

H00
Department of General Services

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$58,815	\$58,084	\$59,485	\$1,401	2.4%
Special Fund	2,616	1,794	1,224	-570	-31.8%
Federal Fund	840	918	972	54	5.9%
Reimbursable Fund	<u>25,361</u>	<u>27,741</u>	<u>30,371</u>	<u>2,630</u>	<u>9.5%</u>
Total Funds	\$87,631	\$88,537	\$92,052	\$3,515	4.0%

- The allowance includes a fiscal 2008 general fund deficiency of \$150,000 to fund the increased cost of janitorial services contracts at the 6 St. Paul Street facility and the Annapolis and Baltimore public buildings and grounds facilities.
- The underlying fiscal 2009 budget change for this agency, absent health insurance and Other Post Employment Benefits funding which distorts year-to-year comparisons, is \$477,672, or 0.6%
- The allowance includes \$3.5 million in general funds for facility maintenance which represents a \$1.5 million reduction from the fiscal 2008 working appropriation. The Spending Affordability Committee has exempted from the spending calculation the amount in excess of \$2.0 million budgeted for this program.
- The budget includes \$1.6 million in general funds for debt service payments for the Calvert Street Garage in Annapolis. The previous two budgets used remaining bond funds to fund the annual debt service payments for this facility.

Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>
Regular Positions	636.00	645.00	638.00	-7.00
Contractual FTEs	<u>18.67</u>	<u>27.40</u>	<u>27.74</u>	<u>0.34</u>
Total Personnel	654.67	672.40	665.74	-6.66

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	38.41	5.76%
Positions Vacant as of 12/31/07	58.00	9.10%

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

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H00 – Department of General Services

- The allowance includes the abolition of seven vacant regular positions – six vacant DGS police positions and one vacant support position. Overall, the abolished positions reduce the budget by \$348,143 in general funds.
- The allowance includes 27.8 contractual full-time equivalents (FTEs) which is just 0.3 FTEs more than the fiscal 2008 working appropriation. However, the department's mix of contractual FTEs includes a greater number of professional staff and reduced reliance on clerical and administrative support positions – overall, the department's contractual employee spending plan for fiscal 2009 includes an additional 10 construction managers which are compensated at a higher rate than other contractual FTEs. Overall, this change in the mix of contractual employees adds \$147,365 to the budget, most of which is supported from reimbursable funds from capital bond funds.
- The department's fiscal 2009 budgeted turnover rate on existing positions is 5.8% which requires that 37 positions remain vacant through the year in order to meet the target. The number of positions vacant as of December 28, 2007, after taking into account the 7 positions abolished in the budget, is 58 positions representing a vacancy rate of 9.1% which is in excess of the budgeted rate. However, 15 of the 58 vacant positions represent additional positions added in the fiscal 2008 budget that have yet to be filled, and when adjusted for this, the number of vacant positions is reduced to just 43 which represents a turnover rate of 6.74% which is more in line with the fiscal 2009 budgeted rate of 5.76%.

Analysis in Brief

Major Trends

Implementation of Prox/Camera Surveillance Control Entry System: The department's implementation of an integrated ID-video proximity entry system was expected to be nearly complete by the end of fiscal 2006. Implementation delays during fiscal 2006 resulted in the completion of far fewer facility upgrades than originally estimated. While still not completed at the close of fiscal 2007, the Department of General Services (DGS) reports that the system will be completed by the close of fiscal 2008.

Thefts at Secured Facilities: The number of reported thefts at DGS-managed facilities has steadily declined over the last several years, and the department has now surpassed its Managing for Results (MFR) objective to keep thefts at 15% below the fiscal 2002 baseline of 129 thefts.

New Procurements in DGS-supported Agencies: The department's MFR data for the percent of procurements completed on time and under budget continues to lag far behind the identified performance objective.

Minority Business Enterprise Participation: The department's goal to annually meet or exceed a 25% Minority Business Enterprise (MBE) participation rate for total procurement dollars awarded has not been met. However, when performance data excludes procurement for commodities such as electricity, the MBE participation rate is well in excess of the 25% goal.

H00 – Department of General Services

Small Business Reserve Program: The department is not reaching its MFR goal to increase the dollar amount of procurements awarded to small business by 25% annually. This measure does not address the statutory objective to ensure that at least 10% of procurements are awarded to small business.

Issues

Hiring Freeze Impacts Initiatives and Efficiencies: The department’s fiscal 2008 budget included 16 new positions to fund a variety of new initiatives and/or create operational efficiencies. Almost all of these positions remain unfilled and subject to the hiring freeze which is limiting the department’s ability to move forward with several planned initiatives. **The Department of Legislative Services (DLS) recommends that DGS brief the committees on the status of filling the new fiscal 2008 positions.**

Antiquated Information Technology: Many DGS divisions lack updated information technology systems. In some instances, the systems in place are no longer supported by the manufacturer and cannot be updated but rather must be completely replaced. The continued use of antiquated systems hinders the department’s ability to conduct core mission responsibilities. **DLS recommends that DGS brief the committees on the department’s intentions for replacing its antiquated information technology systems.**

Facility Maintenance Assessment: Despite recent increases in the level of funding dedicated to facility maintenance and facility renewal, the backlog of projects continues to grow. The State should consider implementing reforms that will improve the effectiveness of these programs and ensure that State facilities are properly maintained, serve their intended purpose, and stay in service. **DLS recommends that the State consider establishing a dedicated source of funding for facility maintenance and renewal purposes.**

Energy Conservation Efforts: Legislation enacted in 2006 and the Governor’s recent announcement of a major energy efficiency initiative, referred to as “EmPower Maryland,” indicate that the State may finally be prepared to move forward with energy efficiency initiatives that can reduce the State’s energy consumption. **DLS recommends that DGS brief the committees concerning the establishment of the new Office of Energy Performance and Conservation, the status and intended outcomes of the recently awarded utility tracking system contract, and the efforts made to increase the use of energy performance contracts.**

Recommended Actions

1. Concur with Governor’s allowance.

Updates

State House Facility Assessment Report: Budget language added to the fiscal 2008 operating budget required DGS to submit a report on the condition of the State House and projected short- and long-term funding requirements needed to properly maintain the facility and complete much needed facility renewal projects. This update summarizes the report presented to the budget committees in November 2007.

H00
Department of General Services

Operating Budget Analysis

Program Description

The Department of General Services (DGS) serves Maryland and its citizens by supporting other State agencies in achieving their missions. The department performs a variety of functions, including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; and provision of real estate services. DGS uses the following six goals to guide its Managing for Results (MFR) reporting:

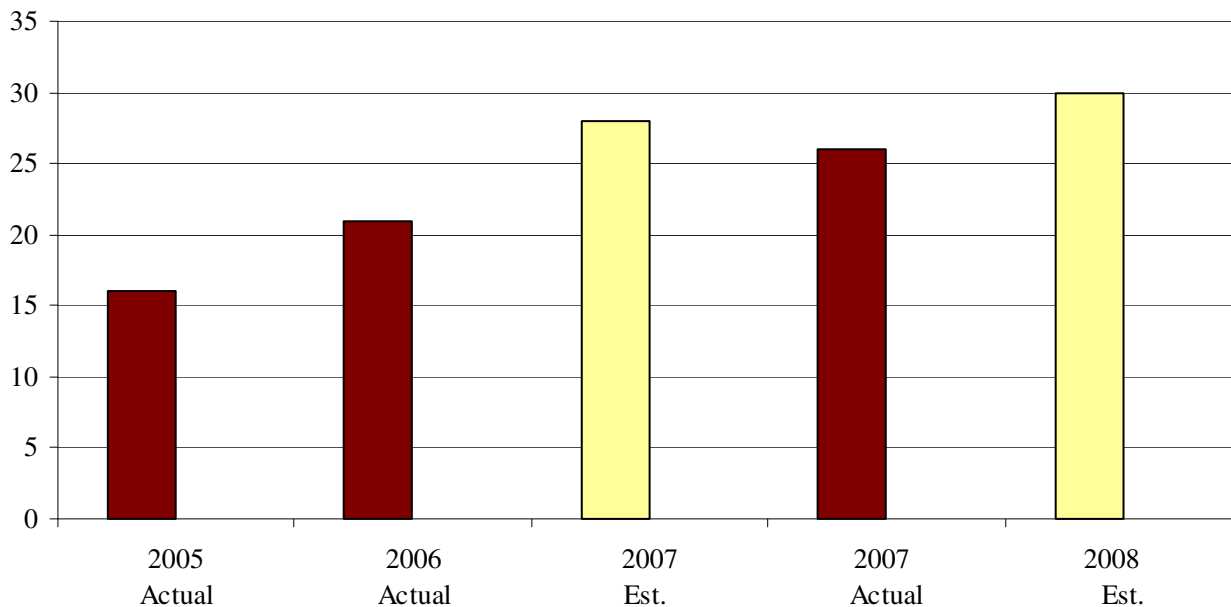
- operate efficiently and effectively;
- manage departmental projects efficiently;
- provide timely and accurate management information;
- achieve responsible asset management;
- provide best value for customer agencies and taxpayers; and
- carry out social, economic, and other responsibilities as a State agency.

Performance Analysis: Managing for Results

Implementation of Prox/Camera Surveillance Control Entry System

Exhibit 1 shows the MFR performance data for DGS' fit-out of all department-managed State facilities with an integrated ID-video proximity entry system. This system was designed and intended to facilitate a high level of security at State facilities. This multi-year multi-facility project stalled somewhat during fiscal 2006. The department indicated during the 2007 session that with the resources dedicated to the project, it could be expected that approximately 5 facilities could be completed on an annual basis. Consistent with the department's testimony, 5 facilities were completed during fiscal 2007, and the department anticipates completing the fit-out of the remaining 4 facilities during fiscal 2008.

