

F10A
Secretary
Department of Budget and Management

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$9,060	\$8,276	\$8,433	\$156	1.9%
Contingent & Back of Bill Reductions	0	0	-245	-245	
Adjusted General Fund	\$9,060	\$8,276	\$8,188	-\$88	-1.1%
Special Fund	9,875	11,929	11,279	-650	-5.4%
Contingent & Back of Bill Reductions	0	0	-161	-161	
Adjusted Special Fund	\$9,875	\$11,929	\$11,119	-\$810	-6.8%
Reimbursable Fund	85	88	102	14	16.3%
Contingent & Back of Bill Reductions	0	0	-2	-2	
Adjusted Reimbursable Fund	\$85	\$88	\$100	\$12	13.7%
Adjusted Grand Total	\$19,021	\$20,293	\$19,407	-\$886	-4.4%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board budget. The actual allocations are to be developed by the Administration.

- Total departmental spending in the fiscal 2011 allowance is \$886,358 lower than the fiscal 2010 working appropriation, with the majority reduced from the special funded Central Collections Unit.
- Personnel expenditures for retirement contributions and employee/retiree health insurance are the primary sources of spending growth and are offset by reduced contractual spending, the elimination of collection incentive-based pay, and lower administrative supply outlays.

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

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Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Positions	207.80	199.80	199.80	0.00
Contractual FTEs	<u>16.15</u>	<u>13.10</u>	<u>13.10</u>	<u>0.00</u>
Total Personnel	223.95	212.90	212.90	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	7.95	3.98%
Positions and Percentage Vacant as of 12/31/09	13.00	6.51%

- There are no new regular or contractual positions in the allowance.
- The agency’s turnover offset has been nearly doubled in the allowance to account for vacancies not being filled for continued cost savings.

Analysis in Brief

Major Trends

Debt Collection Profits Higher Than Anticipated: Cost containment and individual stimulus check intercepts boosted fiscal 2009 profits above anticipated levels.

Aggregate Debt Collection Percentage Goals Continually Exceeded: Goals tracking the percentage of accounts and percent of the total debt value of referrals received have been exceeded for the third consecutive year. **The Department of Legislative Services (DLS) recommends that future Managing for Results data present collection figures on a unit level as reporting capacity becomes available.**

Issues

Revenue Loss from Elimination of Central Collections Sweeper Provision: By removing the provision that automatically transfers excess collections balances into the general fund, the Department of Budget and Management (DBM) has caused a \$22.4 million revenue loss to the fiscal 2011 budget. **DLS recommends that the Administration's changes to this automatic general fund revenue generator be rejected in the Budget Reconciliation and Financing Act (BRFA) of 2010.**

Broad Back of the Bill Reductions Impair Work of Budget Committees: The budget bill contains seven sections that reduce the budget by \$121.0 million without indicating the departments subject to the reductions. This lack of detail impedes the budget committees' work of reducing appropriations with full knowledge of their total budgetary impact. **DLS recommends the inclusion of a provision in the BRFA of 2010 that will require the Administration to include a departmental schedule for all statewide reductions in future budget submissions. Moreover, DLS recommends including reductions to federal or reimbursable fund sources in Section 18 and reductions that reflect legislative and judiciary branch participation in the fiscal 2011 furlough.**

Statewide Personnel System Funding: DBM has reduced the statewide allocation for this project, authorized at a minimum of \$5 million in fiscal 2011, to \$2 million for cash-flow reasons. The total project cost has yet to be defined but is likely to be twice as expensive as the original estimate. **The agency should describe its plan for updating the budget committees on the total estimated project costs.**

Recommended Actions

1. Amend Section 17 to add tracking structure necessary for legislative audits.
2. Amend Section 18 to provide schedule for furlough reduction.
3. Add section that applies across-the-board Executive Branch reductions to Higher Education.
4. Add section requiring monthly reporting on Injured Workers' Insurance Fund ledgers.
5. Add section requiring reporting on federal funds received by the State.
6. Add section defining usage of federal funds in budget.
7. Add section requiring indirect cost reporting.
8. Add section requiring long-term forecast.
9. Add section requiring consistent presentation of budget data and organizational charts.
10. Add section requiring reporting on interagency agreements.
11. Add section defining budget amendment process.
12. Add section defining maintenance of accounting systems.
13. Add section limiting salary payments to Executive nominees rejected by Senate.

