation, and Capital Budget Analysis and Formation, are responsible for coordinating the study and analysis of the needs, administration, organization, functions, economy, efficiency, and performance of State agencies. The department is responsible for preparing and submitting the State budget, including capital items, to the General Assembly; providing ongoing assistance to operating departments for the preparation and execution of the State budget, including Managing for Results (MFR) and strategic budgeting program requirements; providing both short- and long-range projections of State revenue sources available to the State. The Central Collections Unit (CCU) attempts to collect certain debt owed to the State and is supported by a percentage of the debt collected. The functions of the Office of Personnel Services and Benefits and the Office of Information Technology (OIT) are reviewed in separate analyses.

Strategic budgeting outcome goals include effective budgeting, effective resource management, and effective public policy.

Primary MFR goals include:

- to allocate resources to contribute to achievement of outcome goals by State agencies;
- to ensure that agencies have a high quality workforce that reflects the diversity of the State;
- to maximize return on investment in CCU; and
- to ensure that State-owned capital projects included in the capital budget are consistent with the principles of sound capital budget planning.

Performance Analysis: Managing for Results

As show in **Exhibit 1**, CCU has increased debt referrals collected upon in fiscal 2004 over fiscal 2003 levels, while the debt collected as a percentage of total debt referred over the last four fiscal years has stayed relatively constant. In fiscal 2004, CCU had a high volume of low-value debt, compared to fiscal 2003, explaining the decrease in net profit. In the future, the unit expects to maintain profitability, as well as percentage of debt referrals collected upon, while slowly increasing the value of debt collected as a percentage of debt assigned.

Exhibit 1
Program Measurement Data
Department of Budget and Management – Office of the Secretary
Fiscal 2001 – 2006

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Actual</u> <u>2004</u>	<u>Est.</u> <u>2005</u>	<u>Est.</u> <u>2006</u>	<u>Ann.</u> <u>Chg.</u> <u>01-04</u>
Net profit in CCU – goal: to increase or maintain (\$ in thousands)	\$523	\$1,092	\$2,818	\$1,077	\$1,078	\$1,078	27.2%
Percentage of debt referrals collected upon – goal: 40%	48.0%	40.0%	36.0%	40.0%	40.0%	40.0%	-5.9%
Debt collected as percentage of total debt from referrals received over the last four years	32.0%	38.0%	30.4%	30.0%	31.0%	33.0%	-2.1%

Governor's Proposed Budget

Decreases in the Governor's allowance, demonstrated in **Exhibit 2**, are dominated by reductions from 12.0 full-time equivalent (FTE) regular position (**Exhibit 3**) and 4.5 FTE contractual position abolitions; decreases in contractual services, primarily attributed to reductions in Office of Administrative Hearings charges and the transfer of a larger share of computer usage contracts to the DBM – OIT; and a reduction in communications expenditures. These decreases are offset by 5.0 FTE new Governor's Policy Fellows positions, increased retirement costs, and funds devoted to reclassifications and hiring above the minimum.

Exhibit 2
Governor's Proposed Budget
DBM – Office of the Secretary
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimbursable Fund	Total
2005 Working Appropriation	\$9,739	\$7,817	\$190	\$17,746
2006 Governor's Allowance	8,522	7,937	187	16,646
Contingent & Back of Bill Reductions	<u>-35</u>	<u>-48</u>	<u>-1</u>	<u>-83</u>
Adjusted Allowance	\$8,487	\$7,889	\$186	\$16,563
Amount Change	-\$1,252	\$73	-\$4	-\$1,184
Percent Change	-12.9%	0.9%	-2.1%	-6.7%

Where It Goes:

Personnel Expenses

Increments	\$262
5.0 FTE new Governor's Policy Fellows positions, 3.0 FTE of which are funded.....	151
Employee retirement.....	107
Reclassifications and hiring above the minimum.....	99
12.0 FTE abolished positions	-861
4.5 FTE reduction in contractual positions, primarily due to conversion of Governor's Policy Fellows positions.....	-175
Employee and retiree health insurance	-52
Turnover adjustments	-27
Other fringe benefit adjustments	4

Other Changes

Contractual services, primarily attributable to the transfer of a larger share of computer usage service contracts to DBM - Information Technology and a decrease in Office of Administrative Hearing charges (based on fiscal 2004 actual charges).....	-287
Communications expenditures, primarily attributable to a statewide reduction in equipment payments	-196
Office supplies, equipment replacement, and fixed charges.....	-189
Travel.....	-15
Vehicle maintenance, fuel, repair, and commuter charges	-5

Total	-\$1,184
--------------	-----------------

Note: Numbers may not sum to total due to rounding.

Exhibit 3
DBM – Office of the Secretary
Positions Scheduled for Abolition in Fiscal 2006

<u>Classification Title</u>	<u>Filled Positions</u>		<u>Vacant Positions</u>		<u>Programmatic Impact</u>
	<u>FTEs</u>	<u>Salary</u>	<u>FTEs</u>	<u>Salary</u>	
DBM – Executive Direction					
Administrator I	1.0	\$50,324			None.
Administrator IV	1.0	64,781			None.
Administrator VII			1.0	\$81,980	None.
Division of Procurement Policy and Administration					
Administrative Officer II	1.0	45,496			None.
Supervisory Budget Examiner			1.0	55,971	None.
Administrator IV	1.0	64,167			Policy analysis function (one position) is transferred to Budget Analysis and Formation.
Budget Analysis and Formation					
Budget Analyst IV, Operating			1.0	49,157	None.
Capital Budget Analysis and Formation					
Budget Analyst III, Capital Programs	1.0	53,105			None.
Computer Information Services Specialist	1.0	41,863			None.
Budget Analyst Lead, Capital Programs			2.0	101,174	None.
Program Manager Senior III			1.0	83,310	None.
Total Fiscal 2005 FTE	6.0	\$319,736	6.0	\$371,592	

