

**F10A**  
**Office of the Secretary**  
**Department of Budget and Management**

***Operating Budget Data***

(\$ in Thousands)

	<b><u>FY 05</u></b> <b><u>Actual</u></b>	<b><u>FY 06</u></b> <b><u>Working</u></b>	<b><u>FY 07</u></b> <b><u>Allowance</u></b>	<b><u>FY 06-07</u></b> <b><u>Change</u></b>	<b><u>% Change</u></b> <b><u>Prior Year</u></b>
General Fund	\$10,426	\$8,844	\$8,434	-\$410	-4.6%
Special Fund	7,808	7,921	9,434	1,514	19.1%
Reimbursable Fund	<u>171</u>	<u>265</u>	<u>283</u>	<u>17</u>	<u>6.5%</u>
<b>Total Funds</b>	<b>\$18,405</b>	<b>\$17,030</b>	<b>\$18,152</b>	<b>\$1,121</b>	<b>6.6%</b>

- The Department of Budget and Management (DBM) – Office of the Secretary’s budget increases by \$1.1 million.
- While general funds decreased by \$410,004 in the allowance, special funds increased by \$1,513,773, primarily due to increased activity in the Central Collections Unit (CCU).

***Personnel Data***

	<b><u>FY 05</u></b> <b><u>Actual</u></b>	<b><u>FY 06</u></b> <b><u>Working</u></b>	<b><u>FY 07</u></b> <b><u>Allowance</u></b>	<b><u>FY 06-07</u></b> <b><u>Change</u></b>
Regular Positions	206.80	191.80	191.80	0.00
Contractual FTEs	<u>10.60</u>	<u>7.90</u>	<u>11.90</u>	<u>4.00</u>
<b>Total Personnel</b>	<b>217.40</b>	<b>199.70</b>	<b>203.70</b>	<b>4.00</b>

***Vacancy Data: Regular Positions***

Turnover, Excluding New Positions	6.12	3.19%
Positions Vacant as of 12/31/05	14.00	7.30%

- There are 14.0 full-time equivalent (FTE) vacant positions as of December 31, 2005; 10 of these vacancies are in the CCU. The turnover rate budgeted for the agency requires that 6.1 FTE positions remain open through the fiscal year.

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

For further information contact: Lori J. O’Brien

Phone: (410) 946-5530

- The number of contractual positions increases in the allowance by 4.0 FTE positions due to the addition of 4 Governor’s Policy Fellows.

## *Analysis in Brief*

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### Major Trends

**Central Collections Unit Is Showing Strong Performance:** While the largest share of increased spending in DBM – Office of the Secretary’s budget is in the CCU (\$1.5 million including personnel), profits in CCU have been increasing dramatically and are expected to continue to increase during the fiscal 2007 budget year.

### Issues

**State Comprehensive Plan for Managing for Results:** A review of the executive’s plan is provided, including a discussion of the plan’s strengths and weaknesses.

**Spending Approved Through Budget Amendment:** The magnitude of spending approved through budget amendment is discussed. **The Department of Legislative Services recommends revising budget amendment budget bill language to better reflect the intent of the General Assembly.**

### Recommended Actions

1. Amend Section 2 to remove the authorization for the Governor to withhold allotments from agencies.
2. Amend Section 17 limiting utilization of certain funds for their intended purpose only and other measures.
3. Add section denying the payment of an Acting Secretary’s salary when his/her nomination as Secretary has been rejected by the Senate.
4. Add section applying across-the-board reductions in the Executive Branch to higher education, unless otherwise restricted.
5. Add section providing for an accounting of workers’ compensation funds.
6. Add section restricting payment for a Secretary’s salary due to noncompliance with State laws, rules, and regulations.

