

**H00**  
**Department of General Services**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$58,062	\$55,302	\$60,580	\$5,278	9.5%
Contingent & Back of Bill Reductions	0	0	-1,605	-1,605	
<b>Adjusted General Fund</b>	<b>\$58,062</b>	<b>\$55,302</b>	<b>\$58,975</b>	<b>\$3,673</b>	<b>6.6%</b>
Special Fund	1,200	1,385	2,613	1,228	88.7%
Contingent & Back of Bill Reductions	0	0	-7	-7	
<b>Adjusted Special Fund</b>	<b>\$1,200</b>	<b>\$1,385</b>	<b>\$2,606</b>	<b>\$1,221</b>	<b>88.2%</b>
Federal Fund	918	958	1,004	47	4.9%
Contingent & Back of Bill Reductions	0	0	-2	-2	
<b>Adjusted Federal Fund</b>	<b>\$918</b>	<b>\$958</b>	<b>\$1,002</b>	<b>\$44</b>	<b>4.6%</b>
Reimbursable Fund	26,659	30,371	30,006	-365	-1.2%
Contingent & Back of Bill Reductions	0	0	-65	-65	
<b>Adjusted Reimbursable Fund</b>	<b>\$26,659</b>	<b>\$30,371</b>	<b>\$29,941</b>	<b>-\$430</b>	<b>-1.4%</b>
<b>Adjusted Grand Total</b>	<b>\$86,838</b>	<b>\$88,015</b>	<b>\$92,525</b>	<b>\$4,509</b>	<b>5.1%</b>

- The allowance includes a fiscal 2009 general fund deficiency of \$1,722,417 to fund the increased cost of utility and contractual services expenditures. This deficiency amount represents a 2.0% increase over the \$88,015,354 working appropriation.
- The fiscal 2010 allowance increases by \$4,509,332, or 5.1%, when funds are adjusted for contingent and across-the-board reductions.
- Personnel expenses increase by \$1.0 million, mostly due to pay-as-you-go retiree and health insurance costs. However, when these costs are adjusted for contingent and across-the-board reductions, personnel expenditures increase by \$38,342, or 0.09%
- Contractual services increase by \$1.6 million, mostly due to the State's assumption of the Hyattsville and Towson multi-service center facilities. However, when these costs are adjusted to reflect across-the-board reductions, contractual services increase by \$972,477, or 6.1%.

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

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- Fuel and utility expenditures increase by \$4.6 million, mostly due to rising electricity costs.
- Special funds increase by \$1,221,251, or 88.2%, when adjusted for contingent and across-the-board reductions. This increase is primarily attributed to the receipt of Regional Greenhouse Gas Initiative funds.

***Personnel Data***

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	<b><u>FY 08</u></b> <b><u>Actual</u></b>	<b><u>FY 09</u></b> <b><u>Working</u></b>	<b><u>FY 10</u></b> <b><u>Allowance</u></b>	<b><u>FY 09-10</u></b> <b><u>Change</u></b>
Regular Positions	638.00	611.00	598.00	-13.00
Contractual FTEs	<u>15.78</u>	<u>27.74</u>	<u>25.42</u>	<u>-2.32</u>
<b>Total Personnel</b>	<b>653.78</b>	<b>638.74</b>	<b>623.42</b>	<b>-15.32</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	37.08	6.01%
Positions and Percentage Vacant as of 12/31/08	46.00	7.53%

- The allowance includes six additional employees – three maintenance positions and three administrative positions within the Facilities Operations and Maintenance Program. The allowance also reflects a net reduction of 2.32 contractual full-time equivalents.
- Across-the-board reductions reduce the agency’s position complement by 19.
- As of December 31, 2008, the vacancy rate was 7.53%. Ten of these vacancies have subsequently been filled, thereby reducing the vacancy rate to 5.89%

## *Analysis in Brief*

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### Major Trends

***Thefts at Secured Facilities:*** Thefts at the Department of General Services' (DGS) managed facilities have continued to remain below the baseline of 129 thefts.

***New Procurements in DGS-supported Agencies:*** The percentage of procurements completed on time and under budget increased significantly in fiscal 2008.

***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.

***Small Business Reserve Program:*** The department failed to reach its Managing for Results goal to increase the dollar amount of procurements awarded to small business by 10% annually.

### Issues

***Facility Maintenance and Renewal Program:*** The 2008 *Joint Chairmen's Report* (JCR) directed the Department of Budget and Management (DBM), in coordination with DGS, to develop a strategic plan for improving the State's facility maintenance and renewal process. The budget committees further requested that the strategic plan include a best practices survey of how other states fund facility maintenance and renewal projects as well as draft legislation establishing a State facility maintenance and renewal non-lapsing special fund. On October 1, 2008, DBM submitted its report to the budget committees. **Based upon a review of the report, the Department of Legislative Services (DLS) recommends that the State consider privatizing the entire maintenance function currently being performed by DGS, or alternatively, establishing a non-lapsing special fund to address facilities maintenance concerns. Lastly, DLS recommends budget bill language requiring DGS, DBM, and DLS to study the feasibility of outsourcing the facilities maintenance and renewal functions currently being performed by DGS.**

***StateStat:*** Established by Chapter 7 of 2007, StateStat is an Administrative initiative designed to be a management accountability process for Executive Branch agencies. Agencies such as DGS are required to report regularly to StateStat regarding various inputs and performance trends such as overtime usage and departmental vacancies. **A review of the data reported suggests that further analysis may be warranted in areas such as DGS security, energy conservation, and facilities operations and maintenance.**

***Energy Conservation Efforts:*** The State Building Energy Efficiency and Conservation Act of 2006 required DGS and the Maryland Energy Administration to develop energy use index and savings goals for every State agency. **DLS recommends that DGS update the committees on the State's level of compliance with the requirements of Chapter 427 of 2006.**

**Information Technology Systems:** The Major Information Technology Development Project Fund includes a total of \$1.2 million in fiscal 2010 for the development of a new procurement system as well as the replacement of the department's aging information technology (IT) systems. **The department should comment on the current status of its aging IT systems, including the impact the continued use of these systems on the department's ability to carry out its core mission responsibilities. The department should also brief the committees on eMaryland MarketPlace's lack of functionality as well as its inability to provide the department with meaningful data.**

**Staff Reductions:** According to the department, since fiscal 2004, budget shortfalls have resulted in the elimination of nearly 200 maintenance, police officer, and administrative staff positions. Although the fiscal 2010 allowance includes funding for six new maintenance and administrative positions, when the allowance is adjusted to reflect across-the-board reductions in personnel, there is a net reduction of 13 positions. **DGS should comment on the impact of personnel reductions on its ability to perform its core services. DGS should also comment on how the six new positions will increase staff efficiency and work productivity.**

**Follow-up Audit Review Reveals a Possible Employee Conflict of Interest:** The Office of Legislative Audits (OLA) conducted a follow-up review of a Special Review Report issued in November 2003 regarding an allegation of improper activity in the procurement of architectural and engineering services. In that report, OLA noted that a management employee at DGS and/or the employee's subordinates were involved with procuring two architectural and engineering service contracts totaling \$3.6 million from a firm where the management employee's spouse was employed as vice president. Subsequent to the review, DGS revised its operating policies. However, OLA's follow-up review disclosed that the revised operating policies were inadequate. Specifically, the policies only required management employees involved in certain aspects of the procurement process to complete an affidavit relating to such conflicts. Moreover, the policies did not include a provision to detect potential conflicts that may arise after the award of contracts. **The department should comment on what efforts it has taken to ensure that such a conflict of interest does not take place again. Additionally, per OLA's findings, the department should comment on the adequacy of its operating policies, including whether policies are currently in place to detect potential conflicts of interest that may arise after a contract is awarded.**

**Fiscal 2008 Closeout Audit:** OLA's statewide review of budget closeout transactions for fiscal 2008 indicated that DGS reported \$709,181 in unprovided for payables. **DGS should comment to the committees as to why the department overspent its fiscal 2008 appropriation. DGS should also comment on whether the fiscal 2009 fuel and utility deficiency appropriation of \$1.1 million is sufficient funding to absorb outstanding payables.**

## **Recommended Actions**

1. Adopt committee narrative requiring the submission of an annual report on the department's energy conservation efforts.

## **Updates**

***Eligibility Modification to the Small Business Reserve Program:*** Chapter 388 of 2008 raised the average annual gross sales thresholds for determining firms' eligibility for qualifying as a small business under the Small Business Reserve Program.

***Report on Maryland Correctional Enterprises and Blind Industries and Services of Maryland Procurement Activities:*** The 2007 JCR directed DGS to utilize the Maryland Correctional Enterprises (MCE) and Blind Industries and Services of Maryland (BISM) for as much of its procurement needs as possible. DGS was also required to submit a report on its procurement activities for fiscal 2008, and if applicable, an explanation as to why MCE and BISM were not used in certain procurements.