Source: Department of Budget and Management

Issues

1. Lax Oversight of Agency Spending Leads to Diversion of Health Insurance Dollars

During the 2003 session, the General Assembly enacted legislation (Section 17, Chapter 202, Acts of 2003 (the budget bill)) that prohibited agencies from using funds budgeted for employee and retiree health insurance for any other purpose. In fiscal 2004, the Department of Public Safety and Correctional Services (DPSCS) budgeted \$116.0 million for health insurance and used \$93.0 million of those funds. However, DPSCS only reverted \$16.8 million of the unspent funds; \$6.2 million was neither reverted nor was it spent for health insurance. **The Department of Legislative Services (DLS) recommends amending Section 17 of the budget bill to require the development of an accounting structure that will ensure better oversight of future spending on restricted expenditure categories. (See Recommended Action # 2 for details.) DLS also recommends that DBM discuss why this oversight happened and what it intends to do to ensure that it does not happen in the future.**

2. Incomplete Managing for Results Plan Submitted to the General Assembly

In reaction to a number of the Office of Legislative Audits (OLA) findings in a performance audit of the Managing for Results (MFR) process, the State MFR plan was codified in the State Finance and Procurement Article (Section 3-1001). One of primary findings of the OLA report was that comprehensive strategic planning was not incorporated into MFR. In response, Section 3-1001(h) defines that a:

“State comprehensive plan” means a statement of goals which serve as a broad directive for improving or making more cost effective State resources and services. The plan shall include no more than 10 statewide goals and 50 to 100 performance measures that describe the statewide progress towards its goals.

This plan was to be submitted by January 31, 2005, to the Senate Budget and Taxation Committee and the House Committee on Appropriations. It was to provide information on the content of the State plan and the State’s progress toward the goals outlined in the plan. The requirements for the agencies under Section 3-1002 (c)(3) specify that performance measure statistics for at least the two most recent years and estimates for the current and budget year are to be provided. The statewide report, received on February 7, 2005, describes in great detail the statewide goals and performance measures under each of the Ehrlich Administration’s pillars. Nowhere, however, does it provide actual data. **DLS recommends that DBM explain why it did not consider that results were an integral part of its 2005 State Managing for Results Comprehensive Plan and brief the committees on the plan.**

3. Indirect Cost Recovery

Background

As noted by OLA, there have been issues with the State’s accounting and management of indirect costs, primarily its oversight of federal indirect costs. There are three types of indirect costs used for State accounting:

- intra-agency indirect costs;
- statewide indirect costs; and,
- federal indirect costs.

Intra-agency indirect costs are those costs associated with operating a department but are not attributable to any specific program, items such as the costs of operating the department’s budget and finance functions. Statewide indirect costs are the costs of various State central services that DBM allocates among the agencies. DBM uses the Statewide Cost Allocation Program (SWCAP) to allocate these costs to all departments and agencies within the State. These pooled costs are then allocated within each department’s operating units based on the employee count within each unit. Federal indirect costs are the costs the federal agency assumes will be necessary to manage a federal program. The granting federal agency will allow a certain percentage of the grant to be allocated towards management and administration costs while the remainder must be used for programmatic purposes.

Each year the budget bill contains the following language:

“AND BE IT FURTHER ENACTED, That the Department of Budget and Management shall provide an annual report on indirect costs to the Joint Audit Committee. The report should assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies.”

In response to this requirement, DBM has provided the information contained in Appendix I of the Governor’s budget books (**Appendix 5**). OLA reported in its May 2003 audit report of DBM that the department did not adequately perform its responsibilities regarding cost allocation plans and indirect cost reporting.

Audit Findings

OLA reported that DBM did not ensure that the statewide cost allocation plan was properly prepared by the State agencies or that an annual report of indirect cost was submitted to the Joint Audit Committee as required by State law.

F10A – DBM – Office of the Secretary

The OLA report went on to detail several issues:

- DBM did not adequately monitor the work of the contractor preparing the SWCAP to ensure that all appropriate costs were included in the plan.
- DBM, in direct violation of policy, did not obtain and review State agencies' internal cost allocation plans.
- DBM had not submitted annual reports on indirect costs to the General Assembly's Joint Audit Committee as required by law. Annually, the budget bill requires DBM to submit a report to the committee that assesses available information on the timeliness, completeness, and deposit history of federal indirect cost recoveries by State agencies. Instead of submitting the required reports, DBM included schedules of indirect cost recoveries and related reversions to the General Fund. However, these schedules were prepared by State agencies, and DBM did not verify the accuracy of the information.

The audit report recommended that DBM review the SWCAP to ensure the accuracy and completeness of the costs included, and that DBM comply with the indirect cost reporting requirements specified by the annual Laws of Maryland.

In an effort to address this issue, DBM asked DLS for input on how to improve its reporting. DLS agreed to assist and researched the issue. During its research efforts, DLS found several other issues involving the management of indirect costs:

- Over the last 9 years, 12 OLA audits of various State agencies were identified as dealing with indirect cost issues. Of the 12 findings;
 - 5 involved failure to recover indirect costs in a timely manner or at all;
 - 3 involved failure to submit an indirect cost recovery plan in a timely manner;
 - 1 involved failure to include indirect costs in its user fee calculations;
 - 1 involved the disallowance of several years of indirect cost reimbursements;
 - 1 involved the misallocation of indirect costs amongst programs; and
 - 1 involved failure to file the required reports.
- Not all of these mistakes had obvious or quantifiable monetary consequences, but seven of these errors resulted in lost interest to the State or lost reimbursements ranging from \$16,000 to \$1.25 million.

Appendix 6 provides a more detailed table of the findings. As a result of the findings, DLS has conducted a more thorough investigation of indirect cost recovery methodology and reporting.

Statewide Federal Indirect Cost Recovery Waivers

DBM has a department policy to grant State agencies that present justification waivers from reverting their federal statewide indirect cost recoveries to the general fund. **Appendix 7** shows which agencies received waivers from reverting their indirect costs to the general fund for the last nine years. An examination of the data show that approximately 44% (\$14.8 million) of all indirect costs subject to general fund reversion were not reverted over the time period considered. Two agencies – the Department of Labor, Licensing, and Regulation (DLLR) and the Department of Health and Mental Hygiene (DHMH) – comprised over half of all of the waived indirect costs during this time period. Nine agencies have received at least one waiver during the period in question and some agencies have received a waiver in almost every year. Indirect costs that are waived are then appropriated, typically by budget amendment, as federal funds for any purpose. DLS and the budget committees have no way of knowing if the funds are waived indirect costs.