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Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) is responsible for managing the expenditure of State resources. DBM's programs are described below:

- **Executive Direction** manages the department. It includes executive staff, Attorneys General, and the Equal Employment Opportunity program.
- **Division of Finance and Administration** is responsible for the accounting, budgeting, payroll, and purchasing functions of the department.
- **Central Collection Unit (CCU)** collects delinquent debts, claims, and accounts due to State government.
- **Division of Procurement Policy and Administration** provides centralized review and approval or rejection of procurement of services for Executive Branch agencies. The Administration also procures vehicles and manages State fleet operations.
- **Office of Budget Analysis** analyzes State agency programs, expenditures, revenues, and performance. The office recommends funding allocations and develops the operating budget with legal requirements and the Administration's directions.
- **Office of Capital Budgeting** develops an annual capital budget, prepares a five-year *Capital Improvement Program*, and reviews the master plans of State agencies.

DBM also has an Office of Personnel Services and Benefits (F10A02) which provides State personnel policy direction and support. This budget and related issues are discussed in a separate analysis.

Performance Analysis: Managing for Results

Managing for Results (MFR) is an Executive Branch initiative that measures State agency performance. The initiative requires agencies to develop strategic plans which include missions, visions, goals, objectives, and performance measures. With respect to DBM, CCU data is evaluated. MFR data relating to the Office of Capital Budgeting is discussed in the Capital Budget Overview.

Debt Collection Profits Higher Than Anticipated

CCU collects delinquent debts, claims, and accounts due to State government. Its mission is to collect these receivables in the “quickest and most effective manner while employing the highest professional standards.” Typical debts collected include student tuition and fees, restitution for damage to State property, reimbursement for institutional care, local health department fees, workers’ compensation premiums, and State grant overpayments. It does not collect nontax debts, such as unpaid child support payments. Collections are deposited into the Central Collection Fund (CCF).

The unit’s goal is to maximize returns on collections. With respect to this goal, one objective is to increase or maintain profits annually. **Exhibit 1** shows that profits increased in fiscal 2009 but are projected to tail off in fiscal 2010, with a moderate rebound in fiscal 2011.

Exhibit 1
Central Collection Unit – Net vs. Estimated Profits
Fiscal 2007-2011
(\$ in Millions)



Source: Department of Budget and Management

During the 2009 session, DBM had anticipated annual profit in fiscal 2009 and 2010 to fall into the \$6.0 to \$7.0 million range. However, the reduction of the unit's expenditures through cost containment, combined with the intercept of stimulus payments to individuals with outstanding debts, boosted profits in fiscal 2009 to \$10.8 million. While the department states that the projected decline in fiscal 2010 assumes lower revenues due to the general economic climate and reduced tax filings, the offsetting cost containment measures persist. It is important to note that the automatic sweeper provision implemented by Chapter 487 of 2009 directly links approximately 90% of the cost savings in this special fund unit to a general fund revenue. This topic will be explored further in the Issues section.

Aggregate Debt Collection Percentage Goals Continually Exceeded

Another set of objectives relate to what percentage of debt owed to the State is being collected. The unit has two such objectives: to collect some or all of the debt of at least 40% of the accounts; and to collect at least 33% of the debt from the total value of referrals received. The unit has exceeded both objectives for the last three fiscal years, calling into question the continued effectiveness of the measures. From an operational point of view, the successful collection activity of the component units of the debt collection program, such as those located in Motor Vehicle Administration branch locations or that of the central office, would provide greater insight into those areas of high efficiency and those in need of improvements. However, the reporting capacity of the legacy systems currently used is limited. CCU is presently engaged in a system modernization project, whose project financing is detailed in the Department of Information Technology (DoIT) analysis, which should allow for such reports to be easily compiled. **Thus, the Department of Legislative Services (DLS) recommends that future MFR data present collection figures on a unit level, as reporting capacity becomes available.**

Fiscal 2010 Actions

Impact of Cost Containment

The three fiscal 2010 cost containment actions reduced general funds in DBM by \$687,264. Salaries were reduced by \$516,067, chiefly from the August 2009 furlough. Other items, such as reductions to the Governor's Fellows program, and reduced telecommunication spending, contributed an additional \$171,197 to cost savings.

Special funds were, in turn, reduced by \$143,876, with all but \$6,058 representing furlough-related cost savings.

Proposed Budget

Personnel expenditures:

- **Salaries and Turnover:** As shown in **Exhibit 2**, the fiscal 2011 allowance contains a furlough plan that will extend the prior year's retrenchment, with the net result being a \$63,700 increase in salary expenditures. The turnover offset for DBM has been increased by nearly \$254,000, further reducing funds available for salaries.
- **Employee Retirement and Health Insurance:** Retirement contribution rate increases require DBM to raise this outlay by \$147,000, while health insurance subsidies increase by \$136,000 due to rising costs.
- **Central Collections Cost Reductions:** \$350,000 in special fund incentive pay for CCU employees have been removed from the allowance, as have \$50,000 from the unit's overtime funding.