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**H00**  
**Department of General Services**

***Operating Budget Analysis***

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**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:

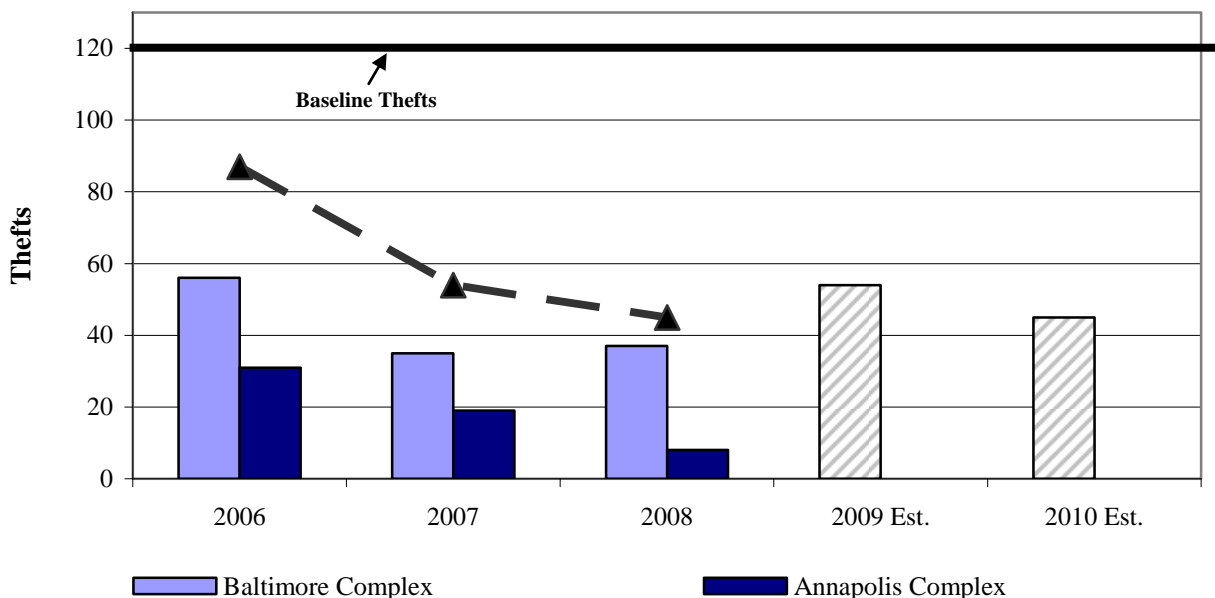
- operate efficiently and effectively;
- manage departmental projects efficiently;
- provide timely and accurate management information;
- achieve responsible asset management;
- provide best value for customer agencies and taxpayers; and
- carry out social, economic, and other responsibilities as a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

**Performance Analysis: Managing for Results**

**Thefts at Secured Facilities**

**Exhibit 1** shows 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 illustrated, since fiscal 2002, the number of reported thefts at DGS managed facilities has continued to remain below the baseline measure. **The department should consider revising its baseline measure to reflect the more recent trend of fewer thefts as the current measure appears to be outdated.**

**Exhibit 1**  
**Thefts at DGS Secured Facilities**  
**Fiscal 2006-2010**



	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Est.</u>	<u>2010</u> <u>Est.</u>
Baltimore Complex	56	35	37	n/a	n/a
Annapolis Complex	31	19	8	n/a	n/a
Total Number of Thefts at Secured Facilities	87	54	45	40	36
Percent Change in Thefts from Fiscal 2002 Baseline of 129 Thefts	-32.6%	-58.1%	-65.1%	-69.0%	-72.1%

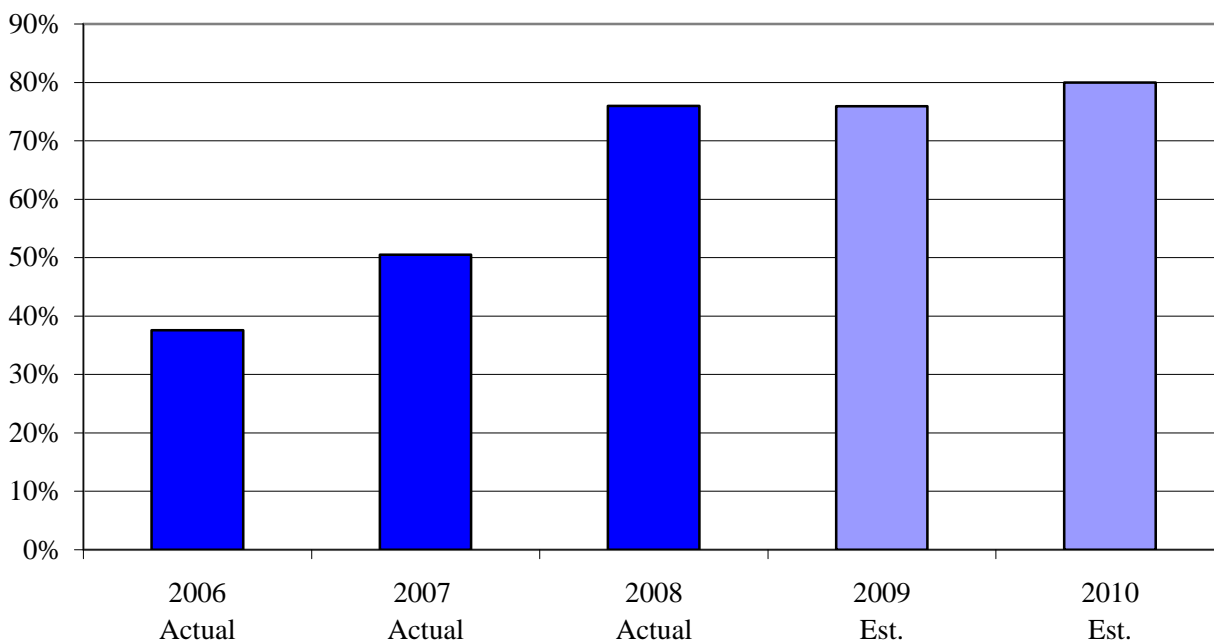
DGS: Department of General Services

Source: Department of General Services

## New Procurements in DGS-supported Agencies

As shown in **Exhibit 2**, DGS’ performance with respect to new procurements increased significantly in fiscal 2008. The department strives to ensure that at least 80% of all new procurements are on time, under budget, and meet identified requirements (*i.e.*, at or below budgeted costs and within 60 days from receipt of a requisition until an award is made). In fiscal 2008, the percentage of new procurements completed on time increased to 76%. DGS attributes this success to enhanced process review and greater supervision.

**Exhibit 2**  
**Number and Percent of New Procurements**  
**Completed on Time, on Budget, and on Target**  
**Fiscal 2006-2010**



	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Est.</u>	<u>2010</u> <u>Est.</u>
Procurements	442	376	420	490	500
Procurements Completed on Time	166	190	319	372	400
Percent on Time, Budget, and Target	38%	51%	76%	76%	80%

Source: Department of General Services

## **Small Procurement Threshold Increased**

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. Chapter 23 of 2008 increased the department's small procurement threshold for construction contracts from \$25,000 to \$50,000. **DGS should comment on whether the department has experienced increased efficiency in procuring construction contracts valued at \$50,000 or less.**

## **Minority Business Enterprise Participation**

**Exhibit 3** 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.**

## **Small Business Reserve Program**

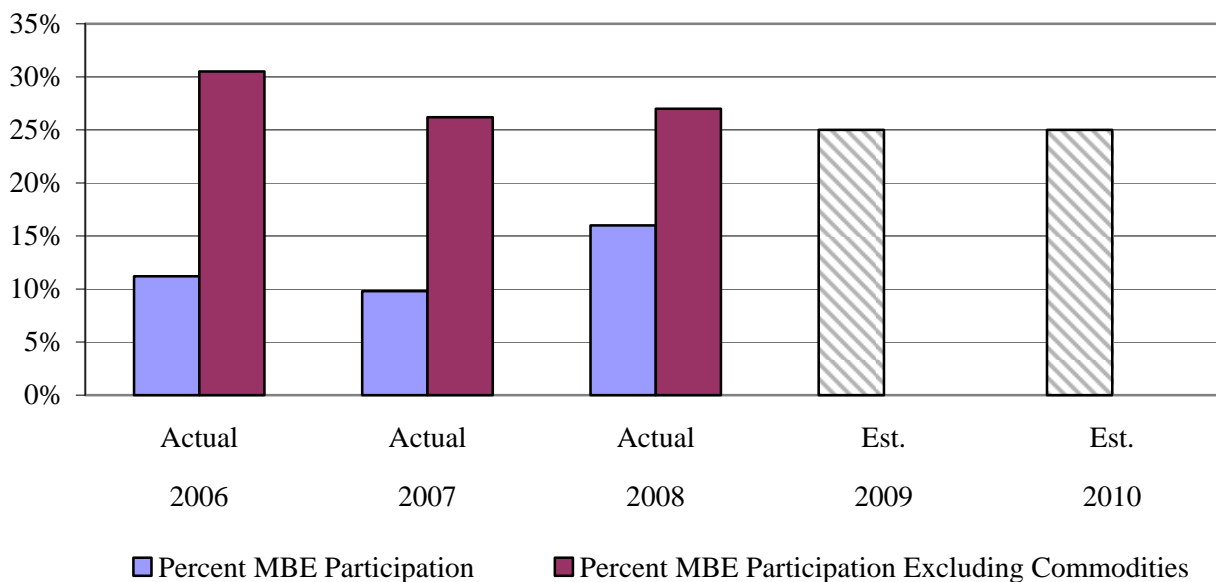
Chapter 75 of 2004, codified as Section 15-501 through 15-511 of the State Finance and Procurement Article, established the Small Business Reserve (SBR) Program. The program requires designated procurement units, including DGS, to award at least 10% of the total dollar value of certain procurement contracts to small businesses. As shown in **Exhibit 4**, DGS' objective is to increase by 10% annually the total dollar value of SBR awarded contracts. The department recently revised this measure downward from 25% to reflect a more attainable goal of 10%. 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 \$9.8 million, representing 7.8% of qualified contract dollars. **DGS should comment on what steps it has taken to expand the amount of SBR contracts.**

## **Fiscal 2009 Actions**

### **Proposed Deficiency**

The fiscal 2010 allowance includes a deficiency appropriation of \$1,722,417. According to the department, these funds will be used for utility (\$1.1 million) and contractual services deficiencies such as janitorial services. The department reports that a significant portion of the increase in contractual services is believed to be the result of legislation (Chapter 284 of 2007) that required employees working under certain State contracts be paid a living wage.

**Exhibit 3  
Percent of MBE Participation in Total Procurement Dollars  
Fiscal 2006-2010**



	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>2009 Est.</u>	<u>2010 Est.</u>
Percent MBE Participation	11.2%	9.8%	16%	25%	25%
Percent MBE Participation Excluding Commodities	30.5%	26.2%	27%	n/a	n/a

MBE: Minority Business Enterprise

Source: Department of General Services

**Exhibit 4  
Small Business Reserve Program Total Procurement Dollars  
Fiscal 2006-2010**

	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>2009 Est.</u>	<u>2010 Est.</u>
SBR Procurement Dollars (in Millions)	\$11.0	\$11.2	\$12.1	\$13.3	\$15.3
Percent SBR Procurement Dollars Increase Annually	n/a	1.8%	8.0%	9.9%	15.0%

SBR: Small Business Reserve

Source: Department of General Services

## **Impact of Cost Containment**

DGS was required to reduce the total budget by \$4.5 million due to cost containment actions taken by the Board of Public Works in fiscal 2009. Cost savings were primarily achieved by:

- across-the-board reductions in areas such as health insurance, travel, and Other Post Employment Benefits (\$1.0 million);
- abolishing 27 vacant police officer, maintenance, and administrative positions (\$1.4 million);
- reducing funding for janitorial service contracts at State facilities (\$600,000);
- reducing critical maintenance funding for statewide facilities (\$500,000); and
- a fund swap, which allowed the department to use special funds from the Regional Greenhouse Initiative to cover loan payments for energy performance contracts as well as two positions within the Energy Services Division (\$1.0 million).