One example of how these reversions have been used is the Maryland Department of the Environment (MDE) and its purchase of the Enterprise Environmental Management System (EEMS). This is a computer system that MDE had determined it needed but had encountered significant issues in procuring. During EEMS' planning period, MDE decided to prepare for the cost by regularly obtaining waivers for its indirect cost recoveries and retaining those balances as cash in an agency holding account. Then, these funds were appropriated via budget amendment.

The current, total estimated cost for the purchase, installation, and maintenance of EEMS is \$6,784,000. According to the Board of Public Works (BPW) materials, MDE anticipates using general funds (15%), federal funds (70%), and special funds (15%) to cover this cost.

MDE's fiscal 2005 budget included \$100,000 in federal funds for EEMS. However, MDE submitted a \$2,597,040 fiscal 2005 budget amendment appropriating federal indirect cost recovery funds accumulated from fiscal 2001 through 2003 for the project.

Conclusions

The research undertaken by DLS has resulted in the following conclusions:

- **Waivers Are Granted Too Frequently:** DBM has waived almost half of the indirect cost recoveries that would have reverted to the general fund. This allowed the agencies to expend these funds for other purposes.
- **There Is Inadequate Information Flow between Agencies and DBM to Provide a Meaningful Indirect Cost Report:** OLA identified that DBM was not meeting the requirements of the law with the report it included in Appendix I of the Governor's budget books. However, the

F10A – DBM – Office of the Secretary

investigation showed that the information for an adequate report is really not collected by DBM or available in a central location.

Moreover, it was determined that elements of the annual budget language pertaining to the timeline, completion, and deposit history of indirect cost recoveries were not feasible for DBM or the agencies to provide. Instead, it was agreed that the review of this information should be performed as part of each agency's regularly scheduled fiscal compliance audit conducted by OLA.

Actions

As a result of these conclusions, two significant actions were taken. First, DBM agreed to be much more rigorous in reviewing waiver requests. The department agreed that waivers have been granted too frequently and that the review process was almost non-existent. DBM has promised to correct this situation immediately.

The second action resulted from a meeting held with DBM, DLS, and the State agencies with the largest amount of indirect cost recoveries to discuss and find a way to provide the information necessary to generate an adequate report. In this meeting the agencies reported that there is some difficulty, due mostly to differences in federal and State fiscal years and nuances of the reimbursement process, in providing all of the information DLS thought useful. However, it was agreed that the agencies could provide information on the amounts of federal recoveries received; of federal recoveries transferred to the general fund; and of the amount waived (if any). The agencies can also provide the most recent updates from the federal government regarding the approved recovery rates and the agencies' internal indirect cost recovery rates.

Recommendations

DLS recommends that the committees consider modifying the annual budget bill language that pertains to indirect cost recoveries to:

- Require DBM to annually report in the budget books that accompany the Governor's allowance the following information for the most recently completed fiscal year:
 - the amount of actual statewide cost recovery received from the federal government;
 - the amount of actual statewide cost recovery transferred to the general fund;
 - the amount of indirect cost recovery that the agencies obtained for their internal use; and,
 - the amount of approved statewide and internal cost recovery rates for each agency.
- Delete the requirement to report on the timeliness, completeness, and deposit history of indirect cost recoveries by each State agency, since this information is not readily available, and require

F10A – DBM – Office of the Secretary

OLA to review such information as part of each agency's regularly scheduled fiscal/compliance audit.

- Require that all statewide federal indirect cost recoveries be reverted solely to the general fund without the possibility of DBM or any other agency to grant a waiver to permit any agency to retain those funds for any other use or purpose.

Recommended Actions

1. Amend the following section:

SECTION 2. AND BE IT FURTHER ENACTED, ~~That:~~ ~~That in order to carry out the provisions of these appropriations the Secretary of Budget and Management is authorized:~~

- ~~(a) To allot all or any portion of the funds herein appropriated to the various departments, boards, commissions, officers, schools and institutions by monthly, quarterly or seasonal periods and by objects of expense and may place any funds appropriated but not allotted in contingency reserve available for subsequent allotment. Upon the Secretary's own initiative or upon the request of the head of any State agency, the Secretary may authorize a change in the amount of funds so allotted.~~

~~The Secretary shall, before the beginning of the fiscal year, file with the Comptroller of the Treasury a schedule of allotments, if any. The Comptroller shall not authorize any expenditure or obligation in excess of the allotment made and any expenditure so made shall be illegal.~~

- ~~(b) To allot all or any portion of funds coming into the hands of any department, board, commission, officer, school and institution of the State, from sources not estimated or calculated upon in the budget.~~
- ~~(e) (1) Prior to July 1, 2005, the Department of Budget and Management shall file with the Comptroller of the Treasury a list of the appropriations for each program in the State budget.~~
- ~~(2) Prior to July 1, 2005, the Presiding Officers of the General Assembly shall submit to the Comptroller of the Treasury a list of the appropriations restricted in this Act. The Comptroller of the Treasury shall place the restricted appropriations into a contingency reserve until such time as the Comptroller of the Treasury receives written notification from the chairmen of the Senate Budget and Taxation Committee and House Committee on Appropriations that the funds may be released from the contingency reserve and made available to the appropriate department, board, commission, officer, school, or institution.~~
- ~~(3) Except as provided in paragraph (2) of this section, the Comptroller of the Treasury may not authorize any expenditure or obligation that requires use of funds in the contingency reserve and any expenditure so made shall be illegal.~~
- ~~(4) The Secretary of Budget and Management is authorized to ~~To~~ fix the number and classes of positions, including temporary and ~~permanent~~ regular positions, or person years of authorized employment for each agency, unit, or program thereof,~~

F10A – DBM – Office of the Secretary

not inconsistent with the Public General Laws in regard to classification of positions. The Secretary shall make such determinations before the beginning of the fiscal year and shall base them on the positions or person years of employment authorized in the budget as amended by approved budgetary position actions. No payment for salaries or wages nor any request for or certification of personnel shall be made except in accordance with this budget ~~the Secretary's determinations. At any time during the fiscal year the Secretary may amend the number and classes of positions or person years of employment previously fixed by the Secretary; the Secretary may delegate all or part of this authority.~~ The governing boards of public institutions of higher education shall have the authority to transfer positions between programs and campuses under each institutional board's jurisdiction without the approval of the Secretary, as provided in Section 15-105 of the Education Article.