Operational expenditures:

- **Administrative Hearing Charge:** The agency's charge from the Office of Administrative Hearings increases by a net of \$93,000, but the entirety of the increase is in the special funds of the CCU, which climb by \$143,000 while the general funded portion is reduced by \$49,000.
- **Credit Charge:** The only other expenditure increase in DBM is a \$41,000 increase related to fees from contracts for the use of credit card payments and merchant fees. Again, this growth is found only in special and reimbursable funds.
- **Secondary Collections Contract:** DBM predicts lowered usage of a secondary collection contract in the CCU that will reduce special fund expenditures by \$186,000.
- **Contractual Payroll:** The use of contractual employees will fall by \$164,000, with approximately half coming from the general funded Governor's Fellows program, and the remainder reduced from special funded contractual employment.
- **Postage:** Special fund postage expenditures are being reduced by \$100,000.
- **Move to Major Information Technology:** \$95,000 related to work on the CCU information technology (IT) contracts that had been paid from DBM's special funded budget in fiscal 2010 were moved to DoIT's Major IT fund.

Exhibit 2
Proposed Budget
Department of Budget and Management – Secretary
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2010 Working Appropriation	\$8,276	\$11,929	\$88	\$20,293
2011 Allowance	<u>8,433</u>	<u>11,279</u>	<u>102</u>	<u>19,814</u>
Amount Change	\$156	-\$650	\$14	-\$479
Percent Change	1.9%	-5.4%	16.3%	-2.4%
Contingent Reductions	-\$245	-\$161	-\$2	-\$408
Adjusted Change	-\$88	-\$810	\$12	-\$886
Adjusted Percent Change	-1.1%	-6.8%	13.7%	-4.4%

Where It Goes:

Personnel Expenses

Retirement contributions.....	\$147
Employee and retiree health insurance	136
Employee salaries	64
Workers' compensation premium assessment	-26
Central Collections Unit overtime	-50
Turnover adjustments.....	-254
Central Collections Unit Incentive Pay remove.....	-350
Other fringe benefit adjustments.....	-11

Other Changes

Office of Administrative Hearing charge.....	93
Higher cost for credit card/merchant fees charges and statewide cost contract.....	41
Printing reduced	-27
Fewer software acquisition purchases.....	-35
Computer purchases reduced	-64
Telecom charge.....	-65
Personnel System expenses now in Major information technology	-95
Postage reduced	-100
Contractual payments for Governor's Fellows and Central Collections Unit reduced	-164

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Where It Goes:

Reduced usage of secondary collection contract	-186
Other	60
Total	-\$886

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

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

Issues

1. Revenue Loss from Elimination of Central Collections Sweeper Provision

CCU collects delinquent debts, claims, and accounts due to State government. Sections 3-301 to 3-306 of the State Finance and Procurement Article require that the collections be deposited into the CCF and that collections support CCU operations. As balances accumulate, the funds collected in excess of 10% of the actual operating expenses are to be automatically transferred to the general fund, as detailed in Chapter 487 of 2009 (the Budget Reconciliation and Financing Act (BRFA) of 2009). However, in Senate Bill 141/House Bill 151 (the BRFA of 2010), the Administration removes this recently adopted provision. The result is a loss of \$22.4 million in revenue to the general fund in fiscal 2011.

Administration Proposes to Change Law Enacted in 2009

Prior to the 2009 session, legislation was required each time a transfer of these funds from the CCF balance was required for use in the budget process, as was the case in 2004, 2008, and 2009. The 2009 law change provided for automatic transfers of this excess revenue to the general fund beginning in fiscal 2011.

As **Exhibit 3** shows, the CCF balance is projected to increase from \$16.6 million at the end of fiscal 2010 to \$23.6 million at the end of fiscal 2011. With projected expenditures of \$11.3 million in fiscal 2011, the balance in excess of 10% of this figure is \$22.4 million. All of these funds could have been directed to the general fund to offset reductions elsewhere had the BRFA of 2010 not sought to undo the legislation enacted for this purpose, less than one year ago. **Therefore, DLS recommends that the Administration's changes to this automatic general fund revenue generator be rejected in the BRFA of 2010.**

Exhibit 3
Central Collection Fund – Cash Flows and Fund Balance
Fiscal 2008-2011
(\$ in Thousands)

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Est. Revenues</u>	<u>Operating Expend.</u>	<u>Other Expend.</u>	<u>Transfers</u>	<u>Ending Balance</u>	<u>Profits</u>
2008	\$33,537	\$17,726	-\$9,515	0	0	\$41,748	\$8,211
2009	41,748	20,709	-9,875	-2,512	-30,000	20,070	10,834
2010 (est.)	20,070	20,107	-11,929	0	-11,600	16,648	8,178
2011 (est.)	16,648	20,330	-11,279	0	-2,132	23,567	9,050
10% fiscal 2011 operating expenses			\$1,128				
Excess to transfer to general fund			\$22,439				

Source: Department of Budget and Management

2. Broad Back of the Bill Reductions Impair Work of Budget Committees

Sections 18 (employee furloughs), 19 (employee health insurance reductions), 20 (attrition and hiring freeze savings), 21/23 (workers' compensation and administrative expense savings), 22 (overtime reductions), and 24 (human resources consolidations) all make broad reductions to personnel-related expenditures across State government. The total impact of these sections as described by the Administration is an overall reduction in spending of \$121.0 million, \$87.8 million of which represents general funds.