## **Proposed Budget**

As shown in **Exhibit 5**, the fiscal 2010 allowance increases by \$4,509,332, or 5.1%, when funds are adjusted for contingent and across-the-board reductions. However, when the budget is adjusted to reflect the fiscal 2009 deficiency appropriation, the fiscal 2010 allowance increases by \$2,786,915, or 3.1%. The allowance also includes a projected one-time special fund swap totaling \$1,388,113 for energy performance contracts payments and personnel expenses within the department's Office of Energy Performance and Conservation

## **Personnel Expenditures**

Personnel expenses increase by \$1 million, mostly due to pay-as-you-go retiree and health insurance costs. However, when these costs are adjusted for contingent and across-the-board reductions, personnel expenditures increase by \$38,342, or 0.09%

The fiscal 2010 allowance includes \$261,926 for 6 new maintenance and administrative positions associated with the State's assumption of the Hyattsville and Towson multi-service center facilities. However, when the allowance is adjusted to reflect across-the-board reductions in personnel, there is a net reduction of 13 positions.

**Exhibit 5**  
**Proposed Budget**  
**Department of General Services**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2009 Working Appropriation	\$55,302	\$1,385	\$958	\$30,371	\$88,015
2010 Allowance	<u>60,580</u>	<u>2,613</u>	<u>1,004</u>	<u>30,006</u>	<u>94,204</u>
Amount Change	\$5,278	\$1,228	\$47	-\$365	\$6,188
Percent Change	9.5%	88.7%	4.9%	-1.2%	7.0%
 Contingent Reduction	 -\$1,605	 -\$7	 -\$2	 -\$65	 -\$1,679
Adjusted Change	\$3,673	\$1,221	\$44	-\$430	\$4,509
Adjusted Percent Change	6.6%	88.2%	4.6%	-1.4%	5.1%

**Where It Goes:**

**Personnel Expenses**

New positions .....	\$262
Across-the-board reduction of 19 positions.....	-739
Increments.....	111
Employees' retirement system.....	559
Employee and retiree health insurance pay-as-you-go costs .....	1,010
Department of General Services police retirement.....	-157
Reduction of Other Post Employment Benefits' unfunded liability .....	-638
Deferred compensation (after reducing fiscal 2010 for contingent reductions) .....	-279
Turnover adjustments .....	-144

**Other Changes**

**Contractual Employees**

2.32 net contractual full-time equivalent reduction .....	-164
Across-the-board contractual employee reduction (Section 23).....	-8

**Hyattsville and Towson Facilities**

Fuel and utility expenses.....	475
Contractual services such as security and janitorial expenses .....	320
Two new motor vehicles.....	66
Office equipment .....	58
Administrative and maintenance fees .....	-1,025

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**Where It Goes:**

<b>Contractual Services</b>	
Janitorial services.....	734
Contractual security services .....	489
Temporary office assistance for printing services .....	253
Across-the-board contractual services reduction (Section 24) .....	-653
<b>Other Expenses</b>	
Fuel and utility expenses.....	4,621
12 new motor vehicles .....	237
Other .....	-813
<b>Total</b>	<b>\$4,509</b>

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

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**Hyattsville and Towson Multi-service Centers**

According to the department, in 1994, the State entered into agreements with Baltimore and Prince George’s counties for the construction of two multi-service centers. Pursuant to these agreements, the counties issued debt to construct two multi-service centers and in return, the State agreed to make biannual payments to the counties for debt service; operations and maintenance; and administrative fees. Under the agreement, the counties were to own and operate the facilities for a 15-year period and at the conclusion of that period, the State agreed to assume both management and ownership of the facilities.

The allowance reflects a net decrease of \$27,507 (excluding personnel) for expenditures associated with the State’s assumption of the Hyattsville and Towson multi-service center facilities. The net decrease is primarily due to the following:

- \$475,000 in additional funds for fuel and utility expenses;
- \$319,751 in additional funding for contractual services such as security and janitorial expenses;
- \$66,000 in additional funding for motor vehicle expenses;
- \$58,400 in additional office equipment for new personnel; and
- a \$1,024,850 reduction in administrative and maintenance fees paid to the counties.

It should be noted that the department has indicated that there are two similar arrangements with St. Mary’s and Calvert counties. The State is expected to assume management and ownership of these facilities in fiscal 2011 and 2012.

## **Nonpersonnel**

Significant nonpersonnel-related costs include the following:

- ***Fuel and Utility Expenditures:*** The allowance includes an additional \$4.6 million for fuel and utilities expenditures. DGS is currently responsible for operating and maintaining 56 facilities across the State;
- ***Janitorial Services Expenditures:*** The allowance includes an additional \$733,710 in janitorial services expenditures. This increase is primarily due to contract escalation clauses and increased fees associated with the living wage requirement;
- ***Other Contractual Services:*** The allowance also includes an additional \$742,855 for contractual security services at the State’s multi-service facilities (\$489,363) and temporary office assistance for printing services (\$253,492). The Governor recently announced a new initiative to consolidate several of the State’s print shop operations under DGS.

## **Impact of Cost Containment**

The fiscal 2010 allowance includes a net contractual full-time equivalent reduction of 2.32 positions totaling \$144,379.

Contingent and across-the-board reductions further reduce the department’s fiscal 2010 allowance by approximately \$1.7 million. These reductions include the following:

- the deletion of 19 vacant positions (\$738,564);
- a reduction in contractual services (\$653,483);
- a reduction in deferred compensation (\$278,616); and
- a \$8,440 reduction in contractual employee services.

## Issues

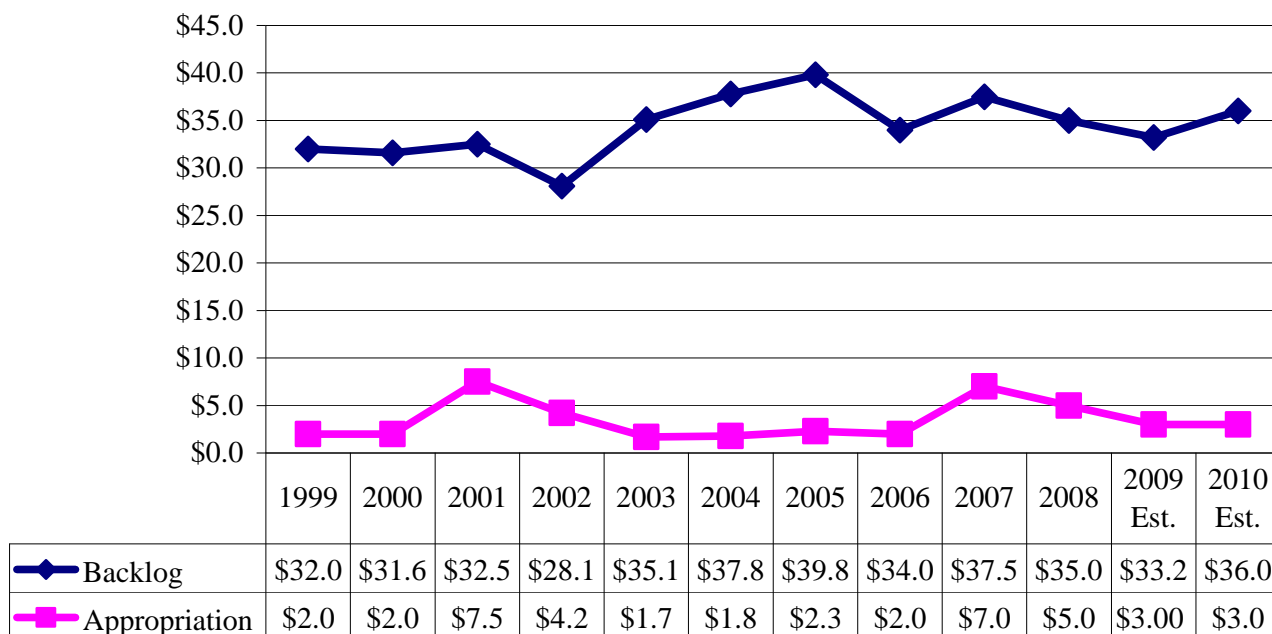
### 1. Facility Maintenance and Renewal Program

Pursuant to Sections 4-407 and 4-408 of the State Finance and Procurement Article, the department is required to establish and supervise a comprehensive and continuing program of maintenance and repair of all public improvements. DGS’ maintenance of State facilities efforts include both “critical maintenance” funded through the operating budget and “facilities renewal” funded through the capital budget. In recent years, budget shortfalls have caused the State to scale back on facilities maintenance and renewal funding. The lack of adequate funding has been a concern of the budget committees for many years as deferring critical maintenance eventually leads to increasing project costs and further deterioration of the State’s assets.