~~(d) To prescribe procedures and forms for carrying out the above provisions.~~

Explanation: Amendments to this section remove the authorization for the Governor to unilaterally withhold allotments from agencies and provide a process for the release of funds restricted by the General Assembly. The language also preserves the ability of the Department of Budget and Management (DBM) to implement control over the number and classes of positions.

Information Request	Author	Due Date
List of appropriations for each program in the State budget	DBM	Prior to July 1, 2005

2. Amend the following section:

SECTION 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller Objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0175 (Workers' Compensation), 0217 (Health Insurance - MDOT only), 0305 (DBM Paid Telecommunications) and 0322 (Capital Lease Telecommunications) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management. Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller objects 0152, 0154, 0305, and 0322 between State departments and agencies by approved budget amendment in fiscal year 2005 and fiscal year 2006.~~

Further provided that funds may be transferred between State agency programs and subprograms within Comptroller Objects 0101, 0152, and 0154.

F10A – DBM – Office of the Secretary

Further provided that each agency that receives funding in this budget in any of the restricted Comptroller objects herein listed within this section shall establish within the State's accounting system a structure of accounts to separately identify for each restricted Comptroller object by fund source, the legislative appropriation, monthly transactions, and final expenditures. It is the intent of the General Assembly that accounting detail be established so that the Office of Legislative Audits may review the disposition of funds appropriated for each restricted Comptroller object as part of each closeout audit to ensure that funds are used only for the purposes for which they are restricted and that unspent funds are reverted or cancelled.

Explanation: This amendment withdraws the opportunity for the Secretary of Budget and Management to redirect certain funds for other purposes and makes it possible for the Office of Legislative Audits to track the disposition of funds in Comptroller objects 0152, 0154, 0217, 0305, and 0322.

3. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That no funds in this budget may be expended to pay the salary of an Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate.

Explanation: This language ensures that the intentions of the Senate are reflected in the payment of executive salaries.

4. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That all across-the-board reductions applied to the Executive Branch, unless otherwise stated, shall apply to current unrestricted and general funds in the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.

Explanation: This section explicitly applies reductions intended for the full Executive Branch to the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College, unless their exclusion is specifically stated.

5. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Comptroller of the Treasury's General Accounting Division shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0174 (workers' compensation coverage) and to credit all payments disbursed to the Injured Workers' Insurance Fund (IWIF) via transmittal. The control account shall also record all funds withdrawn from the IWIF and returned to the State and subsequently transferred to the general fund. IWIF shall submit monthly reports to the Department of Legislative Services concerning the status of the account.

F10A – DBM – Office of the Secretary

Explanation: This section provides continuation of a system to track workers' compensation payments to IWIF for payment of claims, current expenses, and funded liability for incurred losses by the State.

Information Request	Author	Due Date
Report on status of ledger control account	IWIF	Monthly beginning July 1, 2005

6. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That whenever the Joint Audit Committee, through its review and evaluation process of audit reports issued by the Legislative Auditor, and after consultation with the Legislative Auditor, determines, based upon exceptions contained in the audit reports, that a particular agency (to include department, administration, division, bureau, board, or commission) does not adequately comply with State laws, rules, and regulations regarding the agency's fiscal and accounting record and procedures and/or fiscal administration activities, that the committee may recommend to the Governor that the Comptroller withhold up to 25 percent of the salary of the Secretary of the department and/or of the State official deemed responsible. The amount to be withheld, the duration of such withholding, and the date of release of any amount withheld shall be recommended by the committee after consultation with the Legislative Auditor, including any recommendations that the Legislative Auditor deems appropriate. The Governor shall advise the committee as to the decision regarding the committee's recommendations. If the Governor directs that the salary of the head of the agency and/or salary of the Secretary of the department and/or salary of the State official deemed responsible be withheld, the Governor may restore the full amount as provided in the budget and the amount withheld to be paid. The Governor shall notify the budget committees of any salary actions described under this section.

Explanation: This annual language provides for the possible reduction of up to 25% of a Secretary's salary in the event that the agency does not adequately comply with State laws, rules, and regulations regarding the agency's fiscal support.

7. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That executive budget books shall include a summary statement of federal revenues by major federal program source supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting these data and ensure that they are updated as appropriate to reflect ongoing Congressional action on the federal budget. In addition, DBM shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each federal fund appropriation by Catalogue of Federal Domestic Assistance number or equivalent detail for programs not in the catalogue. Data shall be provided in an electronic format subject to the concurrence of DLS.

F10A – DBM – Office of the Secretary

Explanation: This annual language provides for consistent reporting of federal monies received by the State.

Information Request	Author	Due Date
Report of components of each federal fund appropriation	DBM	With submission of the fiscal 2007 budget

8. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That for fiscal 2007, capital funds shall be budgeted in separate eight-digit programs. When multiple projects and/or programs are budgeted within the same non-transportation eight-digit program, each distinct program and project shall be budgeted in a distinct subprogram. To the extent possible, subprograms for projects spanning multiple years shall be retained to preserve funding history. Furthermore, the budget detail for fiscal 2005 and 2006 submitted with the fiscal 2007 budget shall be organized in the same fashion to allow comparison between years.

Explanation: This annual language requires that capital funds be budgeted in separate eight-digit programs to aid in the identification of individual capital projects.

9. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That in the expenditure of federal funds appropriated in this budget or subsequent to the enactment of this budget by the budget amendment process:

- (1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.
- (2) For fiscal 2006, except with respect to capital appropriations, to the extent consistent with federal requirements:
 - (a) when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged; this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child care, child welfare, or welfare reform activities or to the Department of Health and Mental Hygiene with respect to funds to be carried forward into future years for the purpose of reducing the waiting list for community services for individuals with developmental disabilities, or with respect to funds to be carried forward into future years for HIV/AIDS-related activities;

F10A – DBM – Office of the Secretary

- (b) when additional federal funds are sought or otherwise become available in the course of the fiscal year, agencies shall consider, in consultation with the Department of Budget and Management, whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and
- (c) the Department of Budget and Management shall take appropriate actions to effectively establish these as policies of the State with respect to administration of federal funds by executive agencies.