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7. Add section requiring consistent reporting of federal monies received by the State.
8. Add section requiring that capital funds be budgeted in separate eight-digit programs.
9. Add section that defines the policies under which federal funds shall be used in the State budget.
10. Add section that defines the process under which budget amendments may be used.
11. Add section that requires a report on indirect costs.
12. Add section that requires the delivery of the executive's general fund forecast and defines the conditions under which it is to be provided.
13. Add section that provides for consistent reporting of fiscal 2006, 2007, and 2008 budget data and other requirements.
14. Add section that requires the maintenance of accounting systems for certain programs and other requirements.
15. Add section that requires the maintenance of certain statewide subobjects.
16. Add section addressing repeat audit findings.
17. Add section that prohibits spending for faith-based organizations or for a policy, program, or office named for that purpose unless specifically authorized by an Act of the General Assembly.
18. Add section reporting on interagency agreements.
19. Add language that requires that a new vendor to provide actuarial services related to the State's health program be selected through a competitive bidding process during fiscal 2007.



**F10A**  
**Office of the Secretary**  
**Department of Budget and Management**

***Operating Budget Analysis***

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**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 2005 over fiscal 2004 levels, while the debt collected as a percentage of total debt has grown at a slightly faster pace. However, the real story is the dramatic growth in the level of profits earned at CCU. The average annual change in net profits since fiscal 2002 has been 89.9%. In fact, profit is growing by about \$1.7 million annually from fiscal 2002 through 2005. The unit expects to continue to maintain or grow profitability, as well as percentage of debt referrals collected upon, while slowly increasing the value of debt collected as a percentage of debt assigned.

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**Exhibit 1**  
**Program Measurement Data**  
**Department of Budget and Management – Office of the Secretary**  
**Fiscal 2002 – 2007**

	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Est.</u> <u>2006</u>	<u>Est.</u> <u>2007</u>	<u>Avg. Ann.</u> <u>Change</u> <u>02-05</u>
Net profit in CCU – goal: to increase or maintain (\$ in Thousands)	\$1,092	\$2,818	\$5,577	\$7,448	\$9,448	\$11,448	89.6%
Change in net profit in CCU (\$ in Thousands)	\$568	\$1,726	\$2,759	\$1,871	\$2,000	\$2,000	48.7%
Percent of debt referrals collected upon – goal: 40%	40.0%	36.0%	40.0%	41.5%	42.0%	41.7%	1.2%
Percent of total dollars value of debt collected upon – goal: 33%	38.0%	30.4%	30.0%	31.8%	33.2%	33.5%	-5.8%

Source: Department of Budget and Management

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## Governor’s Proposed Budget

Increases in the Governor’s allowance, demonstrated in **Exhibit 2**, are directly related to the increased activity both in accounts received and profits shown in CCU, and the support required to accomplish that. To a lesser extent, increases are due to the restoration of Governor’s Policy Fellows as contractual positions. When these positions were included as regular positions in the fiscal 2006 allowance, they were deleted by the General Assembly, with the understanding that the agency could carry them as contractuales.

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

<b>How Much It Grows:</b>	<b><u>General</u></b>	<b><u>Special</u></b>	<b><u>Reimb.</u></b>	<b><u>Total</u></b>
	<b><u>Fund</u></b>	<b><u>Fund</u></b>	<b><u>Fund</u></b>	
2006 Working Appropriation	\$8,844	\$7,921	\$265	\$17,030
2007 Governor’s Allowance	<u>8,434</u>	<u>9,434</u>	<u>283</u>	<u>18,152</u>
Amount Change	-\$410	\$1,514	\$17	\$1,121
Percent Change	-4.6%	19.1%	6.5%	6.6%

**Where It Goes:**

**Personnel Expenses**

Fiscal 2007 employee and retiree health insurance .....	\$268
Increments and other compensation .....	258
4.0 new FTE Governor's Policy Fellows contractual positions (these positions were not funded in fiscal 2006 but had been funded in the past) .....	172
Employees' retirement system .....	99
Turnover adjustment.....	64
Growth in State's match (\$400 to \$600) for deferred compensation contribution.....	27
Fiscal 2006 overestimate of employee and retiree health insurance.....	-12
Unemployment compensation .....	-13
Fiscal 2006 overestimate of employee salaries.....	-40
Workers' compensation premium assessment .....	-66
Other fringe benefit adjustments .....	-19

**Increased Activity in CCU**

Contract for secondary debt collection .....	240
Postage.....	216
Data processing forms and equipment.....	123
Equipment rental for a new program to allow debtors to pay debt with credit cards .....	55

**Other Changes**

Various types of insurance coverage through the Office of the Treasurer .....	16
Office of Administrative Hearings charges .....	-112
Annapolis Data Center charges .....	-128
Other miscellaneous charges .....	-26

**Total** **\$1,121**

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

## Issues

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### 1. State Comprehensive Plan for Managing for Results

#### Background

During the 2004 session of the General Assembly, SB 381/Chapter 452 amended Section 3-1002(e) of the State Finance and Procurement Article to require DBM to develop a statewide plan for MFR. In February 2005, DBM submitted to the budget committees the State's first Comprehensive Plan for MFR.