#### Facility Maintenance Funding

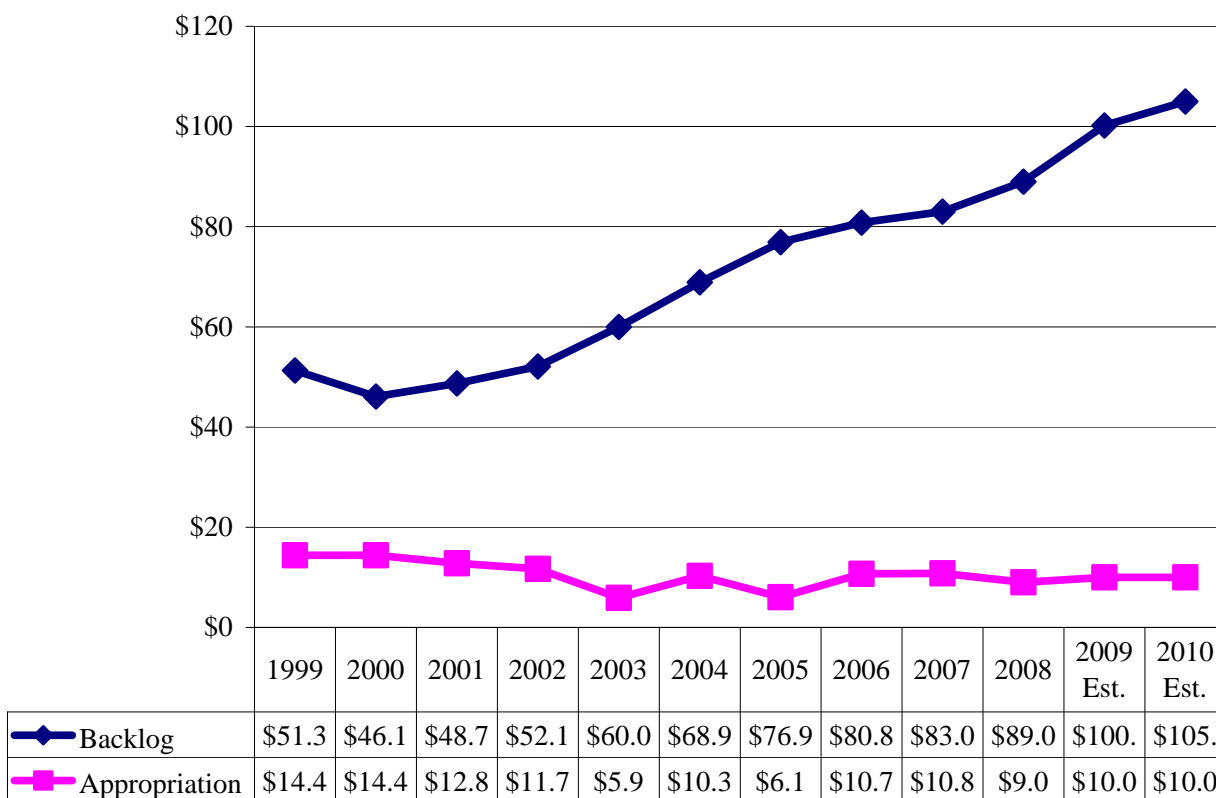
Since 2000, operating spending by DGS on facilities maintenance projects above \$2.0 million have been excluded from the spending affordability calculation. Despite this exclusion, as shown in Exhibits 6 and 7, DGS reports growing critical maintenance and facilities renewal backlogs of \$36.0 million and \$105.0 million, respectively.

**Exhibit 6**  
**Critical Maintenance Funding and Backlog**  
**Fiscal 1999-2010**  
**(\$ in Millions)**



Source: Department of General Services

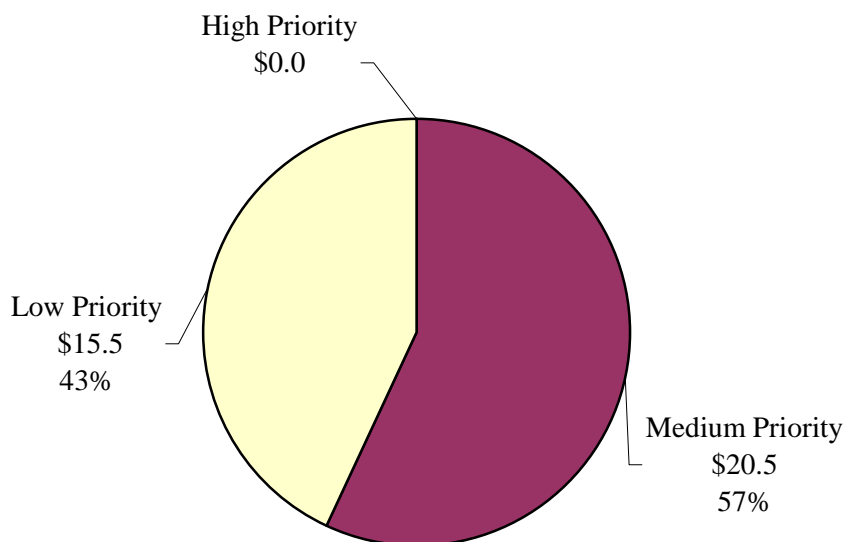
**Exhibit 7  
Facilities Renewal Funding and Backlog  
Fiscal 1999-2010  
(\$ in Millions)**



Source: Department of General Services

**Exhibit 8** provides further detail regarding the fiscal 2010 critical maintenance backlog for each classification of the department’s priority levels. As shown, approximately 57% of the critical maintenance backlog is classified as a medium level priority. Although these projects are considered to have a short-term impact on agencies’ mission capabilities, they are considered to have a high level of economic risk. **Appendix 7** provides a summary of the priority classification.

**Exhibit 8**  
**Fiscal 2010 Critical 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	\$0.2	\$3.0	\$17.3	\$9.8	\$2.1	\$3.6	\$36.0
% of Total	0%	1%	8%	48%	27%	6%	10%	100%
# of Projects	0	3	79	502	294	54	96	1028

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

Source: Department of General Services

### **Facility Maintenance Staffing**

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 architectural and engineering (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.

In addition to the department's critical maintenance and capital facilities renewal program, DGS staff also administers the Department of Natural Resources Program Open Space critical maintenance and capital development projects and the State's Asbestos Abatement and Underground Heating and Storage Tank Programs. Fourteen of the 17 positions are dedicated exclusively to project management which results in approximately 42 projects per project manager on an annual basis.

### ***2008 Joint Chairmen's Report***

The 2008 *Joint Chairmen's Report* (JCR) directed the Department of Budget and Management (DBM), in coordination with DGS, to develop a strategic plan for improving the State's facility maintenance and renewal process. The budget committees further requested that the strategic plan include a best practices survey of how other states fund facility maintenance and renewal projects as well as draft legislation establishing a State facility maintenance and renewal non-lapsing special fund. On October 1, 2008, DBM submitted its report to the budget committees outlining its findings, summarized below.

### **Best Practices for Facilities Maintenance and Renewal**

In response to the JCR report, DBM examined best maintenance practices and facility renewal programs in several states<sup>1</sup>. Using survey data and telephone interviews with facility maintenance representatives in target states, DBM compiled a list of best maintenance practices, specifically in the areas of facilities assessment, project management, budgeting, and project backlogs.

### **Centralized Assessment Practices**

According to the report, nearly all of the states surveyed utilize a centralized assessment system. For example, the state of Florida has a Facilities Inventory Group that assesses state facilities every three years to determine needed repairs and renovations. By contrast, Utah utilizes a third-party vendor to provide a statewide facility assessment every five years. Centralized assessment practices are used to develop statewide facility master plans and annual reports. These reports help ascertain maintenance needs, prioritize funding, and determine future maintenance costs.

Prior to 1993, maintenance projects were generated by a DGS assessment team that thoroughly inspected all State facilities. The team was responsible for evaluating the facility maintenance program and the quality of the maintenance workflow. However, this program was eliminated in fiscal 1993 due to the State's fiscal crisis. Since that time, the department has utilized a Preventative Maintenance Operation (PMO) Program. Under this program, agencies are required to submit project justification reports to DGS annually. The PMO Program requires agencies to conduct their own assessments of facilities and equipment and to provide project justifications for items that need to be replaced. This information is then reviewed by DGS project managers, assigned a priority, and placed on an aggregate list of projects maintained by the department for future consideration. A main critique of the PMO Program is that agency personnel are not always qualified to conduct such

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<sup>1</sup> Florida, Utah, Nebraska, and Vermont.

an assessment. Consequently, agencies often submit incomplete reports which lead to poor maintenance tracking and identification. An increase in the number of emergency projects is believed to be a direct result of the PMO Program. In the absence of adequate assessment practices, it is virtually impossible to determine the true magnitude of the State's facilities maintenance backlog.

## **Computerized Maintenance Management Systems**

Computerized Management Maintenance Systems (CMMS) enable project managers to track the status of maintenance projects and manage project costs. According to the report, all of the best maintenance states utilize a vendor-serviced CMMS or a “no frills” database system. CMMS are utilized by facilities maintenance managers and staff to record, manage, and communicate day-to-day operations. CMMS also provide reports, data, and charts which are used to track key performance measures and manage resources. Although the State of Maryland utilizes a priority ranking system, the State does not use any kind of computer software to organize maintenance projects.

## **Priority Ranking System**

Another best maintenance method is the use of a priority ranking system. Maryland, like all of the best maintenance states, utilizes a priority ranking system. As previously mentioned, Maryland prioritizes its projects into high, medium, and low level categories (See Exhibit 8). Projects are ranked by severity and need, with those with a high risk of litigation at the top end and projects designed to improve basic efficiency at the bottom. States such as Florida and Vermont use similar systems, with imminent life and safety hazards at the top, and general, non-severe issues at the bottom.

## **Methodology for Determining Adequate Funding**

Like Maryland, many states have backlogs for maintenance. Three of the four best maintenance states studied utilize a life-cycle cost accounting process to address facilities maintenance funding. A life-cycle cost analysis refers to the sum of the present values of capital, installation, energy, operating, maintenance, and disposal costs over the lifetime of the product. Agencies use the life-cycle cost analysis to make decisions regarding investments in products, services, construction, and other projects. The analysis is also used to retire inefficient equipment and facilities.

There are three main components of the life-cycle accounting process:

- **Replacement Asset Value (RAV):** RAV is the total amount of expenditure in current dollars required to replace the institution's general facilities to its optimal condition. This includes the full replacement cost for all buildings, grounds, utility systems, and utility generating systems. According to this approach, annual funding levels for facility maintenance should range between 2 to 4% of RAV.

- **Deferred Maintenance Deficiencies:** Deferred maintenance refers to the total amount of existing major maintenance repairs and replacements, identified by a comprehensive facilities condition audit of buildings, grounds, fixed equipment, and infrastructure needs. It does not include projected maintenance, program improvements, or new construction, as these items are viewed as separate capital needs. This calculation is no different than the deferred critical maintenance and facilities renewal figures that are currently tracked by DGS. As previously mentioned, Maryland’s critical maintenance (operating) and facilities renewal (capital) backlogs total \$36 million and \$105 million, respectively.
- **Facilities Conditions Index (FCI):** FCI is a performance indicator used to compare the relative condition of a single facility or an entire inventory of facilities. It is the ratio of deferred maintenance (in dollars) to RAV (in dollars). The ratio is used to evaluate facilities maintenance practices and to determine standards for annual reinvestment or disinvestment. While there is no universal standard for FCI, states and consulting agencies typically set target goals of under 5% in the short-term and 20 to 25% in the long-term. Although the RAV is known for the University System of Maryland, it is unknown for facilities funded through the DGS facilities renewal program. Consequently, ideal annual funding levels could not be calculated for all DGS-managed facilities using these criteria.