Explanation: This annual language defines the policies under which federal funds shall be used in the State budget.

10. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That any budget amendment to increase the total amount of special, federal, or higher education (current restricted and current unrestricted) fund appropriations, or to make reimbursable fund transfers from the Governor's Office of Crime Control and Prevention or the Maryland Emergency Management Agency, made in Section 1 shall be subject to the following restrictions:

- (1) Budget amendments increasing total appropriations in any fund account by \$100,000 or more may not be approved by the Governor until (a) that amendment has been submitted to the Department of Legislative Services and (b) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to the Department of Legislative Services shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of impact on budgeted or contractual position and payroll requirements.
- (2) Unless permitted by the budget bill or the accompanying supporting documentation or by other authorizing legislation, and notwithstanding the provisions of Section 3-216 of the Transportation Article, a budget amendment may not:
 - (a) restore funds for items or purposes specifically denied by the General Assembly;
 - (b) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation shall be restricted as provided in Section 1;
 - (c) increase the scope of a capital project by an amount 7.5 percent or more over the approved estimate or 5 percent or more over the net square footage of the approved project until the amendment has been submitted to the Department of Legislative Services and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to the Maryland Department of Transportation; and

F10A – DBM – Office of the Secretary

- (d) provide for the additional appropriation of special, federal, or higher education funds of more than \$100,000 for the reclassification of a position or positions.
- (3) A budget may not be amended to increase a federal fund appropriation by \$100,000 or more unless documentation evidencing the increase in funds is provided with the amendment and fund availability is certified by the Secretary of Budget and Management.
- (4) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.
- (5) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health or welfare, including protecting the environment or economic welfare of the State.
- (6) This section shall not apply to budget amendments for the sole purpose of:
 - (a) appropriating funds available as a result of the award of federal disaster assistance;
 - (b) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee; and
 - (c) appropriating funds for Major Information Technology Development Project Fund projects approved by the budget committees.

Explanation: This annual language defines the process under which budget amendments may be used.

11. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, that the Department of Budget and Management shall provide an annual report on indirect costs to the General Assembly in January 2006 as an appendix in the Governor’s fiscal 2007 budget books. The report shall detail by agency for the actual fiscal 2005 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the general fund, and the amount of indirect cost recovery retained for use by each agency. In addition, it shall list the most recently available federally approved statewide and internal agency cost recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by state agencies. Further provided that for fiscal 2006 the amount of revenue received by each agency from any federal source for statewide cost recovery may only be transferred to the general fund and may not be retained in any clearing account or by any other means, nor may the Department of Budget and Management or any other agency or entity approve exemptions to permit any agency to retain any portion of federal statewide cost recoveries.

Explanation: This is annual language that has been revised to address the fact that the Department of Budget and Management (DBM) has waived almost half of the indirect cost recoveries that would have reverted to the general fund, allowing agencies to expend these funds for other purposes. There is also not enough information flowing from the agencies to DBM to allow DBM to publish adequate information on indirect cost recoveries in the Governor's budget book.

12. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the executive budget books shall include a forecast of the impact of the executive budget proposal on the long-term fiscal condition of General Fund, Transportation Trust Fund, and higher education current unrestricted fund accounts. This forecast shall estimate aggregate revenues, expenditures and fund balances in each account for the fiscal year last completed, the current year, the budget year, and four years thereafter. Expenditures shall be reported at such agency, program or unit levels or categories as may be determined appropriate after consultation with the Department of Legislative Services. A statement of major assumptions underlying the forecast shall also be provided, including but not limited to general salary increases, inflation, and growth of caseloads in significant program areas.

Explanation: This annual language provides for the delivery of the executive's general fund forecast and defines the conditions under which it is to be provided.

13. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that all State departments, agencies, bureaus, commissions, boards, and other organizational units included in the State budget, including the Judiciary, shall prepare and submit items for the fiscal 2007 budget detailed by "Statewide Subobject" classification in accordance with instructions promulgated by the Comptroller of the Treasury. The presentation of budget data in the State budget book shall include object, fund, and personnel data in the manner provided for fiscal 2006 except as indicated elsewhere in this Act; however, this shall not preclude the placement of additional information into the budget book. For actual fiscal 2005 spending, the fiscal 2006 working appropriation, and the fiscal 2007 allowance, the budget detail shall be available from the Department of Budget and Management's automated data system at the subobject level by statewide subobject codes and classifications for all agencies. To the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund for actual fiscal 2005 spending, the fiscal 2006 working appropriation, and the fiscal 2007 allowance. The agencies shall exercise due diligence in reporting these data and ensuring correspondence between reported position and expenditure data for the actual, current, and budget fiscal years. These data shall be made available upon request and in a format subject to the concurrence of the Department of Legislative Services. Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of the Treasury.

F10A – DBM – Office of the Secretary

Further provided due diligence shall be taken to accurately report full-time equivalent position counts of contractual positions in the budget books. For the purpose of this count, contractual positions are defined as those individuals having an employee-employer relationship with the State. This count shall include those individuals in higher education institutions who meet this definition but are paid with additional assistance funds.

Further provided that the Department of Budget and Management shall provide with the allowance for each department, unit, agency, office, and institution reported in the budget books an organizational chart that depicts the allocation of personnel across operational and administrative activities of the entity.

Explanation: This annual language provides for consistent reporting of fiscal 2005, 2006, and 2007 budget data, and newly provides for the submission of organizational charts in the budget books.

14. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That:

- (1) The Secretary of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2005 in program M00Q01.03 Medical Care Provider Reimbursements have been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.
- (2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2005 to program R00A02.07 Students With Disabilities for Non-Public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.
- (3) The Secretary of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2005 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year and to prepare the periodic reports required under this section for that program.
- (4) For the programs specified, reports shall indicate total appropriations for fiscal 2005 and total disbursements for services provided during that fiscal year up through the last day of the second month preceding the date on which the report is to be submitted and a comparison to data applicable to those periods in the preceding fiscal year.
- (5) Reports shall be submitted to the budget committees, the Department of Legislative Services, the Department of Budget and Management, and the Comptroller on November 1, 2005, March 1, 2006, and June 1, 2006.