The plan is an important step in Maryland's progress in implementing a performance-based approach to planning and budgeting. The State's MFR program "emphasizes use of resources to achieve measurable results, accountability, efficiency, and continuous improvement in State government programs." The State Comprehensive Plan provides a singular, integrated statement of priorities and goals for the State, as well as a framework for measuring progress toward those goals. In other words, it attempts to answer the questions, "What do we want for our State?" and "How will we know if we are getting closer to getting what we want?"

The MFR Comprehensive Plan is based on the five pillars of the Administration's priorities. The plan includes one goal for each pillar, several key performance areas for each goal, and at least one performance measure in each key area. The plan includes the following five goals:

- **Education:** Maryland citizens will have access to quality educations enabling them to obtain well-paying jobs, to live full and enriched lives, and to serve their communities.
- **Health and the Environment:** Marylanders will be healthy, live in a healthy environment, and benefit from a revitalized Chesapeake Bay.
- **Public Safety:** Maryland communities will be safe and secure.
- **Commerce:** Maryland will be a State where business and commerce thrive, supported by a well-functioning and modern transportation system.
- **Fiscal Responsibility:** The State will allocate its resources effectively and manage spending within available revenues.

#### A Long-term View

To be effective, a plan like the State Plan should be enduring. Progress in reaching broad, statewide goals should be sustained and should be measured over extended periods of time. Plan goals should be broadly accepted. In short, such a plan should take a long-term view. The State Plan,

in large part, represents a broad-based, long-term view. The five goals represent areas of consistent priority: education, health and the environment, public safety, commerce, and fiscal responsibility.

Another strength of the State Plan is that it reflects existing accountability frameworks. Specifically, the education measures are consistent with the State educational accountability system and federal No Child Left Behind (NCLB) requirements. Similarly, most of the environment measures reflect the State's Chesapeake 2000 agreement. Using these measures promotes consistent direction in programming and acknowledges the State's existing commitments. More importantly, it takes advantage of the consensus built through initiatives like the Bridge to Excellence and Chesapeake 2000. This consensus increases the likelihood that the measures will be seen as important for the long-term.

## **Room for Improvement**

The five goals of the State Plan represent areas of consistent priority, and many of the key performance areas and performance measures are also appropriate. There are several areas in the State Plan, however, that deserve attention.

### **Poverty**

Poverty has an obvious relationship to thriving communities (commerce); healthy babies, children, and adults (health and the environment); and success in school (education). It is also a generally accepted and understood concept. The State Plan includes measures of employment and per capita personal income, but neither measure relates to the cost of living in Maryland or a particular standard of living. A poverty measure would address whether Maryland residents have access to jobs that pay well enough for a person to make a living and support a family.

### **The New Economy**

Maryland prides itself on its position in the "new economy," particularly as an emerging center for bioscience and technology. The State Plan includes measures related to the nursing and teaching workforces, employment, port cargo, airport passengers, and even film production. Nowhere does it address whether the State is successfully preparing Maryland residents to participate in the "new economy." To ensure that Maryland residents can fully participate in economic opportunities in these growing sectors, the State should measure its success in preparing a workforce for fields such as bioscience, technology, and aerospace/defense.

### **Land Use**

Land use has a strong relationship to both commerce and the environment. It is also the only major element of the Chesapeake 2000 agreement that is not reflected in the key performance areas and measures that support the health and environment goal. The State Plan includes the measure "total acres enrolled in agricultural preservation districts," but the State has invested substantial amounts of money in other land preservation and conservation programs. Including a land use

measure in the State Plan would provide data to measure whether that investment is a good idea and whether the programs in place are effective.