Lack of Departmental Assignment and All Fund Impacts of Reductions

While some fund amounts are described, departmental assignments of the reductions are not. Instead, the budget bill makes notation of a schedule, to be determined by the Governor, which will appear in the future to elucidate the intended recipient of the reductions. Upon consultation with DBM, these schedules have not yet been developed.

This lack of distribution across the affected agencies impedes the work of the budget committees. By not including across-the-board reductions in the individual appropriations, any analysis of changes in agency budgets from the previous year is rendered meaningless. The resultant, incomplete data presentation prevents the General Assembly from the proper exercise of its constitutional responsibilities of overseeing appropriations.

Moreover, complete fund information is not provided. For example, the federal and reimbursable fund impact of the fiscal 2011 furlough is not detailed. So, the loss of these externally derived dollars is not noted by the Administration, and the affected agency budgets are overstated.

Proposed Alternative

DLS, therefore, has estimated where these reductions should be allotted. These amounts have provisionally appeared on the informational cover pages of the various agency budget analyses. The actual reductions to be implemented, however, cannot be accurately reported until the Administration provides its proposed schedule. **Therefore, DLS recommends the inclusion of a provision in the BRFA of 2010 that will require the Administration to include a departmental schedule for all statewide reductions in future budget submissions. Moreover, DLS recommends including reductions to federal or reimbursable fund sources in Section 18 and reductions that reflect legislative and judiciary branch participation in the fiscal 2011 furlough.**

3. Statewide Personnel System Funding

The management of State personnel activities overseen by DBM is supported by legacy systems developed in 1975. A new Statewide Personnel System (SPS) procurement is underway that will utilize new, off-the-shelf software to replace the various antiquated legacy systems currently in place. The preferred software product has been selected, and the final contract is set to be presented for approval to the Board of Public Works in February 2010. However, the bid costs have yet to be publicly revealed.

To fund the initial costs of the project, Section 39 of Chapter 487 of 2009 (the BRFA of 2009) called for the inclusion of a dedicated subobject, charged across all agencies for which DBM provides human resource functions, to generate an amount not lower than \$5 million for fiscal 2011. The fiscal 2011 allowance, however, contains a total of \$2 million for the project. Because the amount is lower than the threshold established in the provision, language is included in Senate Bill 141/House Bill 151 (the BRFA of 2010) to amend the required budgetary contribution downward to \$2,069,344.

DBM, in coordination with DoIT, has lowered the amount because cash-flow requirements indicate the project will only require \$2.0 million in fiscal 2011. The funding in the allowance covers the labor costs of the project team, procurement expenses, and hardware configuration. This \$2.0 million was indicated in the fiscal 2009 Major IT Development Projects (MITDP) End-of-year Report generated by DoIT, where the cost schedule showed larger expenditure amounts for fiscal 2012 and 2013, and a total project cost of \$10.1 million. However, in the fiscal 2010 MITDP Mid-year Report, DoIT states that the “full project estimated cost of \$20M-\$30M remains unchanged.” Through the course of its procurement action, DBM has determined that the original \$10.0 million figure derived in fiscal 2007 will be insufficient because of the significant implementation costs involved in updating and unifying the State’s complex extant network. Analysis by the department of the cost of similar projects in other states (North Carolina and Ohio

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have recently undertaken similar projects) suggests that the total project cost is likely to exceed \$20.0 million.

Once the financial details of the procurement offers are made public, a more accurate detailing of the project plan should be made available. **The agency should describe its plan for updating the budget committees on the total estimated project costs.**

Recommended Actions

1. Amend the following section:

Section 17 Using Funds for Their Intended Purpose

SECTION 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller Objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0175 (Workers' Compensation), 0305 (DBM Paid Telecommunications), and 0322 (Capital Lease Telecommunications) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller Objects 0152, 0154, 0305, and 0322 between State departments and agencies by approved budget amendment in fiscal 2010 and 2011. All funds budgeted in or transferred to Comptroller Objects 0152 and 0154, and any funds restricted in this budget for use in the employee and retiree health insurance program that are unspent shall be credited to the fund as established in accordance with Section 2–516 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

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

Explanation: This amendment makes it possible for the Office of Legislative Audits to track the disposition of funds in statewide subobjects 0152, 0154, 0175, 0305, and 0322. The language also deletes a provision that allows the Secretary of Budget and Management to transfer these funds for other purposes. This provision allows the Administration to eliminate spending shortfalls without legislative oversight. To promote fiscal accountability, the Department of Legislative Services recommends that the budget committees strike this provision.