**Exhibit 1
Number of Facilities with Prox/Camera System
Fiscal 2005-2008**



	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Est.</u>	<u>2007 Actual</u>	<u>2008 Est.</u>
DGS secured facilities	30	30	30	30	30
Facilities with Prox/Camera System	16	21	28	26	30
Percentage with Prox/Camera System	53%	70%	93%	87%	100%

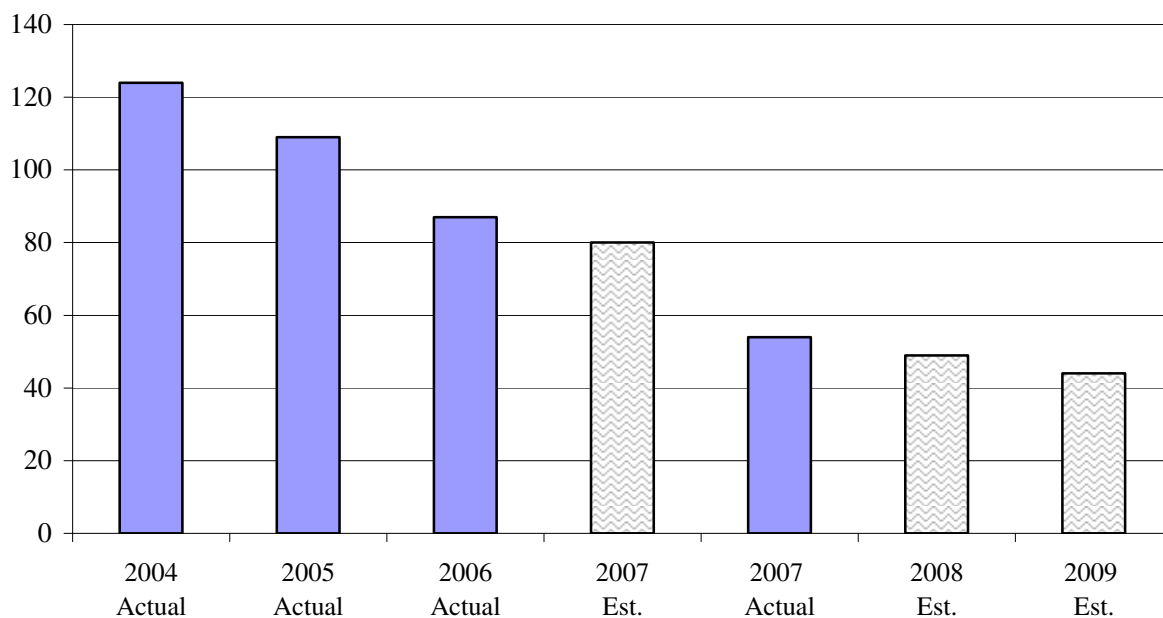
DGS: Department of General Services

Source: Department of Budget and Management

Thefts at Secured Facilities

Exhibit 2 shows the department’s MFR performance data regarding criminal activity at facilities secured by the DGS Police. DGS endeavors to keep thefts at 15% below the fiscal 2002 baseline of 129 thefts. As the data show, the number of reported thefts has been below the fiscal 2002 baseline since 2005. This measure, however, only includes the number of reported thefts and not other reported criminal activity. **DGS should consider revising this measure to include statistics on all reported criminal activity.**

**Exhibit 2
Thefts at DGS Secured Facilities
Fiscal 2004-2009**



	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Est.</u>	<u>2007 Actual</u>	<u>2008 Est.</u>	<u>2009 Est.</u>
Number of Thefts at Secured Facilities	124	109	87	80	54	49	44
Percent Change in Thefts from Fiscal 2002 Baseline of 129 Thefts	-3.9%	-15.5%	-32.5%	-38.0%	-58.1%	-62.0%	-65.9%

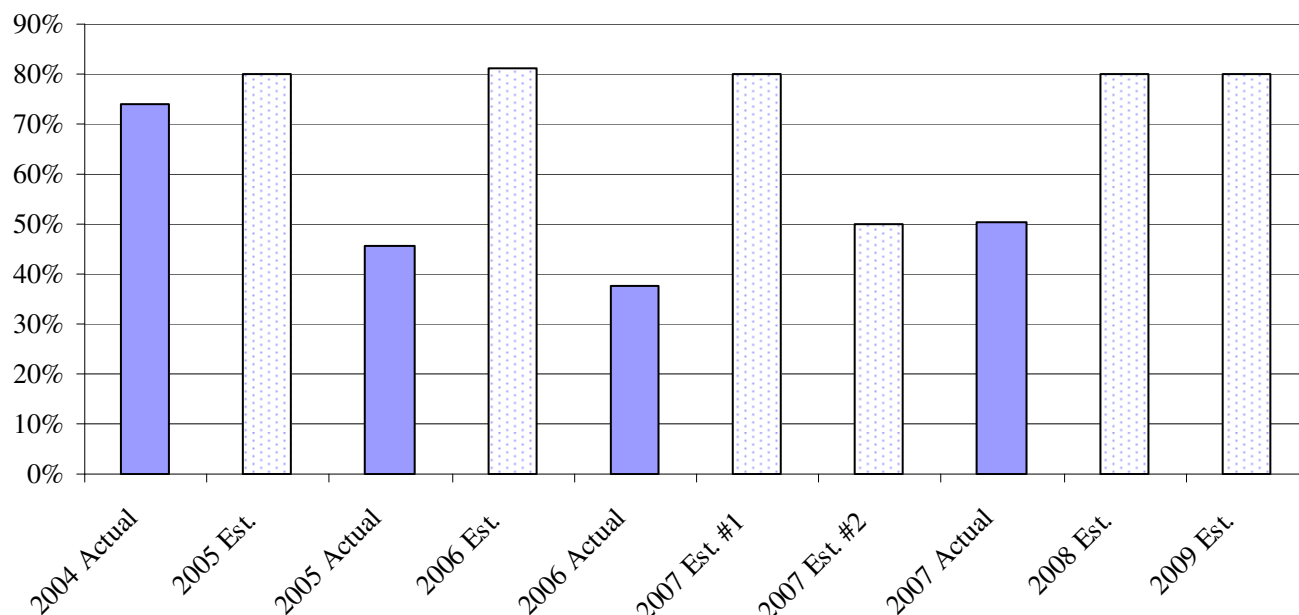
DGS: Department of General Services

Source: Department of Budget and Management

New Procurements in DGS-supported Agencies

Exhibit 3 shows the department’s MFR performance data regarding its objective to ensure that at least 80% of all new procurements are on time, under budget, and meet identified requirements. As the data show, the performance in each of fiscal 2005 through 2007 was well below the department’s objective. Despite consistently underperforming, the department continues to estimate that it will achieve the 80% objective in fiscal 2008 and 2009. **The department should be prepared to comment on the factors that are impeding the handling of procurements. Specifically, the department should comment on whether it is properly staffed and trained to execute procurements, the level of communication established with State agencies that are requesting procurements, and to what extent the department is using the latest procurement technologies to better manage the process.**

**Exhibit 3
Number and Percent of New Procurements
Completed on Time, on Budget, and on Target
Fiscal 2004-2009**



	<u>2004 Actual</u>	<u>2005 Est.</u>	<u>2005 Actual</u>	<u>2006 Est.</u>	<u>2006 Actual</u>	<u>2007 Est.</u>	<u>2007 Actual</u>	<u>2008 Est.</u>	<u>2009 Est.</u>
Procurements	940	1,000	844	892	442	455	376	490	490
Procurements completed on time	695	800	386	724	166	227	190	392	392
% on time, budget, and target	73.9%	80.0%	45.7%	81.2%	37.5%	49.9%	50.5%	80.0%	80.0%

Source: Department of Budget and Management

Procurement Limits Should Be Reviewed

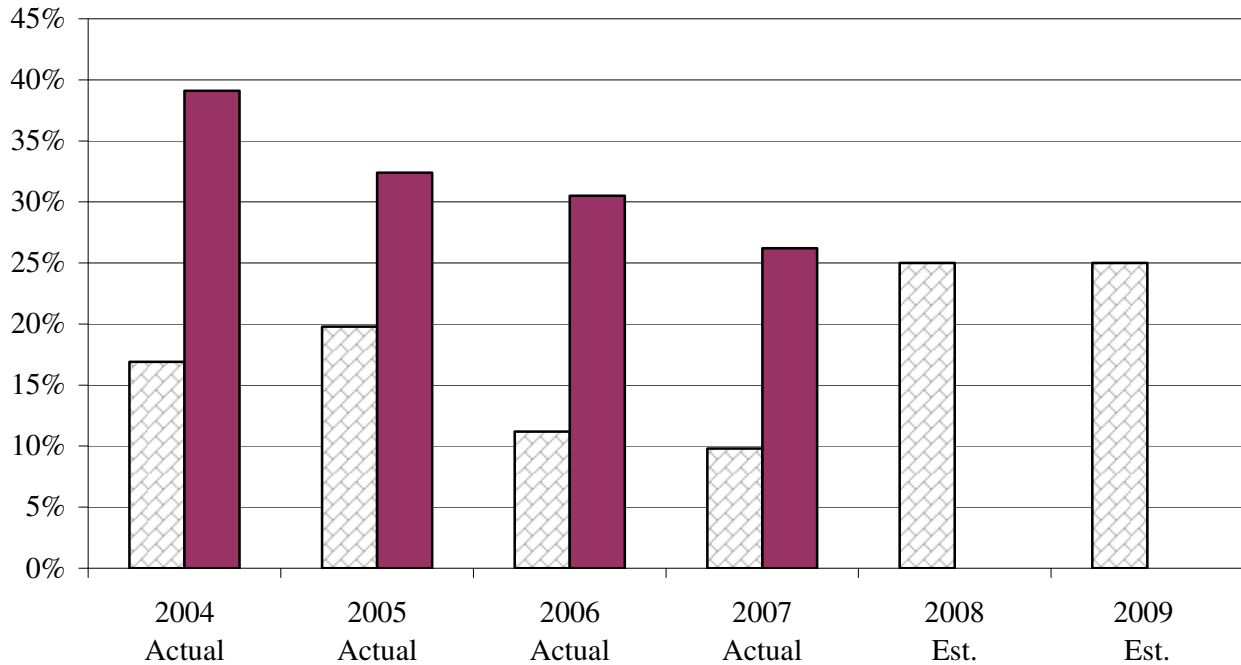
DGS is required to receive Board of Public Works (BPW) approval for procurement contracts. In some instances, depending upon the dollar amount of the procurement, DGS has independent procurement authority that does not require BPW approval prior to the contract award. For the past several years the department's MFR submission has shown very poor outcomes for various procurement measures, including the ability to complete small procurements in a timely fashion. Consideration should be given to increasing the dollar threshold of procurements requiring BPW approval. Presently, DGS is required to seek BPW approval of contracts in excess of \$200,000 which is substantially less than the \$500,000 limit for University System of Maryland procurements. In addition, with regard to the department's small procurement authority, as with other agencies, the