### **Specific Performance Measures**

In addition to the broad areas discussed above, several measures in the State Plan deserve reconsideration. Specifically:

- Safe schools are a priority among the general public and are key to NCLB. The public safety section of the State Plan should include a measure related to safe schools.
- The health section of the State Plan covers major areas of morbidity, including cancer, vaccine preventable disease, lead poisoning, and HIV. Given current health trends, heart disease and obesity may also be worthy of consideration.
- The State Plan, in the health and environment section, includes a measure of clean air. The current measure relates to one-hour ozone standard, which is no longer used. Consistent with the idea of using measures already in place, using the eight-hour standard – or even the percent of Maryland population living in areas not meeting federal air standards – may be a better choice.
- In the commerce section, the State Plan includes a measure of direct expenditures for film, television, and other production. According to the Department of Business and Economic Development, this industry contributes only \$141 million in annual economic impact to the State. The State Plan should reflect other business sectors that play a larger role in the Maryland economy and should omit the film measure.

### **Final Thoughts**

One of the strengths of the State Plan is its structure around broad statewide goals. It would be a much weaker plan if it were structured according to State agencies and their missions. Integrating measures from various agency MFR plans is a good beginning to thinking in a more integrated fashion about addressing statewide goals.

Including a variety of measures in the State Plan is not an end in itself. The plan must be used as a planning and budgeting tool if it is to be effective. First, the Executive Branch should consider ways to strengthen the link between the State Plan and its budget proposal. Second, all State Plan measures should be MFR measures within State government to ensure that agency programs align with statewide goals and agency personnel are managing toward those goals.

Finally, Maryland residents and policymakers should have greater access to the State Plan. On the Office of the Governor's web site, there are links from each of the five pillars to a description

of the State’s performance under each; these descriptions did not consistently refer to the performance measures used to show movement toward the goals under each pillar in the State Plan.

In the most recent *Managing for Results Annual Performance Report*, provided by DBM in February 2006, data for the most recently available time period for each individual measure is provided, as is the agency source. However, no historical context is given. **DBM should comment on plans for providing recent, as well as historical data for each of its measures in the next report. Although the historical data may not be immediately available, it does exist.**

Another, perhaps more “user friendly” version of MFR is provided by the Ohio Department of Job and Family Services; it is an example Maryland could emulate: its Performance Center web site offers interactive access to the agency’s goals, performance measures, and actual data to measure progress and success. Publication, broad access to the State Plan, and complete data would help the plan achieves the statutory goals of “accountability, efficiency, and continuous improvement in State government programs.”

## **2. Spending Approved Through Budget Amendment**

During the legislative session, the budget committees conduct hearings on more than 150 agency budgets. The committees listen to hours of testimony and come to conclusions about the appropriate funding level for each program. Passage of the budget bill near the conclusion of the session, however, does not bring the budget process to closure. In fact, substantial sums are added to the budget after the close of session through the budget amendment process. During fiscal 2004 and 2005, the legislative appropriation was increased each year by approximately \$1.0 billion in special, federal, and higher education fund amendments. As depicted in **Exhibit 3**, these amendments represented approximately an 8% increase in each year to the appropriation approved by the General Assembly.

Budget amendments are to be expected to recognize revenues that were not anticipated during session or to implement the actions of the General Assembly. In fact, more than half of the funds added by amendment since the close of the 2005 session implement actions of the General Assembly (transfers from the Dedicated Purpose Account to Medicaid and Juvenile Services, recognition of revenues from the health maintenance organization premium tax, etc). However, the magnitude of amendments processed after enactment of the budget bill suggests that amendments do more than accommodate unanticipated revenues and comply with changes in statute.