F10A – DBM – Office of the Secretary

(6) It is the intent of the General Assembly that general funds appropriated for fiscal 2005 to the programs specified which have not been disbursed within a reasonable period, not to exceed 12 months from the end of the fiscal year, shall revert.

Explanation: This annual language requires the maintenance of accounting systems for certain programs, states the intent of the General Assembly that general funds not disbursed be reverted, and requires reporting of disbursements by the Department of Health and Mental Hygiene (DHMH), the Maryland State Department of Education (MSDE), and the Department of Human Resources (DHR).

Information Request	Authors	Due Date
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH MSDE DHR	November 1, 2005 March 1, 2006 June 1, 2006

	<u>Amount Reduction</u>		<u>Position Reduction</u>
15. Delete 2.0 full-time equivalent (FTE) long-term vacancies. An Assistant Attorney General VI and an Executive Associate II position have both been vacant longer than 19 months. Position identification numbers for these positions are 069365 (Assistant Attorney General VI) and 060295 (Executive Associate II).	\$ 124,382	GF	2.0
16. Delete 5.0 full-time equivalent Governor’s Policy Fellows regular positions. This is a statewide program coordinated by the Maryland Higher Education Commission but funded through the Department of Budget and Management. Funds are deleted as a cost saving measure.	150,613	GF	5.0
Total General Fund Reductions	\$ 274,995		7.0

Current and Prior Year Budgets

**Current and Prior Year Budgets
DBM – Office of the Secretary
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$9,908	\$6,519	\$0	\$50	\$16,477
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,068	0	138	1,206
Cost Containment	-681	0	0	0	-681
Reversions and Cancellations	-211	-725	0	-107	-1,043
Actual Expenditures	\$9,016	\$6,863	\$0	\$81	\$15,959
Fiscal 2005					
Legislative Appropriation	\$9,415	\$7,817	\$0	\$191	\$17,422
Budget Amendments	325	0	0	-1	324
Working Appropriation	\$9,739	\$7,817	\$0	\$190	\$17,746

Note: Numbers may not sum to total due to rounding.

Fiscal 2004

- In fiscal 2004 an increase of \$1,068,154 in special funds was approved for the Central Collections Unit through budget amendment. These funds were used to staff regular, contractual, and temporary positions required to cover the increased workload created by the collections of the Motor Vehicle Administration insurance lapse debt. BPW also approved the creation of 20 positions to address the increased workload. Funding was available from debt collection fees.
- General funds were reduced by \$681,031 through the July 30, 2003, BPW cost containment measure.

Fiscal 2005

- In fiscal 2005, an increase of \$324,563 in general funds has been transferred from DBM, Office of Personnel and Benefits' budget for the purpose of funding the general salary increase.
- Reimbursable funds originally budgeted to provide a State match of deferred compensation withholding are also withdrawn in fiscal 2005.

Audit Findings

Audit Period for Last Audit:	August 1, 1999 – June 30, 2002
Issue Date:	May 2003
Number of Findings:	12
Number of Repeat Findings:	8
% of Repeat Findings:	66.7%
Rating: (if applicable)	

Please note that audit findings 1 through 5 related to DBM – OIT are not included in this summary.

Finding 6: DBM improperly retained funds totaling approximately \$11.2 million during the fiscal 2002 budgetary closeout.

Finding 7: State agency encumbrances (budgeted funds retained) were no longer required to be independently reviewed.

Finding 8: Since September 1991, most telecommunication vendors’ billings to the State have not been independently audited. Additionally, the division did not adequately verify the propriety of monthly telecommunication vendor billings.

Finding 9: The Division of Telecommunications did not verify that the State received credits and certain commissions due under its telecommunications contracts.

Finding 10: Delinquent telecommunication accounts due from State agencies were not adequately pursued for collection. Accounts totaling in excess of \$500,000 were written off due to inadequate debt documentation.

Finding 11: Program costs were not certified to the Public Service Commission annually as required by State law. In addition, the program’s fund balance had not been reconciled with the records of the Comptroller of the Treasury.

Finding 12: DBM did not adequately perform its responsibilities regarding cost allocation plans and indirect cost reporting.

Finding 13: DBM’s internal network was not adequately secured from external threats.

Finding 14: The State’s information security policy has not been significantly updated since July 1996. The current policy does not address new information technology practices.

F10A – DBM – Office of the Secretary

Finding 15: Proper internal control was not established over the processing of certain disbursement transactions.

Finding 16: Cash receipts were not adequately controlled upon receipt.

Finding 17: DBM did not maintain accurate equipment records and had failed to record \$3 million in equipment that was transferred to DBM in a fiscal 1997 reorganization.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
DBM – Office of the Secretary**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	206.80	206.80	199.80	-7.00	-3.4%
02 Contractual	8.20	10.00	5.50	-4.50	-45.0%
Total Positions	215.00	216.80	205.30	-11.50	-5.3%
Objects					
01 Salaries and Wages	\$ 11,648,166	\$ 13,283,619	\$ 13,051,196	-\$ 232,423	-1.7%
02 Technical and Spec Fees	474,181	378,345	203,097	-175,248	-46.3%
03 Communication	1,224,263	1,646,988	1,451,031	-195,957	-11.9%
04 Travel	31,988	56,952	41,470	-15,482	-27.2%
07 Motor Vehicles	6,637	16,538	11,162	-5,376	-32.5%
08 Contractual Services	1,605,368	1,569,588	1,282,861	-286,727	-18.3%
09 Supplies and Materials	320,124	432,106	292,677	-139,429	-32.3%
10 Equipment - Replacement	437,082	96,855	48,950	-47,905	-49.5%
13 Fixed Charges	211,627	265,101	263,457	-1,644	-0.6%
Total Objects	\$ 15,959,436	\$ 17,746,092	\$ 16,645,901	-\$ 1,100,191	-6.2%
Funds					
01 General Fund	\$ 9,015,839	\$ 9,739,304	\$ 8,522,336	-\$ 1,216,968	-12.5%
03 Special Fund	6,862,686	7,816,864	7,936,993	120,129	1.5%
09 Reimbursable Fund	80,911	189,924	186,572	-3,352	-1.8%
Total Funds	\$ 15,959,436	\$ 17,746,092	\$ 16,645,901	-\$ 1,100,191	-6.2%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