dollar threshold required to receive BPW approval is \$25,000. One of the recommendations of the Governor's DGS *Transition Team* report was to increase the department's small procurement threshold, which has not been increased since 1996. The effects of inflation alone push more and more procurements above the \$25,000 threshold, and thus, more contracts are subject to a more exhaustive and time consuming procurement process. **DGS should submit legislation to increase the department's procurement dollar threshold and discuss what efficiencies such a change might have on the department's ability to manage its procurement workload.**

Minority Business Enterprise Participation

Exhibit 4 shows the department's MFR performance data regarding its objective to annually meet or exceed a 25% Minority Business Enterprise (MBE) participation for the department's total procurement dollars. The data suggest that the department is consistently missing its intended 25% target. However, when procurement dollars attributable to commodities, such as electricity, which comprise approximately two-thirds of expenditures, are excluded from the calculation, the department consistently exceeds the MFR objective. **The department should be prepared to comment on what steps it is taking to improve the participation of certified MBE's for commodity procurements.**

**Exhibit 4
Percent of MBE Participation in Total Procurement Dollars
Fiscal 2004-2009**



	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Est.</u>	<u>2009 Est.</u>
Percent MBE Participation	16.9%	19.8%	11.2%	9.8%	25.0%	25.0%
Percent MBE Participation Excluding Commodities	39.1%	32.4%	30.5%	26.2%	n/a	n/a

MBE: Minority Business Enterprise

Source: Department of Budget and Management

Small Business Reserve Program

Chapter 75 of 2004, codified as Section 15-501 through 15-511 of the State Finance and Procurement Article, established the Small Business Reserve (SBR) Program which requires designated procurement units, including DGS, to award at least 10% of its total dollar value of certain procurement contracts to small businesses. As shown in **Exhibit 5**, the department’s MFR measure for this statewide objective reports the total procurement dollars awarded to certified small business’ and the annual percent change. The DGS objective is to increase by 25% annually the total dollar value of SBR awarded contracts. The data indicate that DGS is not obtaining this performance goal and neither does it project to do so in either fiscal 2008 or 2009. While a 25% annual increase is laudable, such an increase may be unattainable. Furthermore, it is unclear if the annual 25% increase is targeting the department’s attainment of the overall statewide 10% of total annual dollar contract figure. According to the department’s annual SBR report to BPW, required under Section 14-505 of the State Finance and Procurement Article for fiscal 2007, DGS awarded \$11.3 million representing 7.13% of qualified contract dollars. **DGS should be prepared to comment concerning the steps the department is taking to expand the amount of SBR contracts. DGS should also revise its MFR measure to report not only the total dollar value of SBR contracts but also the percent of qualified SBR contract dollars so that compliance with the statewide 10% goal can be ascertained.**

Exhibit 5
Small Business Reserve Program Total Procurement Dollars
Fiscal 2006-2009

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Est.</u>	<u>2007</u> <u>Actual</u>	<u>2008*</u> <u>Est. #1</u>	<u>2008*</u> <u>Est. #2</u>	<u>2009</u> <u>Est.</u>
SBR Procurement Dollars (in Millions)	\$11.0	\$12.0	\$11.2	\$15.0	\$12.0	\$14.0
Percent SBR Procurement Dollars Increase Annually	n/a	9.1%	1.8%	25.0%	7.1%	16.6%

SBR: Small Business Reserve

*2008 Estimate #1 from the Governor’s Budget Books, Fiscal 2008; 2008 Estimate #2 from the Governor’s Budget Books, Fiscal 2009

Source: Department of Budget and Management

Fiscal 2008 Actions

Proposed Deficiency

The fiscal 2009 allowance includes a \$150,000 general fund deficiency appropriation. These funds will be used for janitorial services at the 6 St. Paul Street Building and the Annapolis and Baltimore public buildings and grounds.

Impact of Cost Containment

On July 11, 2007, BPW approved reductions to the fiscal 2008 operating budget which impacted most State agencies. General fund cost containment actions affecting DGS included the following:

- \$2.0 million from the deferred maintenance budget which reduced the appropriation to \$5.0 million;
- \$1,568,867 budgeted for the debt service on the Calvert Street Garage – these funds were not needed due to available remaining project funds from which the fiscal 2008 debt service is to be paid; and
- \$560,460 in various operating expenditure items including \$100,000 for overtime; \$150,000 for new vehicle purchases; \$240,000 for equipment purchases; \$55,460 for salary and fringe benefits for one deleted position; and \$15,000 for vehicle maintenance.

Governor's Proposed Budget

As shown in **Exhibit 6**, the department's fiscal 2009 allowance is \$92.1 million which is \$3.5 million, or 4.0%, more than the fiscal 2008 working appropriation. However, the funding for health insurance and the Other Post Employment Benefits liability distort the year-over-year comparison. Adjusting both the fiscal 2008 working appropriation and the fiscal 2009 allowance for these expenditures reveals that the underlying budget growth reflected in the fiscal 2009 allowance for DGS is just \$478,000, or 0.6%, over the current year budget.

Personnel

The department's fiscal 2009 budget allowance supports the funding of 638 regular positions. The allowance reflects the abolishment of 7 vacant positions for a net savings of \$348,143 in general funds. Total funding to support employee salary and fringe benefit costs is 43.2 million, or 46.9%, of the department's entire budget.

**Exhibit 6
Governor’s Proposed Budget
Department of General Services
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2008 Working Appropriation	\$58,084	\$1,794	\$918	\$27,741	\$88,537
2009 Governor’s Allowance	<u>59,485</u>	<u>1,224</u>	<u>972</u>	<u>30,371</u>	<u>92,052</u>
Amount Change	\$1,401	-\$570	\$54	\$2,630	\$3,515
Percent Change	2.4%	-31.8%	5.9%	9.5%	4.0%

Where It Goes:

Personnel Expenses

Abolished/transferred positions	-\$348
Employee and retiree health insurance	1,013
Other Post Employment Benefits pension liability.....	2,098
Employee pension – including the Department of General Services police.....	-390
Other fringe benefit adjustments.....	-149

Contractual Employees

Additional contractual employee compensation – the department's mix of contractual employees for fiscal 2009 includes fewer lower salaried clerical staff and more professional track staff including 10 additional construction managers.....	147
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Other Changes

Reduced facility maintenance funding – fiscal 2008 legislative appropriation of \$7.0 million reduced to \$5.0 million through cost containment reductions – fiscal 2009 allowance provides \$3.5 million.....	-1,500
Debt service payment for Calvert Street Garage – this item was funded with remaining project bond proceeds in the fiscal 2007 and 2008 budgets but this fund source is tapped out and will now require general funds	1,564
Additional postage costs (this item appears to be underfunded in the fiscal 2008 budget) and other miscellaneous communication costs	151
Increased utility costs for the Department of General Services managed facilities – primarily, the Annapolis and Baltimore City facilities	167
No new vehicle purchases included in fiscal 2009 allowance.....	-198
State House maintenance and repairs – \$600,000 included in allowance down from \$925,000 in fiscal 2008 budget.....	-325
Annualization of new janitorial services contracts	172

H00 – Department of General Services

Deletion of one-time contractual services to help migrate the department information technology functions from a vendor-supported function to an in-house function.....	-75
eMaryland Marketplace – proposed contract to hire a consultant to upgrade the on-line procurement system.....	125
Rent for the Records Storage Retention facility in Jessup.....	243
Insurance payments to the State Insurance Trust Fund	-217
Pass-through rent charges for the operation, maintenance, and security of various State facilities.....	330
Capital lease management fees for the operation, maintenance, and security of various multi-service centers operated statewide	1,009
No funding for the operation of the Surplus Property Warehouse – this facility is slated for closure during fiscal 2008	-249
Household equipment, furniture, and appliances – this helps fund the replacement of all major appliances in the Governor's Mansion with the latest in energy efficient equipment – partially restores a cost containment reduction.....	68
Fully annualized capital lease costs for equipment purchased through the State Treasurer's Master Equipment Lease Purchase program.....	27
Office and computer equipment for new positions added in the fiscal 2008 budget – this restores a cost containment reduction – the department anticipates hiring the new positions during the fiscal year should the position hiring freeze be lifted and the positions exempted from the hiring freeze.....	26
New or other miscellaneous items	-174
Total	\$3,515