2. Amend the following section:

SECTION 18. AND BE IT FURTHER ENACTED, That the funding for regular and contractual salaries shall be reduced by ~~\$76,728,873~~ \$108,113,494 to reflect furlough savings in fiscal 2011. Funding for this purpose (Comptroller Objects 0101 and 0220) shall be

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reduced from the following Branches of State government in Executive Branch agencies in fiscal 2011 by the following amounts in accordance with a schedule determined by the Governor:

Executive

<u>Fund</u>	<u>Amount</u>
General Funds	43,041,095
General Funds – R75T00.01	15,275,721
Special Funds	18,353,595
Current Unrestricted Funds	15,275,721
<u>Federal Funds</u>	<u>9,970,500</u>
<u>Reimbursable Funds</u>	<u>1,225,838</u>

Judiciary

<u>Fund</u>	<u>Amount</u>
<u>General Funds</u>	<u>3,629,000</u>
<u>Special Funds</u>	<u>200,080</u>
<u>Federal Funds</u>	<u>47,143</u>

Legislative

<u>Fund</u>	<u>Amount</u>
<u>General Funds</u>	<u>1,094,800</u>

Further provided that special funds of not less than ~~\$5,995,218~~ \$18,553,675 from furlough savings shall be transferred to the General Fund contingent on the enactment of legislation authorizing the transfer of these funds to the General Fund.

Explanation: This section includes all fund sources to the Administration’s schedule for the reductions resulting from a furlough of State employees in fiscal 2011. Reductions for the Judiciary and Legislature are also included.

3. Add the following section:

Section __ Across-the-board Reductions and Higher Education

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

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

4. Add the following section:

Section __ Injured Workers’ Insurance Fund Accounts

SECTION __. AND BE IT FURTHER ENACTED, That the Comptroller of the Treasury’s General Accounting Division shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (workers’ compensation coverage) and to credit all payments disbursed to the Injured Workers’ Insurance Fund (IWIF) via transmittal. The control account shall also record all funds withdrawn from IWIF and returned to the State and subsequently transferred to the General Fund. IWIF shall submit monthly reports to the Department of Legislative Services concerning the status of the account.

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

Information Request	Author	Due Date
Report on status of ledger control account	IWIF	Monthly beginning on July 1, 2010

5. Add the following section:

Section __ Reporting Federal Funds

SECTION __. AND BE IT FURTHER ENACTED, That the Governor’s budget books shall include a summary statement of federal revenues by major federal program sources supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting this data and ensure that they are updated as appropriate to reflect ongoing congressional action on the federal budget. In addition, DBM

shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each Federal Fund Appropriation by Catalog of Federal Domestic Assistance number or equivalent detail for programs not in the catalog. Data shall be provided in an electronic format subject to the concurrence of DLS.

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

Information Request	Author	Due Date
Report of components of each federal fund appropriation	DBM	With submission of fiscal 2012 budget

6. Add the following section:

Section __ Federal Fund Spending

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

- (1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.
- (2) For fiscal 2011, except with respect to capital appropriations, to the extent consistent with federal requirements:
 - (a) when expenditures or encumbrances may be charged to either State or Federal Fund sources, federal funds shall be charged before State funds are charged; this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child welfare or welfare reform activities, or to the Department of Health and Mental Hygiene with respect to funds to be carried forward into future years for the purpose of reducing the waiting list for community services for individuals with developmental disabilities or with respect to funds to be carried forward into future years for HIV/AIDS related activities, or to the Maryland State Department of Education with respect to funds to be carried forward into future years for child care;

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

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

7. Add the following section:

Section __ Indirect Costs Report

SECTION __ . AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall provide an annual report on indirect costs to the General Assembly in January 2011 as an appendix in the Governor’s fiscal 2012 budget books. The report shall detail by agency for the actual fiscal 2010 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the general fund, and the amount of indirect cost recovery retained for use by each agency. In addition, it shall list the most recently available federally approved statewide and internal agency cost recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years, the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies. Further provided that for fiscal 2011, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery may only be transferred to the General Fund and may not be retained in any clearing account or by any other means, nor may DBM or any other agency or entity approve exemptions to permit any agency to retain any portion of federal statewide cost recoveries.

Explanation: This is annual language that requires a report on indirect costs and disallows waivers of statewide cost recovery.