Fiscal Summary
DBM – Office of the Secretary

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 Office of the Secretary	\$ 12,671,517	\$ 14,360,727	\$ 13,484,356	-\$ 876,371	-6.1%
05 Office of Budget Analysis	1,905,073	2,010,343	2,147,855	137,512	6.8%
06 Office of Capital Budgeting	1,382,846	1,375,022	1,013,690	-361,332	-26.3%
Total Expenditures	\$ 15,959,436	\$ 17,746,092	\$ 16,645,901	-\$ 1,100,191	-6.2%
General Fund	\$ 9,015,839	\$ 9,739,304	\$ 8,522,336	-\$ 1,216,968	-12.5%
Special Fund	6,862,686	7,816,864	7,936,993	120,129	1.5%
Total Appropriations	\$ 15,878,525	\$ 17,556,168	\$ 16,459,329	-\$ 1,096,839	-6.2%
Reimbursable Fund	\$ 80,911	\$ 189,924	\$ 186,572	-\$ 3,352	-1.8%
Total Funds	\$ 15,959,436	\$ 17,746,092	\$ 16,645,901	-\$ 1,100,191	-6.2%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Recoveries of Indirect Costs from Federal Grants and Contracts
Fiscal 2003**

	Statewide Federal Indirect Cost Recoveries	Internal Federal Indirect Cost Recoveries	Reverted to General Fund
Office of the Attorney General	\$279,642	-	\$279,642
Department of Natural Resources	167,068	\$1,090,972	167,068
Department of Agriculture	32,301	290,710	-
Department of Health and Mental Hygiene	1,220,477	5,875,320	-
Department of Human Resources	2,017,400	25,117,029	2,017,400
Department of Labor, Licensing, and Regulation	1,071,440	8,423,184	-
Department of Public Safety and Correctional Services	-	151,165	-
State Department of Education	-	7,969,556	-
University System of Maryland	305,642	85,857,100	305,642
Baltimore City Community College	-	573,022	-
Morgan State University	199,742	1,049,720	-
St. Mary's College of Maryland	-	131,600	-
Department of Housing and Community Development	636,520	2,334,659	636,520
Department of the Environment	233,787	2,790,629	-
Department of State Police	-	4,475,140	-
Total	\$6,164,019	\$146,129,806	\$3,406,272

Source: *Maryland Fiscal Year 2005 Budget, Operating Budget*, Volume Three, page 111 – 929

Audit Findings on Indirect Costs

<u>Date</u>	<u>Agency</u>	<u>Description</u>	<u>Result</u>
2/00	Environment	Did not recover \$1.7 million in a timely manner.	Loss of \$35,000 in interest.
6/99	Education	Did not recover costs from the federal government. Did not recover costs from locals.	Loss of \$350,000 in interest. Loss of \$16,000 in interest.
5/03	DLLR	The federal government disallowed \$9.8 million in costs due to non-compliant calculation methodology.	Funds to be repaid to the federal government.
3/02	Military	Costs not recovered from the federal government to administer federal government grants.	General funds used to cover federal qualified costs.
3/03	DBM	Failed to insure cost allocation plans were followed (SWCAP), did not review agency internal allocation plans, did not submit report on indirect costs to General Assembly.	Unknown.
6/02	Environment	Failed to submit cost recovery plan to the federal government in a timely manner.	Loss of \$29,000 in interest income.
11/03	MPBC	Not properly allocated to programs.	Assessment that certain programs were revenue contributors when they most likely were not.
3/00	DHMH	Failed to include indirect costs in calculations of user fees for the Health Services Cost Review Commission 1997 through 2000.	Annual loss of \$320,000 in recoverable revenues.
6/00	DBM	Failure to submit report on statewide indirect costs	Unknown.
10/99	EOG	Failed to submit an indirect cost plan in a timely manner. Department could not verify its indirect cost recovery efforts were valid.	Loss of \$1.25 million in un-recovered federal funds between 1996 and 1998.
2/99	Ex. Dept. Off. for Ind. with Disabilities	Indirect costs totaling at least \$723,000 were not recovered from federal grants in 1996 through 1998. Also failed to use federal approved provisional rate while formal indirect cost recovery plan awaited approval.	Loss of revenues of at least \$723,000.

EOG = Executive Office of Governor

Indirect Waivers Granted for the Last Nine Fiscal Years

Fiscal Year	Agency	Statewide Federal Indirect Cost Recoveries	Reversion to GF	\$ Waived
2003	Attorney General	\$279,642	\$279,642	\$0
	Department of Natural Resources	167,068	167,068	0
	Department of Aging	32,301	0	32,301
	Department of Human Resources	2,017,400	2,017,400	0
	Department of Labor, Licensing, and Regulation	1,071,440	0	1,071,440
	University System of Maryland	305,642	305,642	0
	Morgan State University	199,742	0	199,742
	Department of Housing and Community Development	636,520	636,520	0
	Maryland Department of the Environment	233,787	0	233,787
			0	0
	Total	\$4,943,542	\$3,406,272	\$1,537,270
2002	Attorney General	\$267,762	\$0	\$267,762
	Department of Natural Resources	97,644	97,644	0
	Department of Aging	25,000	0	25,000
	Department of Health and Mental Hygiene	1,221,761	0	1,221,761
	Department of Human Resources	2,128,307	2,128,307	0
	Department of Labor, Licensing, and Regulation	809,229	0	809,229
	University System of Maryland	156,964	156,964	0
	Department of Housing and Community Development	539,523	539,523	0
	Maryland Department of the Environment	299,247	0	299,247
	Department of State Police	20,631	20,631	0
	Total	\$5,298,306	\$2,943,069	\$2,355,237
2001	Attorney General	\$196,135	\$196,135	\$0
	Department of Natural Resources	132,267	132,267	0
	Department of Aging	23,100	0	23,100
	Department of Health and Mental Hygiene	647,785	0	647,785
	Department of Human Resources	2,194,580	2,194,580	0
	Department of Labor, Licensing, and Regulation	679,264	0	679,264
	University System of Maryland	369,748	369,748	0
	Department of Housing and Community Development	112,149	112,149	0
	Maryland Department of the Environment	151,360	0	151,360
	Department of State Police	20,285	20,285	0
	Total	\$4,330,538	\$2,829,029	\$1,501,509
2000	Department of Natural Resources	\$167,826	\$167,826	\$0
	Department of Aging	17,200	17,200	0
	Department of Health and Mental Hygiene	402,580	0	402,580
	Department of Human Resources	1,290,254	0	1,290,254