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

Comparisons between the fiscal 2008 working appropriation and the fiscal 2009 allowance are somewhat skewed by the fact that the fiscal 2008 working appropriation has not been adjusted to reflect a processed budget amendment which transferred \$324,695 of funds budgeted for employee salaries to fund an anticipated shortfall in electricity costs. After adjusting for the budget amendment transfer and the impact of the abolished positions, it gives the appearance that the fiscal 2009 allowance does not provide funding for employee increments since the adjusted fiscal 2008 working appropriation and the fiscal 2009 allowance are virtually identical. After analyzing the budget data, the Department of Legislative Services (DLS) concludes that employee increments are in fact funded at approximately \$323,000 in the fiscal 2009 allowance which would suggest that the fiscal 2008 working appropriation is overstated, or the fiscal 2009 allowance for salary expenses is understated and possibly a deficiency appropriation candidate. DLS has attempted to resolve this discrepancy with DGS and the Department of Budget and Management (DBM) but no reasonable explanation for the discrepancy has been provided. **DLS recommends that DGS be prepared to brief the committees concerning the aforementioned budget discrepancy and advise whether the fiscal 2008 working appropriation is overstated and needs to be adjusted.**

H00 – Department of General Services

The department's contractual employee workplan for fiscal 2009 includes 27.8 FTEs. While the fiscal 2009 FTE allowance only increases by 0.34 positions over the fiscal 2008 working appropriation, total contractual employee compensation increases by \$147,365 in the budget. This reflects a substantial switch in the mix of contractual FTEs with far fewer clerical and administrative support positions and a greater number of professional track contractals included in the fiscal 2009 allowance. The planned hiring of 10 additional construction management FTEs to manage a greater number of planned State-owned capital construction projects during fiscal 2009 explains the year-over-year change as these FTEs require greater funding than the clerical and administrative support positions.

Nonpersonnel

Significant components of the department's budget for nonpersonnel-related costs include the following:

- **Deferred Maintenance Program:** The allowance provides \$3.5 million in general funds to fund the department's deferred maintenance program. This represents a \$1.5 million reduction from the fiscal 2008 working appropriation of \$5 million in general funds which was reduced from the \$7.0 million fiscal 2008 legislative appropriation through cost containment reductions. The allowance also provides \$600,000 in general funds to support the ongoing efforts to fund various facility maintenance and renewal projects at the State House. This is \$325,000 less than what is budgeted for fiscal 2008.
- **Calvert Street Garage Debt Service:** The budget provides an additional \$1,564,367 in general funds to pay the annual debt service cost for the recently constructed Calvert Street Garage in Annapolis. Although debt service payments were required in each of fiscal 2007 and 2008, it was funded with available bond proceeds in excess of the total construction costs rather than with general funds (the fiscal 2008 legislative appropriation included \$1.5 million in general funds for the fiscal 2008 debt service payments, but this was withdrawn through the July 2007 cost containment actions by the BPW and replaced with available bond proceeds).
- **Lease Management:** DGS manages 56 public buildings statewide, including 15 district courts and multi-service centers. In many instances the operation, maintenance, and security provided by DGS at these facilities is funded with reimbursable funds derived from State agency appropriations in the respective owner-occupied agency budgets. DGS has experienced an increase in the management cost of these facilities, especially with respect to security and contractual maintenance. The allowance provides an additional \$1.4 million in reimbursable funds to cover the additional costs associated with contractual services associated with managing and maintaining these facilities.
- **Electricity:** The allowance for electricity at the 56 facilities maintained by DGS is \$10.2 million which is just \$127,279 more than the fiscal 2008 working appropriation but \$259,498 less than the fiscal 2007 actual expenditure. **DLS is concerned that this item may be underfunded in the fiscal 2009 allowance resulting in the need for a future deficiency**

appropriation. Comparisons between the fiscal 2008 working appropriation and fiscal 2009 allowance should be adjusted to reflect a budget amendment that transferred an additional \$444,000 for utility usage at the Annapolis and Baltimore complexes in anticipation of additional funding requirements for electricity usage. Once this adjustment is made, the difference between the fiscal 2008 working appropriation and the fiscal 2009 allowance reflects a \$316,000 reduction rather than an increase. Year-to-date usage data provided by DGS would suggest that the adjusted fiscal 2008 budget is consistent with projected end-of-year usage rates. This further suggests that the amount budgeted in the fiscal 2009 allowance underfunds this item absent a significant initiative to reduce energy usage – in particular, at the Annapolis and Baltimore public buildings and grounds, which combined, account for most of the utility usage. **DGS should comment on projected electricity usage rates and the potential that this expenditure item is underfunded in the fiscal 2009 allowance.**

- **Surplus Property Warehouse Closure:** The Maryland State Agency for Surplus Property within DGS acquires property declared surplus by the State or federal government for sale to government agencies, nonprofit organizations, and the general public. In early 2007, the Administration announced the planned closure of this facility by the close of fiscal 2008, and the fiscal 2009 allowance reflects a \$250,000 reduction to account for the planned closure. DGS advises that it has entered into a small procurement for pilot use and testing of an Internet-based surplus disposition service which will allow agencies to post surplus property on-line for sale and facilitate the sale of surplus property exclusively by credit card payment. The DGS Office of Real Estate intends to initiate the disposal of the 60,000 square foot facility and 9.3 acres of property through the State’s clearinghouse process.
- **eMaryland Marketplace:** As is the case with the fiscal 2008 working appropriation, the fiscal 2009 allowance includes \$418,000 in general funds to fund the vendor contract for the department’s Internet-based procurement system known as eMaryland Marketplace (eMM). The allowance also includes an additional \$125,000 in general funds to begin the process of enhancing and updating the system which has not been overhauled since it was installed in fiscal 2000. DGS preliminarily anticipates using the proposed \$125,000 to fund consultant services, with an additional \$250,000 proposed for fiscal 2010 for systems analysis and design, \$500,000 in fiscal 2011 for programming, and \$1 million in each of fiscal 2012 and 2013 for systems procurement and installation. During the 2006 session, the budget committees adopted committee narrative directing DGS to provide an assessment of eMM. One of the primary recommendations included in the report submitted on September 1, 2006, was the need to eventually update the system. DLS was particularly interested in the potential for including a catalog purchasing function. **DLS recommends that DGS brief the committees on the proposed system overhaul and the perceived efficiencies of an updated system.**

Issues

1. Hiring Freeze Impacts Initiatives and Efficiencies

The fiscal 2008 budget included 16 new positions to support a number of new initiatives, programmatic efficiencies, and additional workload demands. As of the date of this analysis, only 1 of the new positions was filled while the other 15 remain “frozen” by DBM. **Exhibit 7** provides a summary of the positions, the purpose for which they were added to the budget, and current status.

- **Office of the Secretary – Information Technology:** The fiscal 2008 budget added eight new positions with the intent of moving the day-to-day computer application, user support, and basic network management “in-house” rather than outsourced through various contractual arrangements. While these positions remain unfilled, the contracts that currently provide the requisite services are set to expire in April 2008. This potentially could leave the department’s basic information technology support needs unsupported. More than likely if the positions remain unfilled, the department will be forced to continue on a contractual basis which the current budget does not fund. **The department should be prepared to update the committees on the status of filling these positions and how the department intends to support the information technology function should these positions not be filled prior to the termination of the information technology support contracts.**
- **Facilities Security:** The department received three new positions for fiscal 2008 to establish a mobile photo ID unit as an enhancement to the State ID Card Program. These positions were justified on the basis that the new unit would obviate the need for State employees to travel to Annapolis or Baltimore for ID pictures and thus create operational efficiencies across State agencies. These positions remain unfilled. **The department should comment on its efforts to fill these positions and whether the establishment of this new unit is still viewed as important and efficient.**
- **Utility Data Management and Energy Performance Contract:** To support the department’s role regarding the State initiative to advance energy efficiency and conservation in State buildings required by Chapter 427 of 2006, DGS received one new position to hire an energy accounts manager and one position to support energy performance contracts. While the energy accounts manager has been filled, the position responsible for enhancing and expanding the use of energy performance contracts remains unfilled. Expanding the use of energy performance contracts is considered an important component of the State’s efforts to reduce energy consumption. **The department should discuss the status of its attempt to fill the energy performance contract position.**

**Exhibit 7
Status of New Regular Positions Funded in Fiscal 2008
Department of General Services**

<u>Program</u>	<u>Position Classification</u>	<u>Purpose</u>	<u>Status</u>
Office of the Secretary	Administrator II	Budget administration	Frozen
Office of the Secretary	Administrator Officer I	Provide in-house computer application, user support, and basic network management. Eliminate need for various information technology contracts.	Frozen
	Computer Network Spec. II		Frozen
	Computer Network Spec. II		Frozen
	Computer Network Spec. II		Frozen
	Programmer Analyst II		Frozen
	Staff Specialist Supervisor		Frozen
	Program Manager I		Frozen
	Program Manager IV	Frozen	
Facilities Security	Administrative Specialist I	Enhance the State ID Card Program with a mobile photo ID unit.	Frozen
	Administrative Specialist I		Frozen
	Police Officer Supervisor		Frozen
Office of Procurement	Administrator IV	Energy accounts manager.	Filled
Office of Real Estate	Reviewing Appraiser II	DNR land acquisition.	Frozen
Office of Facilities Planning	Maintenance Engineer I	DNR construction management.	Frozen
	Capital Projects Engineer	Energy performance contracts.	Frozen

Source: Department of General Services

- Program Open Space (POS) Support:** The fiscal 2008 budget provided two additional positions to support workload demands attributable to the support it provides to the Department of Natural Resources (DNR) POS. One position was assigned to the Office of Real Estate to support the land appraisal and disposition process and the other to the Office of Facilities Planning to support DNR construction and critical maintenance projects. Both positions were to be funded with POS funds. **DGS should be prepared to discuss what efforts have been made to fill these positions and whether or not they are still needed given the sharp decline in available POS funds in the upcoming fiscal 2009 budget.**

2. Antiquated Information Technology

Many DGS divisions currently lack updated information technology systems. These deficiencies were identified in a peer assessment report submitted to the budget committees in October 2003 and again in the Administration's DGS Transition Report. Although identified, these deficiencies remain unaddressed and potentially impact the department's ability to effectively carry out core responsibilities.