**To better manage spending that comes in through budget amendment, the Department of Legislative Services (DLS) recommends revising budget amendments budget bill language to better reflect the intent of the General Assembly.**

**Exhibit 3**  
**Special, Federal, and Higher Education Spending**  
**Approved Through Budget Amendment in Fiscal 2004 and 2005**  
**(\$ in Millions)**

	<u>Leg. Approp.</u>	<u>\$</u>	<u>Amendments</u> <u>% of Leg. Approp.</u>
<b>Fiscal 2004</b>			
Special	\$3,945.9	\$429.6	10.9%
Federal	5,706.0	569.7	10.0%
Unrestricted	1,544.3	24.7	1.6%
Restricted	917.0	-25.5	-2.8%
<b>Total</b>	<b>\$12,113.2</b>	<b>\$998.6</b>	<b>8.2%</b>
<b>Fiscal 2005</b>			
Special	\$4,134.0	\$435.7	10.5%
Federal	5,747.5	506.7	8.8%
Unrestricted	1,698.9	89.4	5.3%
Restricted	899.8	13.4	1.5%
<b>Total</b>	<b>\$12,480.1</b>	<b>\$1,045.3</b>	<b>8.4%</b>

Source: Department of Budget and Management

**Recommended language provides that no amendment may be processed to appropriate revenues, grants, balances, or funding sources if the availability of those funds was known to the administering agency on or before March 15, 2006, except with approval of the Board of Public Works after review and comment. DLS also recommends that no appropriation may be processed from special funds or current unrestricted revenues for State supported activities with the effect of increasing the total appropriation for a program receiving the funds by more than 2.5%. The recommended language makes exceptions for the appropriation of federal funds to backfill for general or special funds reduced by the General Assembly due to the availability of unappropriated federal funds and does not apply to federal Temporary Assistance for Needy Families dollars. A deficiency appropriation for items barred by the language may be submitted to the 2007 General Assembly.**

## Recommended Actions

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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.~~

- ~~(c) (1) Prior to July 1, 2006, 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, 2006, 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 contractual and permanent regular positions, or person years of authorized employment for each agency, unit, or program thereof, not inconsistent with the Public General Laws in regard to~~

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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 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.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
List of appropriations for each program in the State budget	DBM	Prior to July 1, 2006

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, 0152 and~~ 0154, ~~0305, and~~ 0322 between State departments and agencies by approved budget amendment in fiscal year 2006 and fiscal year 2007. All funds budgeted in or transferred to Comptroller Objects 0152 and 0154, and any funds restricted in this budget for use in the employee and retiree health insurance program that are unspent shall be credited to the fund as established in accordance with Section 2-516 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

Further provided that funds may be transferred between State agency programs and subprograms within Comptroller Objects 0305 and 0322.

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 0175 (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.

**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.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on status of ledger control account	IWIF	Monthly beginning July 1, 2006

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 records 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 order 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.

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

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report of components of each federal fund appropriation	DBM	With submission of the fiscal 2008 budget

8. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That for fiscal 2008, 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 2006 and 2007 submitted with the fiscal 2008 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 2007, 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 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, or to the Maryland State Department of Education with respect to funds to be carried forward into future years for child care;
  - (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. 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

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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
  - (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.
- (7) Further provided that the fiscal 2007 appropriation detail as shown in the Governor’s Budget Books submitted to the General Assembly in January 2007 and the supporting electronic detail, shall not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the Maryland Department of Transportation PAYGO capital program.
- (8) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. To implement this policy the following restrictions shall apply:
  - (a) No amendment may be processed to appropriate revenues, grants, balances, or funding sources if the availability of those funds was known to the administering agency on or before March 15, 2006, except with approval of the Board of Public Works after review and comment as provided under this section.
  - (b) No amendment may be processed from special funds or current unrestricted revenues for State supported activities with the effect of increasing the total appropriation for a program receiving the funds by more than 2.5 percent.
  - (c) The Governor may request a deficiency appropriation in the budget submitted to the 2007 General Assembly for any item barred under this paragraph.
- (9) The provision of paragraph (8) shall not apply to:
  - (a) the appropriation of federal Temporary Assistance for Needy Families dollars by the Department of Human Resources; and
  - (b) the appropriation of federal funds to backfill for general or special funds reduced by the General Assembly due to the availability of unappropriated federal funds.

**Explanation:** This revised 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 2007 as an appendix in the Governor’s fiscal 2008 budget books. The report shall detail by agency for the actual fiscal 2006 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 2007 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 requires a report on indirect costs and disallows waivers of statewide cost recovery, requiring that recovered funds may only be transferred to the general fund.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Annual report on indirect costs	DBM	With submission of Governor's fiscal 2008 budget books

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.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Executive's general fund forecast	DBM	With submission of Governor's fiscal 2008 budget books

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 2008 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 2007 except as indicated elsewhere in this Act; however, this shall not preclude the placement of additional information into the budget book. For actual fiscal 2006 spending, the fiscal 2007 working appropriation, and the fiscal 2008 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 2006 spending, the fiscal 2007 working appropriation, and the fiscal 2008 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.