### **Alternative Funding Mechanisms**

Similar to Maryland, the states studied often fund maintenance programs directly from the operating and capital budgets. In addition, Nebraska and Florida use two alternative practices: setting aside funding during capital construction and charging facility rental fees to finance facility maintenance projects.

### **Capital Maintenance Set Aside During Construction**

In Nebraska, each state agency pays between 1.5 to 2.0% of the capital construction costs of each facility into a revolving fund. This funding is then accessed (as needed) via the appropriate legislative authorization.

Although this method is not currently underway in Maryland, the Department of Legislative Services (DLS) has recommended similar proposals in the past. Such proposals include the following:

- **Establish a State Facilities Maintenance Reserve Fund:** Establish a facilities maintenance reserve fund that would annually receive a specified percentage of the State’s net general fund revenues. Although essentially a mandate, such a fund would help address the statewide deferred maintenance and capital facilities renewal backlogs. Moreover, establishing a dedicated source of funds from which facility maintenance and renewal projects would be funded would help ensure that facilities are properly maintained, preventing certain critical maintenance projects from eventually becoming capital facility renewal projects over time.

- **Establish a Special Non-lapsing Fund:** Establish a special non-lapsing revolving fund to be administered by DGS that would fund facility maintenance and renewal. The fund could be established to receive unspent bond proceeds from terminated State general obligation (GO) debt authorizations. Pursuant to Section 8-129 of the State Finance and Procurement Article, bond proceeds may be (1) cancelled to reduce the State's 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. Such an action would require legislation.

### **Charging Rental Fees**

Charging a user fee to departments occupying state-owned facilities is another method that has been utilized by best practice states such as Florida to fund ongoing maintenance and to reduce the backlog. In Florida, state agencies occupying state-owned facilities are charged \$14.38 per square foot annually. The monies collected are used for debt service, security, maintenance, and administrative costs. Of the \$14.38 collected, \$1.38, or 9.6%, is set aside for capital improvements such as roof and facility system replacements. All monies collected are placed in a trust fund and cannot be spent absent legislative approval.

While Maryland has not adopted this practice, DLS recommended a similar alternative during the 2008 legislative session. The proposal entailed adding a square foot assessment charge for facilities maintenance to the current annual square foot rent calculation for each facility. In the case of State-owned facilities for which DGS does not collect rent (*i.e.*, agencies that are solely funded via the State's general fund), 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.

### **JCR Recommendations**

According to the report, there are two alternatives that could be undertaken by the department to improve its assessment process:

- **Restore the Assessment Team:** This alternative would not only require the reinstatement of the assessment team but would also require that all DGS-managed facilities be inspected at least once every three years. According to DGS, restoring the assessment team would require eight additional maintenance engineers and one clerical support position.
- **Hire a Facilities Maintenance Vendor:** This alternative involves hiring a private facilities maintenance vendor to conduct a centralized assessment of the State's facilities. It is anticipated that the initial cost of hiring a vendor would be approximately \$1 million with a long-term cost of roughly \$10 million. Although costly, this alternative has numerous benefits in that the State would have a computerized system with all of its facilities evaluated

and a prioritized schedule from which the operating and capital budget requests could be prepared. This option would not only eliminate the current self-evaluation assessment but would obviate the need to hire additional personnel.

The report also recommended that the department:

- **Implement a Computerized Maintenance Management System:** Maryland should utilize CMMS to track and organize projects. A CMMS would enable facility managers and maintenance staff to manage projects, update project statuses, and track statistical data.
- **Set Funding Goals to Reduce the Backlog:** Once a facilities assessment is performed, the suggested method from best maintenance states is to fund between 2 to 4% of RAV. The State should establish short- and long-term FCI targets to measure the adequacy of the State's maintenance funding.

### **What Is Next?**

As will be discussed later in the analysis, budget reductions have severely hampered the department's ability to perform its core mission. While there is a possibility that federal stimulus funding could be used for State infrastructure needs, it is evident that the department lacks the in-house capacity and resources to administer additional projects even if such funding were to become available. Given the current fiscal climate, coupled with inconsistent funding levels, **DLS recommends that the State consider establishing a dedicated funding source for critical and facilities maintenance.**

### **Dedicated Funding Source**

The State should consider establishing a dedicated funding source for critical and facilities maintenance. As in the best maintenance practice state of Florida, Maryland should consider adding a square foot assessment charge for critical maintenance to the current annual square footage rent calculation for each State-owned facility. Additionally, for facilities renewal projects, the State should consider adding a surcharge (excluding grant and loan programs) to projects that are administered via the State's general obligation bond program.

### **Administering the Fund**

Once a funding mechanism has been established, the State must determine the best policy for administering the fund. That is, whether DGS should continue to administer the State's critical and facilities maintenance programs, or alternatively, whether all or part of the programs' responsibilities should be privatized. In the event that a policy decision is made to allow the department to continue administering these programs, Maryland should consider restoring the department's assessment team, or as in the best maintenance practice state of Utah, hiring a third-party vendor to conduct regular statewide facility assessments.

## **Budget Reconciliation and Financing Legislation**

Budget reconciliation and financing legislation could be used as a vehicle to implement the aforementioned proposals. Additional discussion regarding this proposal will take place during DLS' presentation on the Budget Reconciliation and Financing Act.

**DGS should comment on the feasibility of establishing a dedicated funding source for critical and facilities maintenance. DGS should also comment on the amount of annual funding needed to adequately address the State's building and infrastructure needs. Lastly, DGS should comment on the impact (i.e., fiscal, staffing, and project management capabilities) of hiring a third-party vendor to conduct statewide facility assessments.**

## **2. StateStat**

Established by Chapter 7 of 2007, StateStat is an Administrative initiative designed to be a management accountability process for Executive Branch agencies. Agencies such as DGS are required to report regularly to StateStat regarding various inputs and performance trends such as overtime usage and departmental vacancies. Administration and department officials discuss the data and adopt strategies in response to the data trends. DGS reports that it has participated in StateStat since June 2007.

### **Summary of Performance Measures Tracked by StateStat**

Agencies participating in StateStat are required to adopt a comprehensive set of performance and citizen satisfaction measures and to submit those measures to StateStat on a regular basis. Agencies are then required to review and analyze the data submitted and to attend accountability meetings to assess performance. Several of the core areas in which the department has identified performance measures include the following:

- **Energy Conservation:** Reducing the State's energy consumption "footprint" is one of the primary objectives of the department. The State Building Energy Efficiency and Conservation Act of 2006 (Chapter 427 of 2006) required DGS and the Maryland Energy Administration to develop energy use index and savings goals for every State agency. A key component to an effective energy conservation policy is the collection and analysis of energy usage data. In November 2007, the Board of Public Works approved a multi-year utility management contract that would allow DGS to contract with a vendor that specializes in providing a web-based utility data monitoring system. Despite a protracted process, the department reports that fiscal 2008 statewide utility consumption data is now available. Now that the database is up and running, DGS has a framework from which to begin its initial assessment of statewide energy consumption. **As the year progresses, DGS should consider developing performance objectives specifically targeted at identifying savings goals for every State agency. Consistent with Chapter 131 of 2008, DGS should also develop**

goals that are specifically aimed at achieving the State goal of reducing per capital electricity consumption and peak demand by 15% by the end of 2015.

- **Facilities Operations and Maintenance (FOM):** FOM provides for the operation, maintenance, and physical safety of buildings and grounds under the jurisdiction of the department. In all of its undertakings, FOM strives to be responsive to its customers' needs; respond to customers in a timely fashion; and to ensure that it operates in a cost-effective manner. Although not part of its annual MFR submission, one of the more interesting statistics tracked via StateStat pertains to the timeliness of completing work order requests. The ability of the department to respond to work order requests in a timely fashion is a fundamental component of responding to customers' needs. **While DGS reports that its goal is to close 70% of its open work orders within 24 hours, it is unclear to DLS as to whether this outcome is currently being measured by the department and StateStat to determine whether the department is meeting this objective. It should also be noted that such data will not only be useful in evaluating DGS' efficiency and effectiveness but will serve as a useful tool when determining the impact of maintenance staff reductions on the department's operations. Lastly, FOM should consider including this outcome in its annual MFR submission.**
- **DGS Police:** The mission of DGS Police is to provide law enforcement and security to certain Maryland State government buildings and grounds as designated by the Secretary of DGS. As part of its StateStat submission, DGS reports the total number of incidents (*e.g.*, thefts, assaults, and security threats) at each complex as well as the total number of enforcement actions (arrests, field interviews, and warrants served) by complex. One of the recommendations of the Governor's *DGS Transition Team* report was to commission a workgroup to study the mission of DGS Police and to determine whether the State should consider privatizing security as the department's mission had become blurred between providing building security and being a law enforcement agency. The fiscal 2010 allowance includes \$12.3 million for the department's Facilities Security Division which is comprised of 187 sworn police officers, security, police communications officer, and civilian administrative positions. **While some discussion has taken place at StateStat meetings with respect to reducing police overtime, perhaps a more comprehensive analysis of the various types of law enforcement actions would provide additional insight as to whether the State should consider privatizing building security or perhaps reducing the current number of sworn officers.**

## **Conclusion**

The department reports that participation in StateStat has had a positive impact on its operations. However, a review of the data reported suggests that further analysis may be warranted. **DGS and StateStat should consider developing more performance-based outcomes going forward.**

### **3. Energy Conservation Efforts**

The State Building Energy Efficiency and Conservation Act of 2006 (Chapter 427 of 2006) required DGS and the Maryland Energy Administration to develop energy use index and savings goals for every State agency. Chapter 427 of 2006 required that:

- DGS, in cooperation with the Maryland Energy Administration (MEA), 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;
- each agency conduct an analysis of the gas and electric consumption in each of the buildings under its jurisdiction and the cost of that consumption by December 31, 2007. The analysis was to be conducted under the direction of DGS and MEA and was to include an examination of methods to achieve energy cost savings; and
- each State agency upgrade its energy conservation plan, developed in consultation with DGS and MEA, to achieve the performance standards set by DGS no later than July 1, 2008.