Information Request	Author	Due Date
Annual report on indirect costs	DBM	With submission of the Governor’s fiscal 2012 budget books

8. Add the following section:

Section __ Executive Long-term Forecast

SECTION __. AND BE IT FURTHER ENACTED, That the Governor’s budget books shall include a forecast of the impact of the Executive budget proposal on the long-term fiscal condition of the General Fund, Transportation Trust Fund, and higher education Current Unrestricted Fund accounts. This forecast shall estimate aggregate revenues, expenditures, and fund balances in each account for the fiscal year last completed, the current year, the budget year, and 4 years thereafter. Expenditures shall be reported at such agency, program or unit levels, or categories as may be determined appropriate after consultation with the Department of Legislative Services. A statement of major assumptions underlying the forecast shall also be provided, including but not limited to general salary increases, inflation, and growth of caseloads in significant program areas.

Explanation: This annual language provides for the delivery of the Executive’s general fund forecast and defines the conditions under which it is to be provided, while requiring that recovered funds may only be transferred to the general fund.

Information Request	Author	Due Date
Executive’s general fund forecast	The Department of Budget and Management	With submission of the Governor’s fiscal 2012 budget books

9. Add the following section:

Section __ Reporting on Budget Data and Organizational Charts

SECTION __. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that all State departments, agencies, bureaus, commissions, boards, and other organizational units included in the State budget, including the Judiciary, shall prepare and submit items for the fiscal 2012 budget detailed by Comptroller subobject classification in accordance with instructions promulgated by the Comptroller of the Treasury. The presentation of budget data in the State budget books shall include object, fund, and personnel data in the manner provided for in fiscal 2011 except as indicated elsewhere in this Act; however, this shall not preclude the placement of additional information into the budget books. For actual fiscal 2010 spending, the fiscal 2011 working appropriation, and the fiscal 2012 allowance, the budget detail shall be available from the Department of Budget and Management’s (DBM) automated data system at the subobject level by subobject codes and classifications for all agencies. To the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund for actual fiscal 2010 spending, the fiscal 2011 working appropriation, and the fiscal 2012 allowance. The agencies shall exercise due diligence in reporting this data and ensuring correspondence

between reported position and expenditure data for the actual, current, and budget fiscal years. This data shall be made available upon request and in a format subject to the concurrence of the Department of Legislative Services (DLS). Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of the Treasury.

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

Further provided that DBM shall provide to DLS with the allowance for each department, unit, agency, office, and institution, a one-page organizational chart in Microsoft Word or Adobe PDF format that depicts the allocation of personnel across operational and administrative activities of the entity.

Explanation: This annual language provides for consistent reporting of fiscal 2010, 2011, and 2012 budget data, and provides for the submission of department, unit, agency, office, and institutions' organizational charts to the Department of Legislative Services with the allowance.

10. Add the following section:

Section __ Interagency Agreements

SECTION __. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that on or before August 1, 2010, each State agency and each public institution of higher education shall report to the Department of Budget and Management (DBM) any agreements in place for any part of fiscal 2010 between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000 over the term of the agreement. Further provided that DBM shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

- (1) a common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;
- (2) the starting date for each agreement;
- (3) the ending date for each agreement;

- (4) a total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;
- (5) a description of the nature of the goods and services to be provided;
- (6) the total number of personnel, both full-time and part-time, associated with the agreement; and
- (7) contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement.

Further provided that DBM shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2010, that contains information on all agreements between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000, that were in effect at any time during fiscal 2010.

Explanation: The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of \$100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. Further, it requires that the DBM submit a consolidated report on all agreements by December 1, 2010, to the budget committees and the Department of Legislative Services.

Information Request	Author	Due Date
Consolidated report on all interagency agreements	DBM	December 1, 2010

- 11. Add the following section:

Section __ Budget Amendments

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

F10A – Department of Budget and Management – Secretary

- (1) This section shall not apply to budget amendments for the sole purpose of:
 - (a) appropriating funds available as a result of the award of federal disaster assistance;
 - (b) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee; and
 - (c) appropriating funds for Major Information Technology Development Project Fund projects approved by the budget committees.

- (2) Budget amendments increasing total appropriations in any fund account by \$100,000 or more may not be approved by the Governor until (i) that amendment has been submitted to the Department of Legislative Services (DLS); and (ii) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to DLS shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of impact on budgeted or contractual position and payroll requirements.

- (3) Unless permitted by the budget bill or the accompanying supporting documentation or by other authorizing legislation, and notwithstanding the provisions of Section 3 216 of the Transportation Article, a budget amendment may not:
 - (a) restore funds for items or purposes specifically denied by the General Assembly;
 - (b) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation shall be restricted as provided in Section 1 of this Act;
 - (c) increase the scope of a capital project by an amount 7.5% or more over the approved estimate or 5.0% or more over the net square footage of the approved project until the amendment has been submitted to DLS and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to the Maryland Department of Transportation; and
 - (d) provide for the additional appropriation of special, federal, or higher education funds of more than \$100,000 for the reclassification of a position or positions.