F10A – DBM – Office of the Secretary

Appendix 7 (Continued)

<u>Fiscal Year</u>	<u>Agency</u>	<u>Statewide Federal Indirect Cost Recoveries</u>	<u>Reversion to GF</u>	<u>\$ Waived</u>
	Department of Labor, Licensing, and Regulation	715,974	0	715,974
	University System of Maryland	278,858	278,858	0
	Department of Housing and Community Development	61,711	61,711	0
	Maryland Department of the Environment	180,114	0	180,114
	Department of State Police	185,002	185,002	0
	Total	\$3,299,519	\$710,597	\$2,588,922
1999	Department of Natural Resources	\$103,467	\$103,467	\$0
	Department of Aging	27,962	27,962	0
	Department of Health and Mental Hygiene	402,592	0	402,592
	Department of Human Resources	947,222	947,222	0
	Department of Labor, Licensing, and Regulation	844,284	0	844,284
	University System of Maryland	293,421	293,421	0
	Department of Housing and Community Development	48,429	48,429	0
	Maryland Department of the Environment	132,590	0	132,590
	Department of State Police	194,049	194,049	0
	Total	\$2,994,016	\$1,614,550	\$1,379,466
1998	Department of Natural Resources	\$134,443	\$134,443	\$0
	Department of Aging	15,861	15,861	0
	Department of Health and Mental Hygiene	361,062	0	361,062
	Department of Human Resources	826,966	826,966	0
	Department of Labor, Licensing, and Regulation	844,284	844,284	0
	University System of Maryland	411,265	411,265	0
	Department of Housing and Community Development	45,890	45,890	0
	Maryland Department of the Environment	144,884	0	144,884
	Department of State Police	232,613	233,613	-1,000
	Total	\$3,017,268	\$2,512,322	\$504,946
1997	Department of Natural Resources	\$88,577	\$90,249	-\$1,672
	Department of Aging	18,347	18,347	0
	Department of Health and Mental Hygiene	342,525	0	342,525
	Department of Human Resources	993,467	993,467	0
	Department of Labor, Licensing, and Regulation	860,604	0	860,604
	Department of Public Safety and Correctional Services	6,856	0	6,856
	Department of Housing and Community Development	48,671	48,671	0
	Maryland Department of the Environment	123,276	123,276	0
	Department of State Police	227,318	227,318	0
	Total	\$2,709,641	\$1,501,328	\$1,208,313

F10A – DBM – Office of the Secretary

Appendix 7 (Continued)

<u>Fiscal Year</u>	<u>Agency</u>	<u>Statewide Federal Indirect Cost Recoveries</u>	<u>Reversion to GF</u>	<u>\$ Waived</u>
1996	Attorney General	\$2,552	\$127,594	-\$125,042
	Department of Natural Resources	95,758	95,758	0
	Department of Aging	10,217	15,975	-5,758
	Department of Health and Mental Hygiene	705,949	0	705,949
	Department of Human Resources	997,550	997,550	0
	Department of Labor, Licensing, and Regulation	860,604	0	860,604
	Department of Public Safety and Correctional Services	12,988	0	12,988
	University System of Maryland	370,820	363,789	7,031
	Department of Housing and Community Development	66,674	66,674	0
	Department of Business and Economic Development	894,429	0	894,429
	Maryland Department of the Environment	136,712	136,712	0
	Department of State Police	38,241	38,241	0
	Total	\$4,083,967	\$1,602,966	\$2,481,001
1995	Attorney General	\$29,362	\$117,450	-\$88,088
	Department of Natural Resources	79,737	79,737	0
	Department of Aging	15,942	15,416	526
	Department of Health and Mental Hygiene	610,077	0	610,077
	Department of Human Resources	1,211,560	1,211,560	0
	Department of Labor, Licensing, and Regulation	33,821	132,788	-98,967
	Department of Public Safety and Correctional Services	5,907	0	5,907
	Maryland State Department of Education	271,196	0	271,196
	USM University System of Maryland	394,200	394,200	0
	Department of Housing and Community Development	303,901	303,901	0
	Department of Business and Economic Development	894,429	0	894,429
	Maryland Department of the Environment	197,409	0	197,409
	Department of State Police	18,715	18,715	0
	Total	\$3,331,138	\$2,061,164	\$1,269,974
Grand Total		\$34,007,935	\$19,181,297	\$14,826,638

Fiscal 2006 Cost Containment Actions
As Submitted by the Agency
Estimated Fiscal 2006 Savings
Compared to Fiscal 2005

<u>Activity</u>	<u>Program</u>	<u>General Funds</u>	<u>Position Reduction</u>	<u>Impact of Action</u>
Office of the Secretary				
Executive Direction				
Assessed the handling of correspondence and general support needs. Primary correspondence management given to OBA with majority of responses coming from OBA. General administrative support downsized.	F10A01.01	\$245,887	3.00	No operational change.
Finance and Administration				
Reduced general administrative support costs	F10A01.02	172,000	0.00	No operational change.
Procurement Policy and Administration				
Reduced level of oversight for Statewide Travel Management contract. Reinforces responsibility of agency management to make the cost decisions that affect their budgets.	F10A01.04	59,340	1.00	No operational change.
Eliminated policy analysis function.		72,254	1.00	Policy analysis is now part of the responsibility of OBA.
Reassessed staffing levels for Fleet Management vs. needs		80,252	1.00	No operational change.
Office of Budget Analysis				
Reassessed staffing levels vs. needs	F10A05.01	64,474	1.00	No operational change.
Office of Capital Budgeting				
Reassessed staffing levels vs. needs	F10A06.01	357,034	5.00	No operational change.
Total General Fund Savings		\$1,051,241	12.00	

OBA = Office of Budget Analysis

Source: Department of Budget and Management