Consistent with Chapter 427 objectives, Chapter 131 of 2008 established a State goal of achieving a 15% reduction in per capita electricity consumption and peak demand by the end of 2015. In an effort to comply with the objectives of Chapters 427 and 131, DGS reorganized its eight-person energy staff to create a new Office of Energy Performance and Conservation. The office plans to reduce energy consumption in State facilities by focusing its efforts in three core areas (1) facility upgrades; (2) renewable energy; and (3) the implementation of a new statewide utility database.

#### **Facility Upgrades**

Most of the State's energy-related facility upgrades are performed via an energy performance contract (EPC). An EPC is an agreement between the State and an Energy Service Company (ESCO) to make energy-efficient capital improvements. The type of energy saving upgrades typically made via an EPC include replacing or retrofitting boilers, furnaces, air conditioning units, windows, and lighting fixtures. EPCs, which are coordinated by DGS and financed through the State Treasurer's Office, typically consist of the following components: (1) an energy audit; (2) design; (3) construction; (4) maintenance; and (5) monitoring and verification.

Components one and two of an EPC 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 cost savings is projected, the project may be presented to BPW for approval. If approved, the project will proceed to the construction phase where the ESCO selected will be required to implement the project; provide the funds necessary to cover the costs of the project; and guarantee the level of energy cost avoidance savings to be achieved through the financing period by the energy improvements. If the savings do not materialize, ESCOs are required to reimburse the State for any saving not achieved.

Currently, Maryland has four EPCs in the construction phase, and an additional 19 agencies under consideration for EPC. The fiscal 2010 allowance includes approximately \$1.4 million for EPC. **DGS should comment on its efforts to increase the use of EPC contracts. DGS should also comment on the department’s monitoring and verification of EPC cost savings.**

### **Renewable Energy**

One of the office’s newest initiatives pertains to renewable energy<sup>2</sup>. In September 2008, BPW approved an indefinite quantity contract to develop and implement renewable energy project service, including solar, wind, and biomass. According to the department, the State hopes to enter into long-term power purchasing agreements for renewable energy sources that would assist the State in reducing its consumption of fossil fuel energy. **DGS should comment on its renewable energy efforts. DGS should also comment on the projected impact of this initiative on reducing energy consumption across the State.**

### **Utility Database**

A key component of an effective energy consumption policy is the collection and analysis of energy usage data. In 2007, 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, the Board of Public Works approved a multi-year utility management contract that would allow DGS to monitor State agency energy usage and costs.

The office reports that as of December 2008, it has collected statewide electricity and gas data (by agency) for fiscal 2008. Although all of the data has been received, the office reports that it is still in the process of reviewing the contents of the database to ensure that every billing account is assigned to the appropriate agency and facility for tracking purposes. By February 2009, the office plans to provide each agency with web-based access to the system which would allow each agency to view and monitor its utility expenses. According to the office, the entire database should be live and up-to-date by July 2009.

The office is currently working on including other utility types (*e.g.*, water, propane, and heating fuel) into the database by July 2009. The fiscal 2010 allowance includes approximately \$788,000 in contractual services for this purpose.

**DLS recommends that DGS be prepared to brief the committees on the expected outcomes of the online utility tracking system.**

### **Other Energy Reduction Efforts**

For State agencies located in DGS-managed facilities as well as State agencies in leased buildings, MEA has asked agencies to concentrate on energy-related behavioral changes.

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<sup>2</sup>Renewable energy is energy that is generated from natural resources such as sunlight, wind, and rain.

Behavioral-related activities included a wide range of activities such as cutting off the lights near windows and enabling power-saving modes on office equipment. **DGS should comment on how it plans to track the impact of behavioral-related changes on energy conservation.**

Additionally, for agencies that are ineligible for EPC (*i.e.*, agencies that are unable to identify at least \$1 million of possible energy project savings), MEA has made available energy audits to help these agencies identify potential projects such as lighting and temperature controls that will help reduce agencies' energy consumption. According to the department, MEA has reserved a portion of the State Agency Loan Program funding to assist smaller agencies with financing projects identified through this process.

Lastly, DGS and MEA have conducted two building operator workshops designed to educate State facility operators on how to operate and manage facilities in an energy efficient manner. The department reports that 41 employees from 17 agencies have attended these workshops.

## **Conclusion**

Overall, the office appears to be making significant strides toward reducing the State's energy consumption. **DGS should update the committees regarding the State's level of compliance with the requirements of Chapter 427 of 2006.**

## **4. Information Technology Systems**

The Major Information Technology Development Project Fund (MITPDF) includes a total of \$1.2 million in fiscal 2010 for the development of a new procurement system as well as the replacement of the department's aging information technology (IT) systems. (See **Appendices 3 and 4.**)

### **Antiquated Information Technology Systems**

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. Presently this system is no longer supported by IBM, is not eligible for upgrade, and must be entirely replaced.

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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 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.

MITPDF includes \$600,000 in planning funds for the replacement of the department's antiquated IT systems. The project, which is expected to be completed by fiscal 2013, has a projected cost of \$15,982,500.

**The department should comment on the current status of its aging IT systems, including the impact the continued use of these systems has on the department's ability to carry out its core mission responsibilities.**

### **Procurement System Modernization and Streamlining**

During the 2006 session, the budget committees adopted committee narrative directing DGS to provide an assessment of eMaryland Marketplace (eMM). One of the primary recommendations included in the report submitted on September 1, 2006, was the need to eventually update the system. The fiscal 2009 allowance included funding to begin the initial process of enhancing and updating eMM, which had not been overhauled since it was installed in fiscal 2000. However, since that time, the scope of the project has expanded to include an entirely new procurement system.

According to the department, eMM has outlived its useful life. Two of the main criticisms of the current system are the system's lack of functionality and its inability to provide the department with meaningful data. Examples of such deficiencies include the absence of an electronic catalog purchasing function that would not only list all of the State's vendors but would allow for the electronic payment of vendors. The department also reports that the current system lacks a relational database; consequently, the department is unable to connect to other State information systems such as the State's Financial Management Information System. As a result, the department is often forced to make redundant entries into eMM.

Additionally, the department reports that it is unable to extract meaningful data from the current system. For example, the department is unable to run reports pertaining to purchases that have been made by State agencies. DGS indicates that such data would be useful, as it would allow the department to review statewide purchases in an attempt to aggregate contracts (and reduce prices) for certain items. According to the department, in most instances, it is forced to rely on vendors to provide data regarding statewide purchases.

MITPDF includes \$600,000 in planning funds for a new procurement system. The project, which is expected to be completed by fiscal 2013, has a projected cost of \$13.6 million.

**The department should brief the committees on eMM’s lack of functionality and as well as its inability to provide the department with meaningful data. DGS should also comment on the proposed system, including how the new system will assist the department with carrying out its core mission responsibilities.**

## **5. Staff Reductions**

Although the fiscal 2010 allowance includes \$261,926 for six new maintenance and administrative positions, it does little to counteract staff reductions that have taken place over the past five years. According to the department, since fiscal 2004, budget shortfalls have resulted in the elimination of nearly 200 maintenance, police officer, and administrative staff positions. As shown in **Exhibit 9**, approximately 34% of the positions eliminated were in mission areas such as facilities construction management, procurement, and facilities operations and maintenance. According to DGS, staff reductions have resulted in increased overtime expenditures, greater reliance on external vendor maintenance contracts, a reduction in staff efficiency, and a longer customer response time.

It should also be noted that as a cost containment measure, Section 18 of the fiscal 2010 budget bill further reduces the department’s position allocation by 19 positions, a cost savings of \$738,564.

**Exhibit 9**  
**Department of General Services**  
**Staff Reductions**  
**Fiscal 2004-2009**

	<u>2004*</u>	<u>2005</u>	<u>2006**</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>	<u>% of Total Reductions</u>
Sworn Police	8	0	8	7	11	7	41	22%
Non-sworn Security Officer	7	2	9	0	0	1	19	10%
<b>Facilities Operations and Maintenance</b>	<b>18</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>42</b>	<b>21%</b>
<b>Procurement Officer and Related Staff</b>	<b>6</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>12</b>	<b>6%</b>
Information Technology	2	4	0	0	0	2	8	4%
<b>Engineering/Construction Professionals</b>	<b>8</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>15</b>	<b>7%</b>
Real Estate Professionals	1	0	1	0	0	1	3	2%
Printing	0	6	13	0	0	0	19	10%
General Admin Staff-all DGS (all depts.)	9	0	14	0	0	10	33	18%
<b>Total</b>	<b>59</b>	<b>12</b>	<b>72</b>	<b>8</b>	<b>14</b>	<b>27</b>	<b>192</b>	<b>100%</b>

\* 18 of these positions were filled.

\*\* 12 of these positions were filled.

Source: Department of General Services

**DGS should comment on the impact of personnel reductions on its ability to perform its core services. DGS should also comment on how the six new positions will increase staff efficiency and work productivity.**

## **6. Follow-up Audit Review Reveals a Possible Employee Conflict of Interest**

The Office of Legislative Audits (OLA) conducted a follow-up review of a Special Review Report issued in November 2003 regarding an allegation received through its hotline. The allegation related to possible improper activity in the procurement of architectural and engineering services by DGS. In that report, OLA noted that a management employee at DGS and/or the employee's subordinates were involved with procuring two architectural and engineering service contracts totaling \$3.6 million from a firm where the management employee's spouse was employed as vice president. At that time, OLA recommended that that the matter be referred to the State Ethics Commission for further review and investigation and that DGS establish procedures to ensure that conflicts of interest do not occur when awarding State contracts in the future.

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DGS referred the case to the State Ethics Commission which entered into a disposition agreement in May 2004 with the DGS management employee. According to OLA, the agreement indicated, in part, that the management employee's participation in the aforementioned contracts was a violation of the State's Ethics Laws. The agreement further provided that the management employee would not participate directly or through supervisory duties in any project involving the management employee's spouse's firm. According to the agreement, DGS revised its internal operating policies to ensure that no such conflict occurred in the future.

OLA's follow-up review disclosed that the revised operating policies were inadequate. Specifically, the policies only required management employees involved in certain aspects of the procurement (such as members of the Qualifications Committee<sup>3</sup>) to complete an affidavit relating to such conflicts, and that the policies did not include a provision to detect potential conflicts that may arise after the award of contracts. According to the department, despite the Ethics Commission's findings, the DGS management employee continued to supervise an employee with responsibilities relating to one of the aforementioned contracts involving the firm that employed the management employee's spouse for seven months. Additionally, the same management employee was directly involved in a new contract totaling \$4.3 million awarded to another firm that subsequently employed the management employee's spouse. According to the follow-up report, participation in these transactions by the management employee and subordinate appeared to be in violation of one or more provisions on the State ethics law as well as certain provisions on State procurement laws. Due to the questionable nature of these activities, OLA referred this matter to the Office of the Attorney General's Criminal Division.