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 to the Department of Legislative Services with the allowance for each department, unit, agency, office, and institution 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 2006, 2007, and 2008 budget data, and for the second year provides for the submission of department, unit, agency, office, and institutions' organizational charts to the Department of Legislative Services with the allowance.

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 2006 in program

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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 2006 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 2006 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 2006 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, 2006, March 1, 2007, and June 1, 2007.
- (6) It is the intent of the General Assembly that general funds appropriated for fiscal 2006 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).

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH MSDE DHR	November 1, 2006 March 1, 2007 June 1, 2008

15. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall maintain three statewide subobjects for fiscal 2007. Subobject 0111 is for leave payout funds used when long-term employees leave State service and are entitled to payment for accrued leave, subobject 0112 is for funds to be used for reclassifications and hiring above the minimum for a classification, and subobject 0306 is for cell phone expenditures. DBM shall further require that agency programs and subprograms specify in agency budget requests the use to which subobjects 0110 (Miscellaneous Adjustments) and 0199 (Other Fringe Benefit Costs) are being put.

**Explanation:** Agencies have treated two potentially notable personnel expenditures inconsistently. Some agencies in the past have budgeted vacation leave payout and expenditures related to hiring above the minimum rate in subobject 0110. Both of these are expenditures that other agencies have taken into consideration when calculating their turnover expectancy because they budgeted them within regular earnings (subobject 0101). By treating these expenditures differently in different agencies, it is difficult to consistently calculate and adequately compare turnover expectancy between agencies or to an agency's vacancy experience.

The addition of the cell phone expenditure subobject was necessary because it was found that without it, agencies were inconsistently budgeting cell phone expenditures, using as many as 30 different subobjects. That practice made cell phone expenditures extremely difficult to track.

Agencies also have the option of using subobjects 0110 and 0199 for various purposes, making it possible that expenditures more appropriately budgeted elsewhere will be reflected in these undefined categories.

16. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That \$500,000 in general funds shall be withheld from the Office of the Secretary of the Department of Budget and Management (budget code F10A01.01) and \$500,000 in general funds shall be withheld from the Administrative Office of the Courts (budget code C00A00.06) until all requirements of the reports outlined in this section are fulfilled.

Further provided that the Governor and the Chief Judge shall, by September 1, 2006, implement systems and processes to monitor the efforts of the Judiciary and the Executive Branch departmental units to correct audit findings reported by the Office of Legislative Audits (OLA). This shall include a quarterly follow-up process that requires agencies that have five or more repeat audit findings to advise OLA, not later than nine months after an audit report for that departmental unit has been issued, of the corrective actions taken or a schedule for when specific corrective actions will be implemented.

Further provided that the Governor and the Chief Judge shall submit reports to the budget committees by October 1, 2006, which shall include detail on what processes were adopted by agencies with five or more repeat audit findings in Judiciary and Executive Branch departmental units to ensure that findings are resolved and that the responsible personnel are held accountable for ensuring that corrective actions are implemented on an ongoing basis. Further provided that these reports shall also include a cost benefit analysis addressing the feasibility of establishing an Inspector General position within the Judiciary and each cabinet-level agency of the Executive Branch, for the purposes of conducting internal audits, implementing corrective actions to address audit findings by OLA, and ensuring compliance with applicable laws, rules, and regulations.

**Explanation:** The General Assembly is concerned with the high number of repeat findings in fiscal/compliance audits performed periodically by OLA, even though agencies agreed to implement corrective actions in one or more prior audits. Corrective actions have not been a priority of agency leadership and some agencies do not have designated individuals (such as internal auditors) to follow-up on the issues to make sure problems have been resolved on an ongoing basis. Similar language to that found in this section was in the fiscal 2006 budget bill, as enacted. However, the Judiciary sent an incomplete response that simply stated that it has internal auditors to address OLA findings.