Examples of these deficiencies include the database used by the Facilities, Planning, Design, and Construction Division and the Office of Real Estate management system which resides on the department's AS400 system. This system is over 20 years old and has been slated for replacement for several years. The department's MFR annually contains an objective to fund the replacement of this antiquated system, but each year the system remains in place due to the lack of funding needed to migrate to an updated system. Presently this system is no longer supported by IBM, is not eligible for upgrade, and must be entirely replaced.

Other core department business function systems identified as needing replacement in the near term due to age and/or lack of manufacturer support include the Capital Grants and Loan Management System, Facilities Deficiency System, Project Cost Center Program, Architectural and Engineering (A/E) and Contractor Evaluation System, Construction Procurement and Contracting System, Capital Projects Accounting System, Lease Management and Procurement System, BPW Administration System, Personnel Records Management System, and Statewide Asset Management System. Overall, virtually every major system presently used by the department is in need of replacement.

DLS recently asked DGS to assess the scope of its information technology needs, including estimated costs. The following summarizes the department's response.

- **AS400 Stabilization Projects – Estimated Cost \$300,000:** Migrate the current AS400 to a more current system. This entails system acquisition, software licensing, data and programming migration, and program writing.
- **Business Enterprise Reengineering Project – Estimated Cost \$1.0 Million:** This project entails the development of a business enterprise management program which will serve as the design specifications for subsequent business application development. Major components include the analysis of current business practices to identify potential improvements and efficiencies, development of a business process model for each key department business function, and identification of core functional relationships between business functions.
- **Business Application Development Project – Estimated Cost \$4.0 Million:** This entails the development of specific management applications for each of the department's primary business functions.

If funding for the replacement of the DGS's major IT systems is not going to be provided in the department's annual budget appropriation or through the DBM Major Technology Development Projects process then other options should be considered. One such option could be to add an administrative overhead charge in the rent calculation used to charge State agencies for DGS' lease management responsibilities. The State could also consider charging other State agencies for the variety of procurement, capital project management, land valuation and disposition, and lease management services that DGS performs for other State agencies. This arrangement could be structured similarly to how the State funds the Office of Administrative Hearings (OAH) whereby various agency budgets are charged for OAH services and OAH operates on the reimbursable funds transferred to it from the other State agency budgets.

DGS should be prepared to brief the committees concerning the impact that the continued use of an outdated information technology system is having on the department's ability to carry out core mission responsibilities. DGS should discuss what efforts it has undertaken with DBM to acquire funding through the Major Information Technology Development Projects process. Finally, DGS should comment on the concept of including a rent calculation charged to other State agencies as a mechanism for funding major IT replacement and the concept of charging agencies similar to how the State funds the operation of OAH.

3. Facility Maintenance Assessment

Funding for routine maintenance or deferred maintenance of State facilities has not kept pace with the demand for these services. Budget shortfalls caused the State to scale back the deferred maintenance budget, and despite recent increases in the amount budgeted for this purpose, the list of deferred maintenance projects remains in excess of \$35 million. The primary problem with deferring maintenance is that eventually it will compound the problem, project costs will increase, and further deterioration could lead to the need to fund projects as capital facility renewal projects.

DGS Program

Sections 4-407 and 4-408 of the State Finance and Procurement Article requires DGS to establish and supervise a comprehensive and continuing program of maintenance and repair of all public improvements. The department's maintenance of State facilities efforts include both "critical maintenance" funded through the operating budget and "facilities renewal" funded through the capital budget. A project that costs at least \$100,000 and has a useful life of 15 years or more is considered a capital project.

DGS staff dedicated to both the critical maintenance and facilities renewal program totals 17 employees. The list of job duties for individual projects in many instances is similar to that of any large capital project and ranges from processing project requests, preparing A/E bid packages, evaluating bid proposals, selection and procurement of A/E contracts, design review at various design development stages, review of construction contract bid documents and procurement of construction contractors, pre-construction meetings, project progression reports, evaluation of change order requests, inspection and determination of substantial completions, and various elements associated with project closeouts.

H00 – Department of General Services

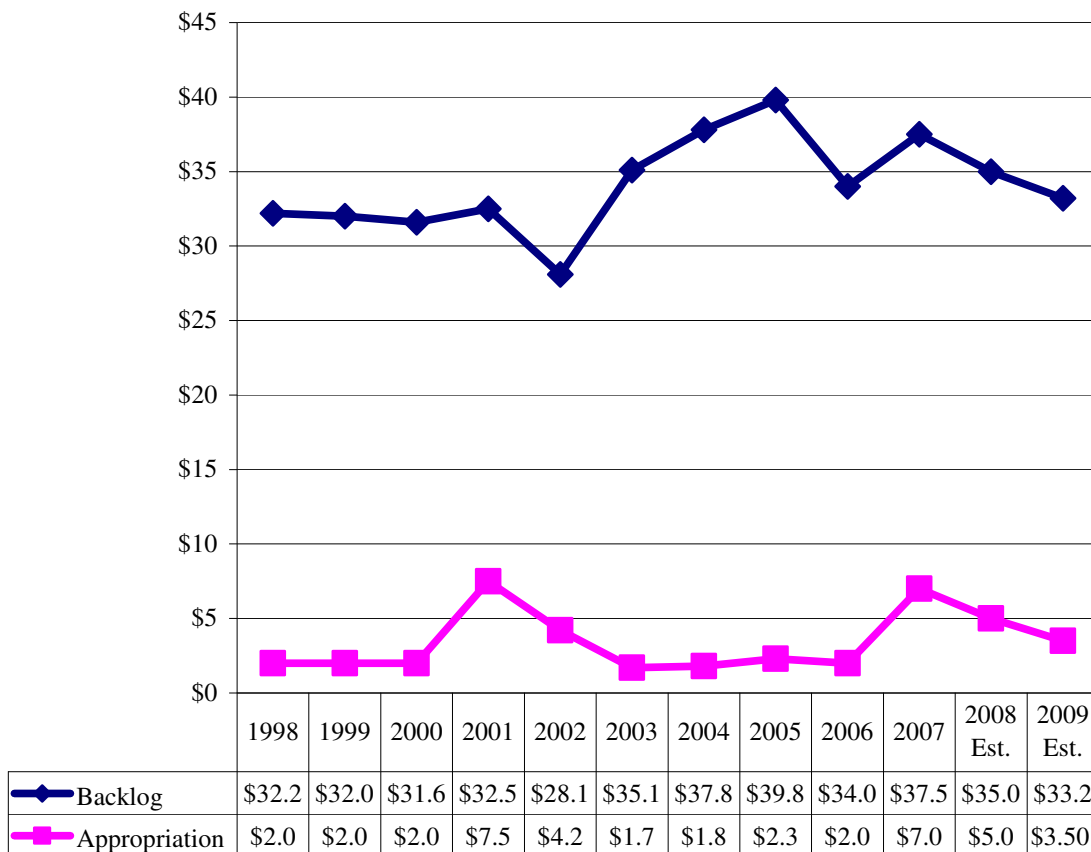
In addition to the department's critical maintenance and capital facilities renewal program, DGS staff also administers DNR POS critical maintenance and capital development projects and the State's Asbestos Abatement and Underground Heating and Storage Tank Programs. Twelve of the 17 positions are dedicated exclusively to project management which results in approximately 25 to 30 projects per project manager on an annual basis.

Funding and Project Trends

Operating spending by DGS on facilities maintenance projects above the base level of \$2.0 million has been excluded from the spending affordability calculation. This exclusion was initially authorized in the Spending Affordability Committee's December 2000 report when it was reported by DGS that the facilities maintenance backlog, if left unaddressed, would result in considerable deterioration of the State's infrastructure and lead to higher costs in the long run.

Despite the exclusion, the reported fiscal 2009 critical maintenance backlog is \$33.2 million of which \$18.5 million, or 55.7%, is rated as medium priority level 4 through 6 (posing a high economic risk). As shown in **Exhibit 8**, from fiscal 2003 through 2006, the spending affordability exclusion did not result in additional funding above the base \$2.0 million level. However, the fiscal 2007 budget included a total of \$7.0 million to address the maintenance backlog – this originally included an additional \$1.0 million budgeted for the purchase of renewable energy that was redirected by the General Assembly through budget language. However, these funds were reverted by DGS at the close of fiscal 2007 rather than being used to fund additional critical maintenance projects. The fiscal 2008 legislative appropriation of \$7.0 million was subsequently reduced to \$5.0 million through cost containment reductions in July 2007. The fiscal 2009 allowance of \$3.5 million further reduces the budget when compared to the previous two fiscal years.