In its formal response to OLA, DGS advised the auditors that following the initial special report, the management employee was immediately removed from any direct or supervisory role with the contract and the matter was referred to the State Ethics Commission for further review and investigation. DGS requested, and the Ethics Commission provided, ethics training to all DGS staff. Additionally, DGS established internal operating procedures to ensure that conflicts of interest do not occur in the future. With regard to the most recent allegation pertaining to the \$4.3 million contract, DGS reported that the management employee had obtained advance advice from the Ethics Commission regarding the potential conflict, and was advised that no conflict existed. Per OLA's suggestion, the department referred the matter to the State Ethics Commission.

**The department should comment on what efforts it has taken to ensure that such a conflict of interest does not take place again. Additionally, per OLA's findings, the department should comment on the adequacy of its operating policies, including whether policies are in place to detect potential conflicts of interest that may arise after a contract is awarded.**

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<sup>3</sup> The Qualifications Committee is responsible for rating technical qualifications of the Architectural and Engineering firm and making a final selection of the firm.

**7. Fiscal 2008 Closeout Audit**

OLA's statewide review of budget closeout transactions for fiscal 2008 indicated that DGS reported \$709,181 in unprovided for payables. According to the department, the majority of its carryover expenditures were the result of budget shortfalls for utility expenditures.

**DGS should comment to the committees as to why the department overspent its fiscal 2008 appropriation. DGS should also comment on whether the fiscal 2009 deficiency appropriation of \$1.1 million for utilities is sufficient funding to absorb the outstanding payables.**

## ***Recommended Actions***

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1. Adopt the following narrative:

**Submission of an Annual Report on Energy Conservation:** The State Building Energy Efficiency and Conservation Act of 2006 required the Department of General Services (DGS) and the Maryland Energy Administration to develop energy use index and savings goals for every State agency. Beginning November 1, 2009, and annually thereafter, DGS shall submit a report to the committees outlining statewide utility costs and consumption (by agency). The report shall also outline what efforts have been made by the department to reduce statewide energy consumption. Lastly, the report shall include an update on the State’s level of compliance with the State Building Energy Efficiency and Conservation Act.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on energy conservation	DGS	November 1, 2009, and annually thereafter

## ***Updates***

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### **1. Eligibility Modification to the Small Business Reserve Program**

DGS is responsible for certifying small businesses. Chapter 388 of 2008 raised the average annual gross sales thresholds for determining firms' eligibility for qualifying as a small business under the SBR program in the following manner:

- for wholesale distributors, from \$2 million to \$4 million;
- for retail firms, from \$2 million to \$3 million; and
- for service firms, from \$2 million to \$10 million.

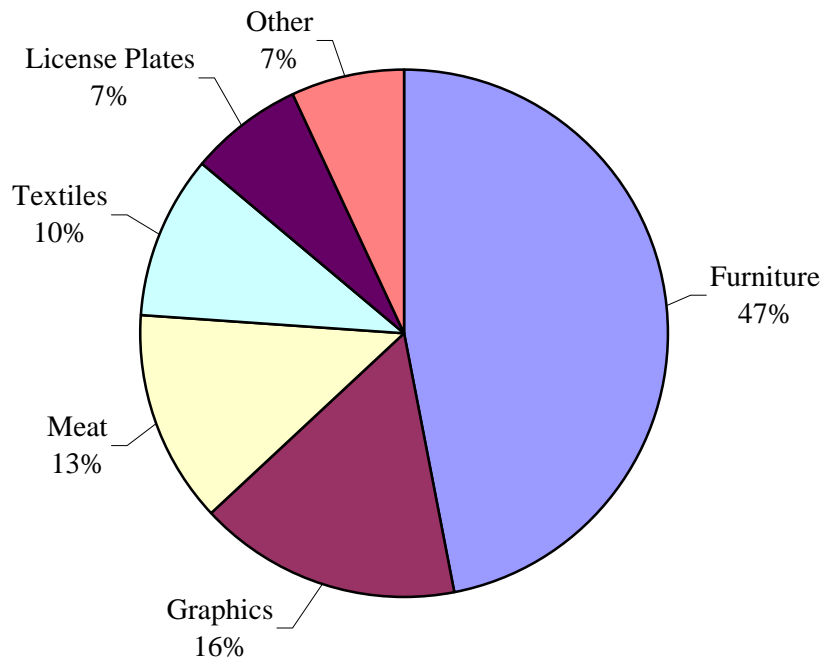
Chapter 388 also added a new threshold for architectural and engineering firms of \$4.5 million and 100 employees.

### **2. Report on Maryland Correctional Enterprises and Blind Industries and Services of Maryland Procurement Activities**

The 2007 JCR directed DGS to utilize Maryland Correctional Enterprises (MCE) and Blind Industries and Services of Maryland (BISM) for as much of its procurement needs as possible. DGS was also required to submit a report on its procurement activities for fiscal 2008, and if applicable, an explanation as to why MCE and BISM were not used in certain procurements.

According to the report, fiscal 2008 sales for MCE and BISM totaled \$51.4 million and \$4.9 million, respectively. As shown in **Exhibit 10**, approximately 47%, or \$24.2 million, of MCE's sales involved furniture. As shown in **Exhibit 11**, approximately 47%, or \$2.3 million, of BISM's sales involved trash liners.

**Exhibit 10**  
**Maryland Correctional Enterprises**  
**Percentage Distribution of Sales by Category**  
**Fiscal 2008**

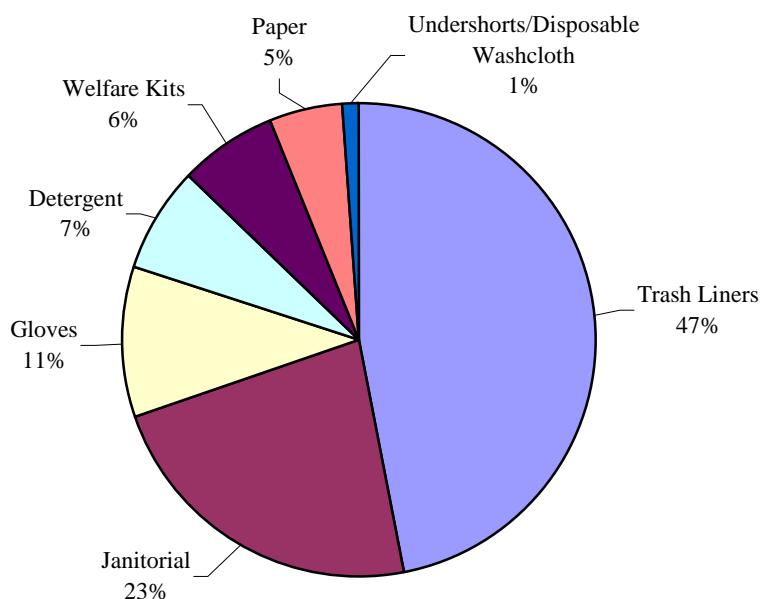


“Other” constitutes brushes, handles, dust pans, picture frames, corrugated cartons, as well as services such as data entry and mail distribution.

Source: Department of General Services

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**Exhibit 11**  
**Blind Industries Services of Maryland**  
**Percentage Distribution of Sales by Category**  
**Fiscal 2008**



Source: Department of General Services

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According to the report, DGS used BISM for all of BISM's offerings. However, the department noted that certain small procurements may have been inappropriately purchased by individual agencies under their independent procurement authority. Generally, agencies have the autonomy to procure commodities that cost less than \$25,000 without consultation by the department. According to the department, each agency is required to obtain a waiver from MCE for all product offerings that are made by MCE, but purchased from another vendor. According to the report, MCE waivers for goods not purchased from MCE totaled approximately \$2.2 million in fiscal 2008. With regard to BISM items, the department was unable to ascertain whether BISM was used for all of its available offerings. According to the department, BISM was unable to provide this information and currently, eMM is unable to provide this type of data.

## ***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2008</b>					
Legislative Appropriation	\$61,559	\$1,780	\$905	\$27,741	\$91,985
Deficiency Appropriation	150	0	0	0	150
Budget Amendments	654	14	13	974	1,655
Cost Containment	-4,301	0	0	0	-4,301
Reversions and Cancellations	0	-595	0	-2,056	-2,651
<b>Actual Expenditures</b>	<b>\$58,062</b>	<b>\$1,199</b>	<b>\$918</b>	<b>\$26,659</b>	<b>\$86,838</b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$58,697	\$1,204	\$961	\$30,371	\$91,233
Cost Containment	-4,532	-5	-3	0	-4,540
Budget Amendments	1,137	186	0	0	1,323
<b>Working Appropriation</b>	<b>\$55,302</b>	<b>\$1,385</b>	<b>\$958</b>	<b>\$30,371</b>	<b>\$88,016</b>

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

## **Fiscal 2008**

In fiscal 2008, the total budget for the department decreased by approximately \$5.1 million. The general fund appropriation decreased by a net \$3.5 million due to the following: (1) a \$654,000 cost-of-living adjustment (COLA) that was centrally budgeted in the Department of Budget and Management; (2) a \$150,000 deficiency appropriation for janitorial services contracts at the 6 St. Paul Street facility and the Annapolis and Baltimore public buildings and grounds facilities; and (3) a \$4.3 million reduction in expenditures due to cost containment actions taken by the Board of Public Works. Cost savings were achieved by reducing the department's deferred maintenance budget; deferring funds budgeted for debt service on the Calvert Street garage due to an alternative funding source; reducing various operating expenses such as overtime and vehicle purchases; and by abolishing seven positions.

The special fund appropriation increased by \$14,188 due to a \$10,687 COLA and a \$3,501 increase in fees collected from commercial tenants and visitor parking. Additionally, there was a special fund cancellation of \$594,551. The cancellation was largely due to an overestimate of identification badge revenue and less than expected special fund income due to the closure of the surplus property warehouse.

The federal fund appropriation increased by \$13,097 due to a realignment of rental income collected from the Department of Health and Mental Hygiene (DHMH) for utilities and security services performed by DGS on behalf of DHMH.