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- (4) A budget may not be amended to increase a Federal Fund appropriation by \$100,000 or more unless documentation evidencing the increase in funds is provided with the amendment and fund availability is certified by the Secretary of Budget and Management.
- (5) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.
- (6) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health, or welfare, including protecting the environment or the economic welfare of the State.
- (7) Further provided that the fiscal 2011 appropriation detail as shown in the Governor’s budget books submitted to the General Assembly in January 2011 and the supporting electronic detail shall not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the Maryland Department of Transportation pay-as-you-go capital program.
- (8) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. Further provided that for the fiscal 2012 allowance the Department of Budget and Management shall continue policies and procedures to minimize reliance on budget amendments for appropriations that could be included in a deficiency appropriation.

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

12. Add the following section:

Section __ Maintenance of Accounting Systems

SECTION __ . AND BE IT FURTHER ENACTED, That:

- (1) The Secretary of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2010 in program M00Q01.03 Medical Care Provider Reimbursements have been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.

F10A – Department of Budget and Management – Secretary

- (2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2010 to program R00A02.07 Students With Disabilities for Non-public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.
- (3) The Secretary of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2010 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year and to prepare the periodic reports required under this section for that program.
- (4) For the programs specified, reports shall indicate total appropriations for fiscal 2010 and total disbursements for services provided during that fiscal year up through the last day of the second month preceding the date on which the report is to be submitted and a comparison to data applicable to those periods in the preceding fiscal year.
- (5) Reports shall be submitted to the budget committees, the Department of Legislative Services, the Department of Budget and Management, and the Comptroller on November 1, 2010, March 1, 2011, and June 1, 2011.
- (6) It is the intent of the General Assembly that general funds appropriated for fiscal 2010 to the programs specified that have not been disbursed within a reasonable period, not to exceed 12 months from the end of the fiscal year, shall revert.

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

Information Request	Authors	Due Date
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	Department of Health and Mental Hygiene Maryland State Department of Education Department of Human Resources	November 1, 2010 March 1, 2011 June 1, 2011

13. Add the following section:

Section __ Secretary’s or Acting Secretary’s Nomination and Salary

SECTION . AND BE IT FURTHER ENACTED, That no funds in this budget may be expended to pay the salary of a Secretary or Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate or an Acting Secretary who was serving in that capacity prior to the 2010 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2010 session.

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

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Budget and Management - Secretary's Office (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$9,367	\$11,343	\$0	\$170	\$20,880
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	632	799	0	0	1,431
Cost Containment	-798	-127	0	0	-925
Reversions and Cancellations	-141	-2,140	0	-85	-2,366
Actual Expenditures	\$9,060	\$9,875	\$0	\$85	\$19,021
Fiscal 2010					
Legislative Appropriation	\$8,963	\$12,073	\$0	\$88	\$21,124
Cost Containment	-687	-144	0	0	-831
Budget Amendments	0	0	0	0	0
Working Appropriation	\$8,276	\$11,929	\$0	\$88	\$20,293

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

Fiscal 2009

- For the general fund portions of the budget, the June 2008, October 2008, and March 2009 cost containment actions reduced expenditures by approximately \$789,000. The primary savings came from salaries lowered by furloughs and reduced travel expenditures.
- These reductions offset several general fund budget amendments that added just over \$632,000 to budget. Of these, one provided funds for the general salary increase, \$236,000 of which was destined for DBM employees and \$186,000 for the Office of Administrative Hearings, which received the money as a reimbursable funds transfer. Another budget amendment added \$208,800 to the Secretary's Office as part of a year-end alignment of departmental expenditures with the Personnel function.
- Special fund budget amendments added approximately \$800,000 to the appropriation. A memorandum of understanding with the Comptroller's Office to implement a 1% fee through a federal vendor offset program added \$500,000. The amendment was consistent with actions taken at the June 2008 cost containment. The remaining special fund amendments support special funds replacing general fund payments of local area network costs and the general salary increase.
- The June 2008 and March 2009 cost containment actions also reduced special fund salaries and contract expenditures by \$127,000.
- There was a closeout cancelation of \$2.14 million in special funds, which is equivalent to 18.8% of the legislative appropriation. Nearly \$1.0 million represented personnel expenditures forgone due to salary and fringe savings for vacancies held open, while \$300,000 was saved by not disbursing budgeted incentive pay. Postage, the collections modernization project, and outside collections contracts each posted approximately \$200,000 of under spending to account for the remainder of the cancelation.

Fiscal 2010

- For the general fund portions of the budget, the July, August, and November 2009 cost containment actions reduced expenditures by approximately \$687,000. The primary savings came from salaries lowered by furloughs and reductions to the Governor's Fellow program.
- For the special fund portions of the budget, the August 2009 cost containment action reduced expenditures by approximately \$144,000. The primary savings came from salaries lowered by furloughs.