The Department of Budget and Management (DBM) responded two months late. Its response discussed its inability to oversee audit findings; its lack of authority over independent Executive Branch agencies; and the small number of positions in the Budget Analysis and Formulation division (the division that would follow up on audit findings). It also discussed how it has asked agencies to provide information addressing audit findings during the budget development process. An unsuccessful earlier audit reporting and enforcement attempt was also noted. What the response did not include was any information addressing the resolution of repeat audit findings in individual agencies, nor did it discuss accountability for those negative audit findings within individual agencies.

This language requires that the Governor and the Chief Judge implement processes by September 1, 2006, to ensure that corrective actions are implemented. Agencies with five or more repeat audit findings are directed to submit follow-up reports to OLA, no later than nine months after the issuance of an audit, to indicate the corrective actions implemented or when actions will be implemented. Reports from the Judicial and Executive Branches shall be submitted to the budget committees by October 1, 2006, detailing the processes that have been adopted to implement this section and to evaluate the feasibility of creating Inspector General positions within the Judiciary and each cabinet-level Executive Branch agency. \$500,000 in general funds is withheld from the budget of DBM and of the Judiciary until all requirements of the report outlined in the section are fulfilled.

Information Request	Authors	Due Date
Outline of processes adopted to ensure that OLA findings are resolved	Governor Chief Judge	October 1, 2006

17. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That no funds in this budget may be expended pursuant to, or in furtherance of, any policy, program, or office, so named or otherwise, to purposefully promote or facilitate the participation of faith-based organizations in State programs providing health, social, educational or other community services, unless that policy, program, or office is specifically authorized by an Act of the 2006 General Assembly.

**Explanation:** This language prohibits spending for faith-based organizations or for a policy, program, or office named for that purpose unless specifically authorized by an Act of the General Assembly. Nothing in this section affects the eligibility of a faith-based organization to receive monies under any program funded in the budget. Likewise, nothing in this section precludes an agency from applying for and obtaining federal funds under a program that benefits faith-based and secular organizations in a neutral manner.

18. SECTION X. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that on or before August 1, 2006, each State agency and each public institution of higher education shall report to the Department of Budget and Management any agreements in place for any part of fiscal 2007 between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000 over the term of the agreement. Further provided that the Department of Budget and Management shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

- (1) A common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;
- (2) The starting date for each agreement;
- (3) The ending date for each agreement;
- (4) A total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;
- (5) A description of the nature of the goods and services to be provided;

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- (6) The total number of personnel, both full-time and part-time, associated with the agreement; and
- (7) Contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement.

Further provided that the Department of Budget and Management shall annually submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2006, which contains information on all agreements between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000, that were in effect at any time during the prior fiscal year.

**Explanation:** The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of \$100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. Further, it requires that the Department of Budget and Management submit a consolidated report on all agreements by December 1, 2006, to the budget committees and the Department of Legislative Services.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Consolidated report on all interagency agreements	DBM	December 1, 2006

- 19. Add the following language:

Provided that the vendor for actuarial services related to the State health program be selected through a competitive bidding process initiated during fiscal 2007.

**Explanation:** The Department of Budget and Management (DBM) has paid \$2.6 million over three years for actuarial services related to the State's health insurance program. However, indications are (see DBM – Office of Personnel Services and Benefits Issue 2) that projected costs developed in part by the vendor have resulted in greatly overestimated costs for health, prescription, and dental insurance coverage in fiscal 2007.

## *Current and Prior Year Budgets*

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### 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>
<b>Fiscal 2005</b>					
Legislative Appropriation	\$9,415	\$7,817	\$0	\$190	\$17,422
Deficiency Appropriation		0	0	0	0
Budget Amendments	1,625	255	0	6	1,885
Reversions and Cancellations	-614	-264	0	-24	-902
<b>Actual Expenditures</b>	<b>\$10,426</b>	<b>\$7,808</b>	<b>\$0</b>	<b>\$171</b>	<b>\$18,405</b>
<b>Fiscal 2006</b>					
Legislative Appropriation	\$8,485	\$7,922	\$0	\$186	\$16,593
Budget Amendments	360	0	0	79	439
<b>Working Appropriation</b>	<b>\$8,844</b>	<b>\$7,922</b>	<b>\$0</b>	<b>\$265</b>	<b>\$17,031</b>

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

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## **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.
- In fiscal 2005, \$255,000 in special funds are appropriated to the CCU from the unappropriated special funds for postage, equipment, and fixed charges to support an increase in debt referrals.
- A \$1,300,000 increase in general funds from the OIT realigned funding within the agency at the close of the fiscal year.
- The general and special fund reversions in fiscal 2005 are due to an overestimate of personnel costs and Annapolis Data Center charges.