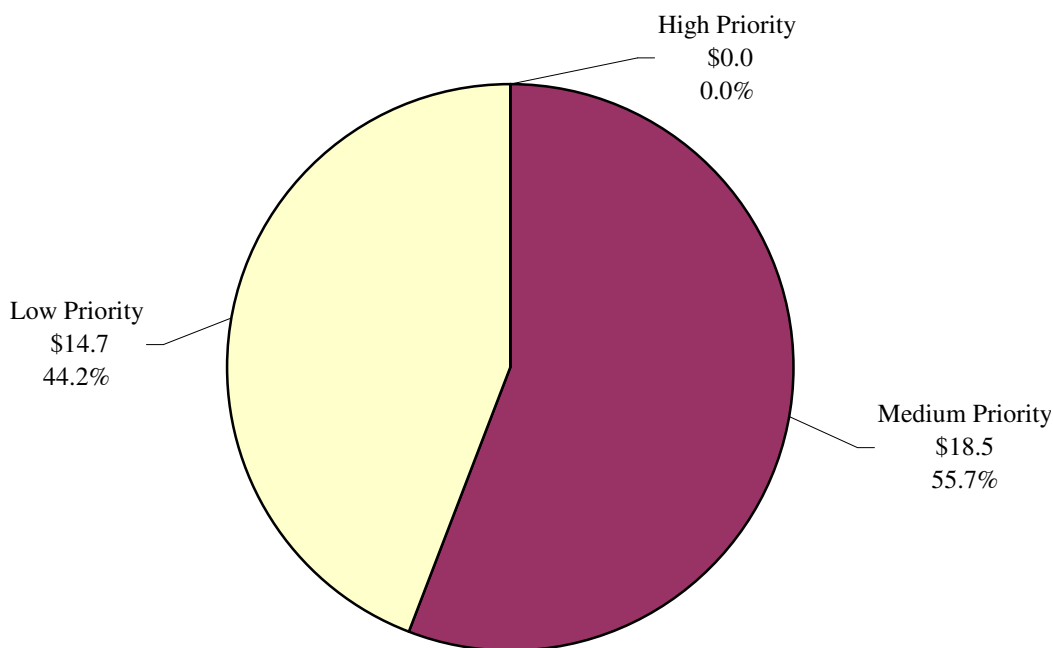
Exhibit 8
Operating Maintenance Funding and Backlog
Fiscal 1998-2009
(\$ in Millions)



Source: Department of General Services

Exhibit 9 shows the fiscal 2009 backlog for each of the department’s priority levels, and **Appendix 5** provides a summary of the priority classification.

Exhibit 9
Fiscal 2009 Operating Maintenance Budget Request
 (\$ in Millions)



<u>Priority Level</u>	<u>High</u>		<u>Medium</u>				<u>Low</u>		<u>Total</u>
	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>		
Estimate	\$0.0	\$0.1	\$1.3	\$17.1	\$8.9	\$2.0	\$3.8	\$33.2	
% of Total	0.0%	0.2%	3.9%	51.6%	26.7%	6.0%	11.6%	100.0%	
# of Projects	0	4	41	478	260	51	102	936	

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

Source: Department of General Services

As Exhibit 9 shows, despite the additional funding provided in fiscal 2007 and 2008, the estimated backlog of projects for fiscal 2009 is not substantially different than the figure reported for fiscal 2006. Historical trends from fiscal 2001 through 2008 – the first year that significantly more facility maintenance funding was provided – reveal that funding over this period has averaged approximately \$3.9 million annually while the number of projects added to the list has averaged \$4.3 million in costs. This difference results in an ever growing project backlog.

When this same trend analysis is applied to the department's capital facility renewal program, the discrepancy between annual funding levels and the cost of new projects added to the project backlog is even more alarming. The data for this program reveals that from fiscal 2001 through 2008, the backlog of projects has increased in cost from \$48.6 million to \$88.7 million. Despite average funding over this period of \$9.7 million, the growth in the project backlog is increasing at a rate of \$4.6 million annually above the average funding level. A more in-depth analysis of the department's capital facility renewal program will be provided by DLS in the fiscal 2009 capital analysis for this program.

Facilities Maintenance Operations Report Recommends Greater Funding and Staffing

In a report submitted to the budget committees, as required by committee narrative adopted in the 2007 *Joint Chairmen's Report*, DGS advised that low funding levels throughout the 1990s and inconsistent funding levels over the past eight years, low staffing levels, an increase in the number of emergency projects, and increased capital construction costs have all contributed to the increase in the project backlog. In its report DGS, provided the following recommendations:

- **Funding and Staffing:** Provide consistent annual funding levels. Based on current staffing levels, the recommended annual funding for critical maintenance is \$5 million and \$15 million for the capital facility renewal program. While additional funding over the recommended amounts would accelerate the rate at which the backlog for each program is reduced – DGS annually requests \$20 million for the capital facility renewal program – current staffing levels would have to be increased in order to accommodate the additional workload that funding over the DGS recommended levels would require.
- **Assessment Program:** Reinstate the DGS Assessment Program. This would require that all facilities for which DGS has maintenance responsibility be thoroughly inspected at least once every three years. DGS estimates that an additional nine positions – eight maintenance engineers and one clerical support position – would be needed to reinstate the Assessment Program. This program was eliminated in fiscal 1993 due to the State's fiscal crisis at the time and has not been reinstated. Currently, DGS employs a self-assessment program that relies on each agency to submit a preventive maintenance operations report to DGS annually. As part of the submission, each agency includes specific project justification reports that are reviewed by DGS project managers, assigned a priority, and placed on the list of projects maintained by DGS for future funding consideration. DGS advises that this program might be effective if each agency had qualified staff performing the self-evaluation. Even if this were the case, the absence of on-site inspection by trained DGS project managers, limits the effectiveness of the self-assessment program.

Options

In the absence of consistent annual funding levels in amounts sufficient to begin to reduce the critical maintenance and facility renewal backlogs, the State may wish to consider the following:

- **Establish a Life-cycle Accounting System:** No level of maintenance can indefinitely extend the life of roofs, windows, and utility system components of buildings. Life-cycle accounting creates building depreciation funds to fund replacement of obsolete building systems, taking into account the life expectancy of these systems.
- **Charge Occupant Rental Fee:** Charge agencies housed in State-owned facilities a use fee to fund ongoing maintenance. This could entail adding a square foot assessment charge into the annual square foot rent calculation for each facility. In the case of State-owned facilities for which DGS does not collect rent, this same square foot assessment charge could be applied apart from the annual rent calculation so as not to exclude these facilities for which maintenance and facility renewal are still required. This calculation could be calibrated to take into account the age and condition of a facility. These fees could be deposited into a revolving fund from which building maintenance and repair could be funded.
- **Establish a State Facilities Maintenance Reserve Fund:** The State could consider establishing a facilities maintenance reserve fund that would annually receive a specified percentage of the State's net general fund revenues. DLS recognizes that this would essentially establish a funding mandate at a time when such mandates are under scrutiny by the budget committees. However, such a fund could help address what is clearly a statewide problem that cuts across each and every State agency. Moreover, the establishment of a dedicated source of funds from which to fund facility maintenance and renewal would ensure that facilities are properly maintained which often obviates the need for more costly capital facility renewal type projects.
- **Establish a Special Non-Lapsing Fund:** Establish a special non-lapsing revolving fund administered by DGS that could be used to fund facility maintenance and renewal. This fund could be established to receive unspent bond proceeds from terminated State GO debt authorizations. Section 8-129 of the State Finance and Procurement Article governs the dispositions of these proceeds. Presently, the statute allows these unspent bond proceeds to be used as follows: (1) cancelled to reduce the States outstanding debt authorizations; (2) allocated to the State's Construction Contingency Fund, or; (3) credited to the Annuity Bond Fund to pay debt service on the State's outstanding GO bonds. Section 8-129 would need to be amended – the capital budget or budget reconciliation and financing legislation could be used as a vehicle to make such a statutory change – to establish the special funds and provide for the option to dispose of unspent bond proceeds as outlined above.
- **Outsource:** Yet another option would be to outsource the State's facility maintenance and renewal needs through a competitive contract process to private companies that specialize in the delivery of facility maintenance. Many private companies specialize in providing

comprehensive facility maintenance services. The State could conceivably consolidate all of its facility needs under one or several competitively bid contracts. As it stands now, DGS in many instances contracts out the facility maintenance projects. Outsourcing would serve to contract out the entire process; from project identification and management to procurement.

DGS should be prepared to brief the committees on the impediments it faces to effectively manage and carry out a viable facility maintenance and renewal program. DGS should also discuss the condition of State facilities and options for improving facility assessments. Finally, DGS should comment on the funding options outlined above and on other funding options it considers viable.

4. Energy Conservation Efforts

This past summer, DGS reorganized its eight-person energy staff to create a new Office of Energy Performance and Conservation. This reorganization coincided with the Governor's announcement of a new energy efficiency initiative coined "EmPower Maryland." The goal of this initiative is to reduce the State's energy consumption by 15% by the year 2015.

The EmPower initiative is consistent with recent legislation which seeks to reduce the State's consumption of energy. Chapter 427 of 2006 amended the provisions of State law relating to energy efficiency and conservation in State buildings. Chapter 427 requires the following:

- DGS in cooperation with the Maryland Energy Administration (MEA) must set energy performance standards to reduce the average energy consumption in State buildings from the baseline fiscal 2005 level by 5% in fiscal 2009 and 10% in fiscal 2010.
- By December 31, 2007, each agency must conduct an analysis of the gas and electric consumption in each of the buildings under its jurisdiction and the cost of that consumption. The analysis must be conducted under the direction of DGS and MEA and must include an examination of methods to achieve energy cost savings.
- By July 1, 2008, each State agency must upgrade its energy conservation plan, developed in consultation with DGS and MEA, to achieve the performance standards set by DGS.