Audit Findings

Audit Period for Last Audit:	September 1, 2005 – September 30, 2008
Issue Date:	April 2009
Number of Findings:	4
Number of Repeat Findings:	1
% of Repeat Findings:	25%
Rating: (if applicable)	

Finding 1: At the end fiscal 2008, DBM improperly retained \$1.4 million of excess funds obtained from State agencies for the reimbursement of telecommunication costs. These funds, depending on the original expenditure funding source, should have been reverted to either the State’s general fund or to the federal government.

Finding 2: **DBM had not received all required reports and documentation to support certain volunteer Company Assistance Fund disbursements from the Maryland State Firemen’s Association, as required by State law. During fiscal 2007 and 2008, 11 disbursements totaling approximately \$2.8 million were made from the Fund. However, DBM did not receive financial statement reports of the volunteer companies to whom three disbursements totaling approximately \$1.0 million were made.**

Finding 3: DBM did not comply with the requirements of the Department of General Services’ *Inventory Control Manual* and did not adequately restrict employee access to the automated equipment records.

Finding 4: Proper internal controls were not established over payroll functions. Specifically, one employee had the ability to prepare and transmit the electronic payroll time reports to the Central Payroll Bureau without independent supervisory approval. Also, a critical payroll monitoring report identifying employee timesheets was processed through DBM’s online timekeeping system without necessary supervisory approval.

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

**Object/Fund Difference Report
Department of Budget and Management – Secretary**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	207.80	199.80	199.80	0	0%
02 Contractual	16.15	13.10	13.10	0	0%
Total Positions	223.95	212.90	212.90	0	0%
Objects					
01 Salaries and Wages	\$ 14,216,459	\$ 15,030,172	\$ 15,093,728	\$ 63,556	0.4%
02 Technical and Spec. Fees	452,669	540,014	376,206	-163,808	-30.3%
03 Communication	1,143,277	1,267,675	1,106,344	-161,331	-12.7%
04 Travel	35,405	42,300	17,750	-24,550	-58.0%
07 Motor Vehicles	25,838	3,974	9,020	5,046	127.0%
08 Contractual Services	2,485,294	2,697,178	2,538,460	-158,718	-5.9%
09 Supplies and Materials	191,887	190,000	200,000	10,000	5.3%
10 Equipment – Replacement	128,332	100,850	37,290	-63,560	-63.0%
13 Fixed Charges	341,804	421,050	435,576	14,526	3.4%
Total Objects	\$ 19,020,965	\$ 20,293,213	\$ 19,814,374	-\$ 478,839	-2.4%
Funds					
01 General Fund	\$ 9,060,331	\$ 8,276,165	\$ 8,432,518	\$ 156,353	1.9%
03 Special Fund	9,875,241	11,929,058	11,279,485	-649,573	-5.4%
09 Reimbursable Fund	85,393	87,990	102,371	14,381	16.3%
Total Funds	\$ 19,020,965	\$ 20,293,213	\$ 19,814,374	-\$ 478,839	-2.4%

Note: The fiscal 2010 appropriation does not include deficiencies.

Fiscal Summary
Department of Budget and Management – Secretary

<u>Program/Unit</u>	<u>FY09</u> <u>Actual</u>	<u>FY10</u> <u>Wrk Approp</u>	<u>FY11</u> <u>Allowance</u>	<u>Change</u>	<u>FY10 - FY11</u> <u>% Change</u>
01 Executive Direction	\$ 1,458,934	\$ 1,342,773	\$ 1,359,302	\$ 16,529	1.2%
02 Division of Finance and Administration	2,112,578	1,576,598	1,471,009	-105,589	-6.7%
03 Central Collection Unit	9,875,241	11,929,058	11,279,485	-649,573	-5.4%
04 Division of Procurement Policy and Administration	2,083,396	2,042,059	2,176,713	134,654	6.6%
01 Budget Analysis and Formulation	2,433,490	2,358,775	2,449,670	90,895	3.9%
01 Capital Budget Analysis and Formulation	1,057,326	1,043,950	1,078,195	34,245	3.3%
Total Expenditures	\$ 19,020,965	\$ 20,293,213	\$ 19,814,374	-\$ 478,839	-2.4%
General Fund	\$ 9,060,331	\$ 8,276,165	\$ 8,432,518	\$ 156,353	1.9%
Special Fund	9,875,241	11,929,058	11,279,485	-649,573	-5.4%
Total Appropriations	\$ 18,935,572	\$ 20,205,223	\$ 19,712,003	-\$ 493,220	-2.4%
Reimbursable Fund	\$ 85,393	\$ 87,990	\$ 102,371	\$ 14,381	16.3%
Total Funds	\$ 19,020,965	\$ 20,293,213	\$ 19,814,374	-\$ 478,839	-2.4%

Note: The fiscal 2010 appropriation does not include deficiencies.