Lastly, the department's reimbursable fund appropriation increased by approximately \$974,000. This increase was primarily the result of additional funding received for the following: (1) \$550,000 for the installation of an E-85 ethanol tank at the Maryland State Police Barrack "J" and other motor vehicle related expenses; (2) \$225,000 for increased maintenance costs associated with the St. Mary's County Office Building and the Hyattsville District Court; (3) a net increase of \$140,000 due to an understatement of reimbursable rent revenue; and (4) \$49,000 in grant funds from the Governor's Office of Crime Control and Prevention and Justice Assistance Grant Program for police officer equipment and body armor. Additionally, there was a reimbursable fund cancellation of approximately \$2 million. DGS employed fewer contractual inspectors due to a statewide reduction in maintenance funding.

## **Fiscal 2009**

The fiscal 2009 total budget for the department decreased by a net \$3.2 million. This decrease is the net result of the following: (1) a \$659,329 general and special fund COLA; (2) a \$498,807 increase in general funds for Annapolis garage rent and salary reclassifications for DGS engineers; (3) a \$175,000 increase in special funds for maintaining facility equipment and improvements at the Annapolis and Crownsville facilities; (4) \$1.0 million in across-the-board reductions in general, special, and federal funds areas such as health insurance, travel, and Other Post Employment Benefits; (5) a \$1.4 million reduction in general funds due to the abolishment of 27 vacant police officer, maintenance, and administrative positions (\$1.4 million); (6) a \$600,000 reduction in general

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funds for janitorial service contracts at State facilities; (7) a \$500,000 reduction in critical maintenance funding for statewide facilities; and (8) a \$1.0 million reduction in general funds due to a fund swap, which allowed the department to use special funds from the Regional Greenhouse Initiative to cover loan payments for energy performance contracts as well as two positions within the Energy Services Division.

## ***Audit Findings***

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Audit Period for Last Audit:	November 24, 2003 – January 31, 2007
Issue Date:	April 2008
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	12.5%
Rating: (if applicable)	n/a

**Finding 1:** **DGS lacked adequate procedures and controls over State identification cards and related transactions.**

**Finding 2:** DGS lacked sufficient policies and procedures for ensuring that certain real estate transactions were in the best interest of the State.

**Finding 3:** DGS lacked adequate support for the procurement of, and payments for, certain architectural and engineering services. Additionally, DGS did not properly disclose all pertinent information to a certain oversight board.

**Finding 4:** DGS was inconsistent in reporting contract modifications to BPW.

**Finding 5:** Proper internal controls were not established over disbursement transactions.

**Finding 6:** Payments on certain purchase orders were improperly redirected to vendors other than those on the related purchase orders.

**Finding 7:** Procedures and controls over collections need improvement.

**Finding 8:** DGS did not maintain its equipment and related records in accordance with State regulations.

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

## Major Information Technology Projects

### Department of General Services Updating Antiquated Systems

<b>Project Description:</b>	The assessment and reengineering of various business processes which include the conversion of token ring topology to Ethernet topology; the conversion of antiquated equipment and systems that are no longer supported by manufacturers; and the migration of legacy systems.							
<b>Project Business Goals:</b>	The primary goals of the project are to create a comprehensive platform that will allow system users to perform core mission responsibilities; permit enhanced information technology compatibility within the department; improve the efficiency of the department's business operations; and to migrate the current system to a more current platform that is still supported by IBM and conducive to automated data transfer.							
<b>Estimated Total Project Cost:</b>	\$15,982,500				<b>New/Ongoing Project:</b>	This is a new project		
<b>Project Start Date:</b>	September 2009			<b>Projected Completion Data:</b>	February 2014			
<b>Schedule Status:</b>	n/a							
<b>Cost Status:</b>	n/a							
<b>Scope Status:</b>	n/a							
<b>Project Management Oversight Status:</b>	n/a							
<b>Identifiable Risks:</b>	The risks associated with this project appear to be minimal given the necessity of improving the department's current information technology environment.							
<b>Additional Comments:</b>	None.							
<b>Fiscal Year Funding (\$ in Thousands)</b>	<b>Prior Years</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>Balance to Complete</b>	<b>Total</b>
Personnel Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and Outside Services	0.0	600.0	3,575.0	6,589.0	4,164.0	0.0	0.0	15,198.0
Other Expenditures	0.0	0.0	228.0	227.0	330.0	0.0	0.0	785.0
<b>Total Funding</b>	<b>\$0.0</b>	<b>\$600.0</b>	<b>\$3,803.0</b>	<b>\$7,086.0</b>	<b>\$4,494.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$15,982.0</b>

## Major Information Technology Projects

### Department of General Services Procurement System Modernization and Streamlining

<b>Project Description:</b>	To modernize the department's procurement processes thereby making the procurement process more efficient and effective. This project involves the identification of best management processes in an effort to develop a state-of-the-art procurement system.							
<b>Project Business Goals:</b>	To enable the department to provide more efficient and effective service to its client agencies. Additionally, the strategies employed by the electronic solution will allow the department to fully leverage the buying power of the State.							
<b>Estimated Total Project Cost:</b>	\$13,600,000				<b>New/Ongoing Project:</b>		This is a new project	
<b>Project Start Date:</b>	July 2008			<b>Projected Completion Data:</b>		June 2011		
<b>Schedule Status:</b>	n/a							
<b>Cost Status:</b>	n/a							
<b>Scope Status:</b>	n/a							
<b>Project Management Oversight Status:</b>	n/a							
<b>Identifiable Risks:</b>	User resistance due to a change in processes. The department plans to overcome this risk by providing adequate user training.							
<b>Additional Comments:</b>	None.							
<b>Fiscal Year Funding (\$ in Thousands)</b>	<b>Prior Years</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>Balance to Complete</b>	<b>Total</b>
Personnel Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and Outside Services	0.0	600.0	9,600.0	2,200.0	1,200.0	0.0	0.0	13,600.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funding</b>	<b>\$0.0</b>	<b>\$600.0</b>	<b>\$9,600.0</b>	<b>\$2,200.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$13,600.0</b>

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	638.00	611.00	617.00	6.00	1.0%
02 Contractual	15.78	27.74	25.42	-2.32	-8.4%
<b>Total Positions</b>	<b>653.78</b>	<b>638.74</b>	<b>642.42</b>	<b>3.68</b>	<b>0.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 38,038,601	\$ 40,708,606	\$ 41,764,128	\$ 1,055,522	2.6%
02 Technical and Spec. Fees	819,258	1,274,353	1,110,427	-163,926	-12.9%
03 Communication	970,709	1,052,445	1,210,848	158,403	15.1%
04 Travel	23,591	44,580	54,188	9,608	21.6%
06 Fuel and Utilities	16,016,632	14,624,215	19,245,203	4,620,988	31.6%
07 Motor Vehicles	830,963	662,698	927,209	264,511	39.9%
08 Contractual Services	16,393,263	15,979,394	17,605,354	1,625,960	10.2%
09 Supplies and Materials	1,238,575	1,283,124	1,342,904	59,780	4.7%
10 Equipment – Replacement	243,370	233,647	132,555	-101,092	-43.3%
11 Equipment – Additional	128,221	59,094	58,400	-694	-1.2%
12 Grants, Subsidies, and Contributions	367,000	367,000	367,000	0	0%
13 Fixed Charges	3,967,449	4,394,274	4,074,013	-320,261	-7.3%
14 Land and Structures	7,800,538	7,331,924	6,311,560	-1,020,364	-13.9%
<b>Total Objects</b>	<b>\$ 86,838,170</b>	<b>\$ 88,015,354</b>	<b>\$ 94,203,789</b>	<b>\$ 6,188,435</b>	<b>7.0%</b>
<b>Funds</b>					
01 General Fund	\$ 58,062,026	\$ 55,302,020	\$ 60,579,991	\$ 5,277,971	9.5%
03 Special Fund	1,199,900	1,385,068	2,613,294	1,228,226	88.7%
05 Federal Fund	917,658	957,535	1,004,332	46,797	4.9%
09 Reimbursable Fund	26,658,586	30,370,731	30,006,172	-364,559	-1.2%
<b>Total Funds</b>	<b>\$ 86,838,170</b>	<b>\$ 88,015,354</b>	<b>\$ 94,203,789</b>	<b>\$ 6,188,435</b>	<b>7.0%</b>

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary  
Department of General Services**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Executive Direction	\$ 1,761,272	\$ 1,593,975	\$ 1,710,538	\$ 116,563	7.3%
02 Administration	2,928,923	3,143,203	3,188,644	45,441	1.4%
01 Facilities Security	12,178,960	12,284,586	12,268,327	-16,259	-0.1%
01 Facilities Operation and Maintenance	41,481,552	40,045,711	47,601,843	7,556,132	18.9%
04 Saratoga State Center – Capital Appropriation	100,000	100,000	100,000	0	0%
05 Reimbursable Lease Management	7,080,714	8,315,504	5,841,751	-2,473,753	-29.7%
07 Parking Facilities	127,762	1,840,466	1,861,029	20,563	1.1%
01 Procurement and Logistics	6,286,238	6,547,768	6,904,397	356,629	5.4%
01 Real Estate Management	2,305,631	2,361,403	2,461,268	99,865	4.2%
01 Facilities Planning, Design and Construction	12,587,118	11,782,738	12,265,992	483,254	4.1%
<b>Total Expenditures</b>	<b>\$ 86,838,170</b>	<b>\$ 88,015,354</b>	<b>\$ 94,203,789</b>	<b>\$ 6,188,435</b>	<b>7.0%</b>
General Fund	\$ 58,062,026	\$ 55,302,020	\$ 60,579,991	\$ 5,277,971	9.5%
Special Fund	1,199,900	1,385,068	2,613,294	1,228,226	88.7%
Federal Fund	917,658	957,535	1,004,332	46,797	4.9%
<b>Total Appropriations</b>	<b>\$ 60,179,584</b>	<b>\$ 57,644,623</b>	<b>\$ 64,197,617</b>	<b>\$ 6,552,994</b>	<b>11.4%</b>
Reimbursable Fund	\$ 26,658,586	\$ 30,370,731	\$ 30,006,172	-\$ 364,559	-1.2%
<b>Total Funds</b>	<b>\$ 86,838,170</b>	<b>\$ 88,015,354</b>	<b>\$ 94,203,789</b>	<b>\$ 6,188,435</b>	<b>7.0%</b>

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

## **Priority Classes**

The prioritization process used by 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:**

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