It is estimated, that the State spends approximately \$250 million annually on energy of all types. The State's energy portfolio includes approximately 4,400 electricity accounts and 400 gas accounts with 55 agencies paying a gas or electric bill. The success of the State's energy management efforts is therefore, directly dependent on efforts of the many people who operate and maintain buildings. The newly created DGS Office of Energy Performance and Conservation should take the lead role in developing and overseeing these efforts and coordinate the development of a statewide agency-by-agency energy reduction plan. **DLS recommends that DGS brief the committees on the efforts this new unit has undertaken to implement a broad range of energy efficiency initiatives.**

Utility Tracking System

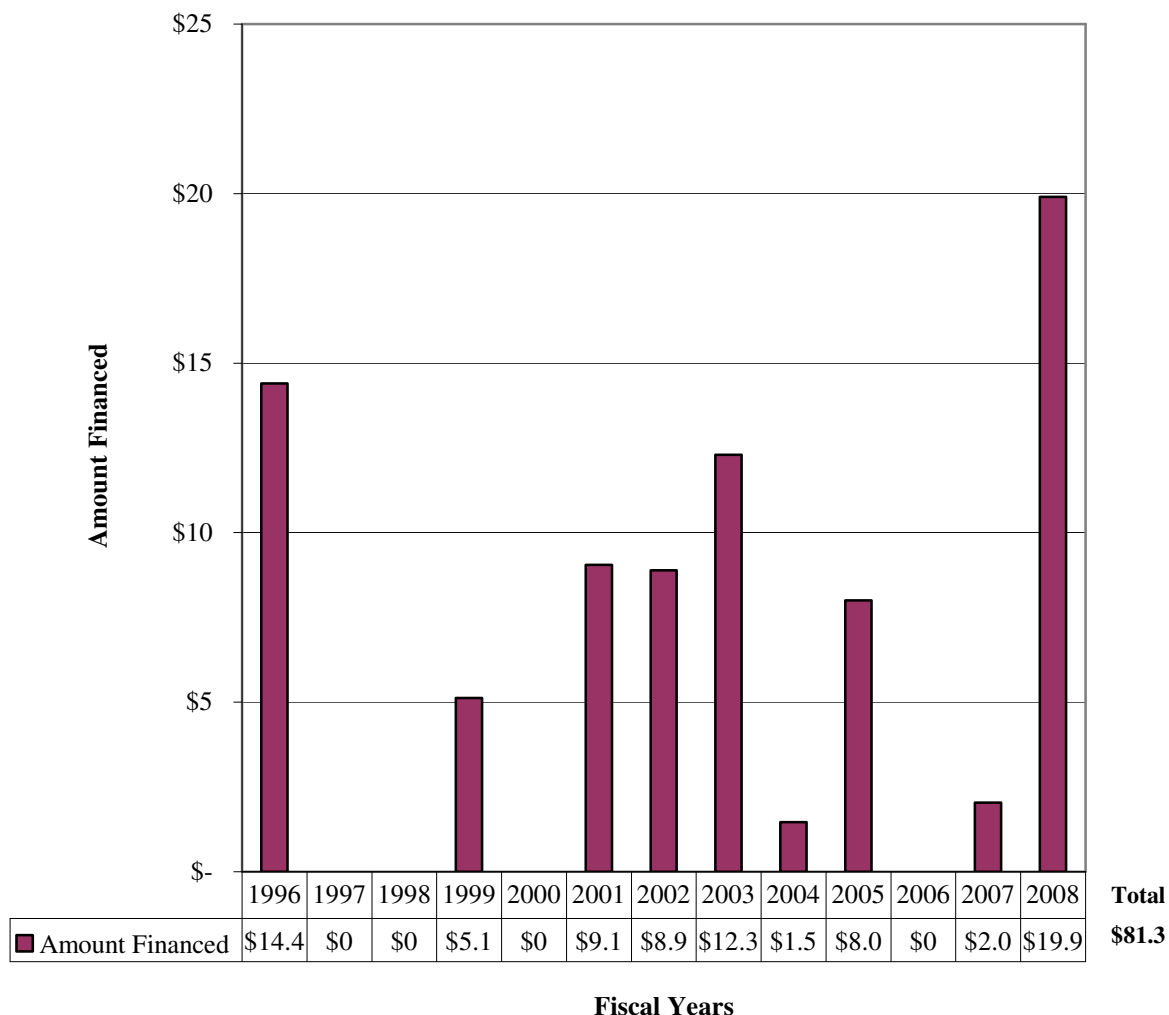
A key component to an effective energy consumption policy is the collection and analysis of energy usage data. DGS assumed this responsibility and determined that the most cost-effective means to achieve timely, accurate, and complete data collection was to outsource the data collection to a vendor that specializes in providing a web-based utility data monitoring system. In November 2007, after a lengthy request for proposal process DGS presented and BPW approved a multi-year utility management contract that will allow DGS to monitor State agency energy usage and costs. All invoices for energy procurements will be directed to the vendor directly from the energy providers. In addition to entering the data into a web-based system, the vendor will be responsible for assuring that all invoices are in agreement with the terms of the contracts. **DLS recommends that DGS be prepared to brief the committees concerning expected outcomes of the on-line utility tracking system. DGS should also update the committees regarding the level of compliance with the requirement of Chapter 427 of 2006 that each agency conduct an energy consumption analysis and upgrade its energy conservation plan.**

Energy Performance Contracts

The State's Energy Performance Contract (EPC) program is codified as Sections 12-301 through 12-303 of the State Finance and Procurement Article. An EPC is an agreement between the State and an Energy Service Company (ESCO) to make energy-efficient capital improvements. EPC capital improvements are coordinated by DGS and financed through the State Treasurer's Office. Phase I of these projects include the selection of an ESCO by DGS from a list of pre-qualified ESCOs to perform an energy audit, technical study, and preliminary design to determine if retrofitting new capital equipment can provide energy savings. If a Phase I assessment projects a cost savings, a Phase II proposal may be presented to BPW for approval. A Phase II proposal requires an ESCO to implement the project, provide the funds necessary to cover all of the costs associated with the project, and provide a guarantee of the level of energy cost avoidance to be achieved through the financing period by the improvements. If the savings do not materialize, the ESCO is required to reimburse the State for any savings not achieved. To protect the State, ESCO's are required to purchase insurance, purchase a surety bond, or obtain an irrevocable letter of credit.

The type of energy saving upgrades typically made include replacing or retrofitting boilers, furnaces, air conditioning units, windows, and lighting fixtures. Since 1996, the State has entered into four agreements to provide master-lease purchase financing for energy conservation projects at State facilities. As shown in **Exhibit 10**, the total financed under these four agreements is \$81.3 million with over 50% financed for a term of 15 years.

Exhibit 10
Energy Performance Contracts
Amount Financed by Fiscal Year
(\$ in Millions)



Source: State Treasurer’s Office

The \$60 million financed in the 2007 EPC Lease will double the amount financed in the current lease and represents almost 75% of the total amount financed through the Treasurer’s Office since the program’s inception in 1996. The budget committees, the Comptroller’s Office, and the State Treasurer’s Office have all expressed interest in increased State participation in EPC’s as a financing mechanism for capital-related improvements where applicable. To that end, DGS estimates financing roughly five to eight projects in an aggregate amount of \$20 million annually through the approximate three-year term of the lease.

Recent Modification to the EPC Program

The 2007 EPC Lease will continue the practice of financing contract costs starting from the beginning of the construction phase, rather than starting after completion of construction. This expanded finance capability was approved by BPW on May 23, 2007, in a modification to the current EPC contract. This allows the winning bidder, in the case of the current contract, Bank of America Public Capital Corp, to provide construction phase financing at EPC Lease Agreement rates, which are lower than vendor-financing rates.

Further modifications to the EPC bid process were approved by BPW on November 14, 2007, when the board approved a modification to the Phase I feasibility study process. The approved modification allows DGS to select from the list of five pre-qualified ESCO's, from which an ESCO will be awarded an EPC contract for each project. Prior to the approved modification, each ESCO was offered an opportunity to competitively bid for selection as the entity to develop a Phase I feasibility study for each project. If the feasibility study was satisfactory and demonstrated sufficient energy savings, the selected ESCO would be awarded the Phase II project development contract. The previous selection process invited more competition while the new process essentially sole sources the projects amongst a list of pre-qualified ESCOs. DGS advises that the new process would streamline the EPC process and allow more EPC projects to be completed. **DLS recommends that DGS be prepared to brief the committees on the department's efforts to increase the use of EPC contracts, including whether or not the new selection process is resulting in a more efficient EPC procurement and project development methodology.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. State House Facility Assessment Report

Language added to the fiscal 2008 operating budget bill restricted \$912,500 in general funds pending submittal of a report by DGS which provided a comprehensive facility maintenance and repair assessment and remediation plan for the State House.

On November 1, 2007, DGS submitted the required report to the committees. The report provides details regarding the following projects that DGS intends to complete utilizing the restricted funds: (1) address moisture infiltration problems at the Old Treasury Building – the estimated cost is \$250,000 and the work primarily includes re-pointing of the exterior brick work to remove Portland cement mortar joints and correcting exterior stormwater drainage problems; (2) repair exterior brick walls on the eastern corner of the State House – the estimated cost is \$155,000 and will primarily involve removing Portland cement mortar and replacing it with lime mortar; (3) repair moisture damaged interior plaster walls in the Old House Chamber at an estimated cost of \$350,000; and (4) repairs to the State House rotunda interior at an estimated cost of \$137,000.

While the report was to provide a comprehensive assessment of the repairs needed to the State House, DGS has advised that this information will not be fully known until the Maryland State Archives and the Maryland Historic Trust have completed reports on the condition of the State House. These reports should be made available within the current fiscal year, and DLS will update the committees concerning the facts and findings contained in these reports once they are made available.