## **Fiscal 2006**

- A \$359,818 increase in general funds from the DBM – Office of Personnel Services and Benefits provides funding for the fiscal 2006 general salary increase.

## ***Audit Findings***

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Audit Period for Last Audit:	August 1, 1999 – June 30, 2002
Issue Date:	May 2003
Number of Findings:	8
Number of Repeat Findings:	4
% of Repeat Findings:	50.0%
Rating: (if applicable)	n/a

Please note that audit findings 1 through 5 and 8 through 11 are 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 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.

**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>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	206.80	191.80	191.80	0	0%
02 Contractual	10.60	7.90	11.90	4.00	50.6%
<b>Total Positions</b>	<b>217.40</b>	<b>199.70</b>	<b>203.70</b>	<b>4.00</b>	<b>2.0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 12,347,109	\$ 13,080,937	\$ 13,647,748	\$ 566,811	4.3%
02 Technical & Spec Fees	489,431	203,097	374,647	171,550	84.5%
03 Communication	1,885,806	1,482,077	1,398,523	-83,554	-5.6%
04 Travel	39,331	41,470	41,440	-30	-0.1%
07 Motor Vehicles	10,821	10,319	13,601	3,282	31.8%
08 Contractual Services	2,528,011	1,607,460	1,840,744	233,284	14.5%
09 Supplies & Materials	226,453	292,677	363,534	70,857	24.2%
10 Equip - Replacement	612,927	48,950	138,277	89,327	182.5%
13 Fixed Charges	264,972	263,457	333,030	69,573	26.4%
<b>Total Objects</b>	<b>\$ 18,404,861</b>	<b>\$ 17,030,444</b>	<b>\$ 18,151,544</b>	<b>\$ 1,121,100</b>	<b>6.6%</b>
<b>Funds</b>					
01 General Fund	\$ 10,425,524	\$ 8,844,454	\$ 8,434,450	-\$ 410,004	-4.6%
03 Special Fund	7,807,926	7,920,631	9,434,364	1,513,733	19.1%
09 Reimbursable Fund	171,411	265,359	282,730	17,371	6.5%
<b>Total Funds</b>	<b>\$ 18,404,861</b>	<b>\$ 17,030,444</b>	<b>\$ 18,151,544</b>	<b>\$ 1,121,100</b>	<b>6.6%</b>

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Appendix 3

**Fiscal Summary  
DBM – Office of the Secretary**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Office of the Secretary	\$ 14,267,277	\$ 13,849,331	\$ 14,871,641	\$ 1,022,310	7.4%
05 Office of Budget Analysis	2,928,725	2,161,142	2,278,639	117,497	5.4%
06 Office of Capital Budgeting	1,208,859	1,019,971	1,001,264	-18,707	-1.8%
<b>Total Expenditures</b>	<b>\$ 18,404,861</b>	<b>\$ 17,030,444</b>	<b>\$ 18,151,544</b>	<b>\$ 1,121,100</b>	<b>6.6%</b>
General Fund	\$ 10,425,524	\$ 8,844,454	\$ 8,434,450	-\$ 410,004	-4.6%
Special Fund	7,807,926	7,920,631	9,434,364	1,513,733	19.1%
<b>Total Appropriations</b>	<b>\$ 18,233,450</b>	<b>\$ 16,765,085</b>	<b>\$ 17,868,814</b>	<b>\$ 1,103,729</b>	<b>6.6%</b>
Reimbursable Fund	\$ 171,411	\$ 265,359	\$ 282,730	\$ 17,371	6.5%
<b>Total Funds</b>	<b>\$ 18,404,861</b>	<b>\$ 17,030,444</b>	<b>\$ 18,151,544</b>	<b>\$ 1,121,100</b>	<b>6.6%</b>