Current and Prior Year Budgets

Current and Prior Year Budgets Department of General Services (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2007					
Legislative Appropriation	\$61,122	\$3,174	\$812	\$25,380	\$90,488
Deficiency Appropriation	0	0	52	0	52
Budget Amendments	-1,307	8	0	1,705	406
Reversions and Cancellations	-1,000	-566	-23	-1,824	-3,413
Actual Expenditures	\$58,815	\$2,616	\$841	\$25,261	\$87,533
Fiscal 2008					
Legislative Appropriation	\$61,559	\$1,780	\$905	\$27,640	\$91,884
Cost Containment	-4,129	0	0	0	-4,129
Budget Amendments	654	11	0	0	665
Working Appropriation	\$58,084	\$1,791	\$905	\$27,640	\$88,420

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

Fiscal 2007

DGS finished fiscal 2007 \$2.96 million below its legislative appropriation. Significant adjustments include the following:

- General funds in the amount of \$939,400 were provided for the cost-of-living adjustment (COLA) and annual salary review. Funds had been budgeted in DBM and were transferred to each agency through budget amendments. The special fund component amounted to just under \$8,000 of additional appropriations
- Cost containment measures reduced the general fund budget by \$2,239,350. A portion of the reductions were made to wages and salaries to reflect the savings from the hiring freeze and excess health insurance. The other significant adjustment reflects \$1.6 million budgeted for the debt service payment for the Calvert Street Garage which was unnecessary due to remaining project funds that were applied and used to pay debt service. The fiscal 2007 closeout also reflects the reversion of \$1.0 million in general funds that were restricted from expenditure to be used only to supplement the department's deferred operating maintenance budget – these appropriations were not used but instead reverted to the general funds at closeout.
- A federal fund deficiency appropriation in the amount of \$51,947 to fund rent and other expenses incurred by the Department of Health and Mental Hygiene at the 6 St. Paul Street facility was added to the budget.
- Several reimbursable fund budget amendments added an additional \$1.7 million to the DGS budget. Significant items include \$500,000 of additional reimbursable fund authority provided through language added to the fiscal 2007 budget which corresponded to a \$500,000 general fund reduction; \$200,000 was added from DNR to fund enhanced DGS support for POS capital projects; \$253,000 was added to reflect the omission in the fiscal 2007 budget for costs associated with utilities at the Saratoga Street Complex; \$147,000 from the Maryland State Department of Education for various commercial tenant costs for space occupied at the Nancy Grasmick Building; and the remainder was added to correct understated reimbursable rents paid to DGS. In most cases, all of the original and additional and reimbursable spending authority was not used, resulting in cancellations totaling just over \$1.8 million in reimbursable funds.

Fiscal 2008

Significant adjustments to the DGS fiscal 2008 appropriation include the following:

- COLAs that were budgeted in DBM and transferred to the agencies through budget amendment added \$654,000 to the DGS budget.
- Cost containment measures reduced the DGS general fund appropriation by slightly more than \$4.1 million. The most significant items include a \$1,568,867 reduction for the debt service payment for the Calvert Street Garage which was unnecessary due to remaining bond funds that were applied and used to pay debt service; a \$2.0 million reduction to the appropriation for the DGS deferred operating maintenance budget; and reductions in general operating expenses.

Audit Findings

Audit Period for Last Audit:	October 16, 2002 – April 30, 2006
Issue Date:	February 2007
Number of Findings:	11
Number of Repeat Findings:	10
% of Repeat Findings:	%
Rating: (if applicable)	n/a

- Finding 1:** The Office of Procurement Logistics (OPL) did not require State agencies to solicit, procure, and award contracts via eMM.
- Finding 2:** The contractual agreement between OPL and the eMM contractor did not adequately address controls and security.
- Finding 3:** OPL lacked complete documentation of the evaluation of technical proposals for the electricity contracts.
- Finding 4:** OPL inappropriately issued an emergency procurement for a vendor to conduct the reserve auction.
- Finding 5:** OPL did not always document its review of contractors' performance on proper State construction contracts.
- Finding 6:** OPL did not ensure that it was in the best interest of the State to continue to participate in a purchasing alliance for pharmaceutical drugs and did not monitor the related costs totaling \$14 million.
- Finding 7:** OPL had not determined the fair market prices of Maryland Correctional Enterprise (MCE) products and services since 2003; consequently, State agencies did not have the necessary information to comply with the requirements to purchase goods from MCE unless its price exceeds the fair market price.
- Finding 8:** OPL had not conducted audits of delegated procurement activity, which totaled approximately \$219 million during fiscal 2006, since fiscal 2003.
- Finding 9:** OPL did not notify the Secretary of State of vendors awarded DGS contracts greater than \$100,000. These vendors are required to file disclosure statements with the Secretary of State.
- Finding 10:** Proper internal controls were not established over statewide DGS purchasing transactions.

H00 – Department of General Services

Finding 11: OPL did not ensure that State agencies reviewed available fuel usage reports to detect billing errors and/or possible abuse of the Statewide Fuel Management and Dispensing System.

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

**Object/Fund Difference Report
Department of General Services**

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	636.00	645.00	638.00	-7.00	-1.1%
02 Contractual	18.67	27.40	27.74	0.34	1.2%
Total Positions	654.67	672.40	665.74	-6.66	-1.0%
Objects					
01 Salaries and Wages	\$ 39,500,174	\$ 40,957,134	\$ 43,180,687	\$ 2,223,553	5.4%
02 Technical and Spec. Fees	882,361	1,126,988	1,274,353	147,365	13.1%
03 Communication	979,679	901,296	1,051,985	150,689	16.7%
04 Travel	25,561	64,782	46,736	-18,046	-27.9%
06 Fuel and Utilities	15,313,256	15,379,795	15,546,438	166,643	1.1%
07 Motor Vehicles	985,821	754,366	515,098	-239,268	-31.7%
08 Contractual Services	13,911,879	15,491,769	16,317,378	825,609	5.3%
09 Supplies and Materials	1,436,873	1,536,581	1,271,146	-265,435	-17.3%
10 Equip. – Replacement	124,408	141,482	233,647	92,165	65.1%
11 Equip. – Additional	69,353	1,500	21,309	19,809	1320.6%
12 Grants, Subsidies, and Contributions	367,000	367,000	367,000	0	0%
13 Fixed Charges	4,065,053	4,038,406	4,394,274	355,868	8.8%
14 Land and Structures	9,969,870	7,776,314	7,831,924	55,610	0.7%
Total Objects	\$ 87,631,288	\$ 88,537,413	\$ 92,051,975	\$ 3,514,562	4.0%
Funds					
01 General Fund	\$ 58,814,751	\$ 58,084,472	\$ 59,485,018	\$ 1,400,546	2.4%
03 Special Fund	2,615,532	1,794,451	1,224,305	-570,146	-31.8%
05 Federal Fund	840,093	917,683	971,921	54,238	5.9%
09 Reimbursable Fund	25,360,912	27,740,807	30,370,731	2,629,924	9.5%
Total Funds	\$ 87,631,288	\$ 88,537,413	\$ 92,051,975	\$ 3,514,562	4.0%

Note: The fiscal 2008 appropriation does not include deficiencies.

**Fiscal Summary
Department of General Services**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
01 Executive Direction and Support Services	\$ 1,616,595	\$ 1,547,431	\$ 1,597,861	\$ 50,430	3.3%
02 Office of Security Administration	3,133,269	3,431,937	3,291,308	-140,629	-4.1%
01 Finance and Administration	12,199,075	12,922,456	13,418,920	496,464	3.8%
01 Facilities Operation and Maintenance	40,219,366	40,672,062	42,211,889	1,539,827	3.8%
04 Saratoga State Center – Capital Appropriation	100,000	100,000	100,000	0	0%
05 Reimbursable Lease Management	6,774,756	7,225,587	8,315,504	1,089,917	15.1%
07 Calvert Street Garage Annapolis	84,289	127,762	1,692,866	1,565,104	1225.0%
01 Procurement and Logistics	6,775,688	6,905,081	6,644,978	-260,103	-3.8%
01 Real Estate Management	2,283,349	2,616,314	2,443,006	-173,308	-6.6%
01 Facilities Planning, Design, and Construction	14,444,901	12,988,783	12,335,643	-653,140	-5.0%
Total Expenditures	\$ 87,631,288	\$ 88,537,413	\$ 92,051,975	\$ 3,514,562	4.0%
General Fund	\$ 58,814,751	\$ 58,084,472	\$ 59,485,018	\$ 1,400,546	2.4%
Special Fund	2,615,532	1,794,451	1,224,305	-570,146	-31.8%
Federal Fund	840,093	917,683	971,921	54,238	5.9%
Total Appropriations	\$ 62,270,376	\$ 60,796,606	\$ 61,681,244	\$ 884,638	1.5%
Reimbursable Fund	\$ 25,360,912	\$ 27,740,807	\$ 30,370,731	\$ 2,629,924	9.5%
Total Funds	\$ 87,631,288	\$ 88,537,413	\$ 92,051,975	\$ 3,514,562	4.0%

Note: The fiscal 2008 appropriation does not include deficiencies.

Priority Classes

The prioritization process used by the DGS attempts to identify the consequences of not funding projects based on the following priority classification:

Highest Level: Serious prolonged impact of facility mission:

1. High risk of litigation from failure to provide a mandated service.
2. High risk of cessation of a mandated service.
3. High risk of reduction of a mandated service.

Mid Level: Short term impact on mission capability but very high level of economic risk:

4. Fineable code violations, serious life safety issues.
5. Destruction of related assets.
6. Accelerated deterioration of the asset, end of normal life expectancy.

Low Level: No impact on mission capability and low economic risk associated with:

7. Restoring an asset to its design effectiveness.
8. Restoring an asset to design efficiency.
9. Improving an asset above its original design effectiveness.