# F10A
# Secretary
### Department of Budget and Management

## *Operating Budget Data*

**($ in Thousands)**

| | FY 16 Actual | FY 17 Working | FY 18 Allowance | FY 17-18 Change | % Change Prior Year |
|---|---|---|---|---|---|
| General Fund | $8,819 | $10,056 | $9,775 | -$282 | -2.8% |
| Adjustments | 0 | 0 | -32 | -32 | |
| **Adjusted General Fund** | **$8,819** | **$10,056** | **$9,742** | **-$314** | **-3.1%** |
| Special Fund | 13,577 | 14,143 | 16,015 | 1,872 | 13.2% |
| Adjustments | 0 | 0 | -32 | -32 | |
| **Adjusted Special Fund** | **$13,577** | **$14,143** | **$15,983** | **$1,840** | **13.0%** |
| Reimbursable Fund | 225 | 232 | 237 | 5 | 2.2% |
| **Adjusted Reimbursable Fund** | **$225** | **$232** | **$237** | **$5** | **2.2%** |
| **Adjusted Grand Total** | **$22,621** | **$24,431** | **$25,963** | **$1,532** | **6.3%** |

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 allowance increases by $1.5 million, or 6.3%, over the fiscal 2017 working appropriation.

- The Central Collection Units' (CCU) appropriation, which is supported by special funds, increases by $1.9 million, primarily due to additional workload.

- Spending for the remaining units, which are supported by general funds, decline primarily due to lower costs billed for statewide services paid by other agencies.

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

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## *Personnel Data*

| | FY 16 Actual | FY 17 Working | FY 18 Allowance | FY 17-18 Change |
|---|---|---|---|---|
| Regular Positions | 198.80 | 194.60 | 194.60 | 0.00 |
| Contractual FTEs | 9.90 | 9.00 | 31.50 | 22.50 |
| **Total Personnel** | **208.70** | **203.60** | **226.10** | **22.50** |

***Vacancy Data: Regular Positions***

| | | |
|---|---|---|
| Turnover and Necessary Vacancies, Excluding New Positions | 4.03 | 2.07% |
| Positions and Percentage Vacant as of 12/31/16 | 7.00 | 3.60% |

- In response to Section 20 of the fiscal 2017 budget bill, 5.80 positions were abolished at the end of fiscal 2016.

- The agency received 2.0 positions from the Office of Personnel Service and Benefits.

- Additional contractual full-time equivalents are required by CCU to implement its new information technology (IT) system and manage a higher workload.

# *Analysis in Brief*

## Major Trends

***Capital Budget Performance:*** The Office of Capital Budgeting strives for sound capital budget planning processes. Objectives have been established to ensure that at least 90% of State-owned capital projects are consistent with the agency facilities master plans and have approved program plans. The agency fell short of this goal in both categories in fiscal 2016.

***Central Collection Unit Net Profit Declines:*** CCU is responsible for collecting delinquent claims, debts, and accounts owed to the State except for taxes, child support, and unemployment contributions and overpayments. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property, among others. From fiscal 2012 to 2016, net agency profit decreased by $5.2 million, or 63.1%. This decrease in net profits is expected to continue because CCU operating expenditures include the cash flow for the major IT business system replacement; agency net profit should increase after the upgrade is completed.

## Issues

***Interagency Agreements:*** In the 2016 interim, the Department of Legislative Services (DLS) reviewed the data that is collected for interagency agreements (IA). **DLS recommends amending annual budget language on IAs to request that information be provided by institutions of higher education using the revised template created by the System Research Administrators Group. DLS recommends adopting a provision in the Budget Reconciliation and Financing Act of 2017 requiring the Department of Budget and Management (DBM) to establish a triennial review cycle of IAs that have been in place for three or more years and have actual expenditures exceeding $750,000 total in the most recent three fiscal years.**

***Fiscal 2016 Closeout Audit:*** Each year, the Office of Legislative Audits (OLA) reviews closeout transactions and prepares an audit. At the end of fiscal 2016, OLA identified $42.3 million in general fund payables without an appropriation. **The department should be prepared to brief the committees on the fiscal 2016 closeout audit. This should include discussing a timetable for making appropriations for general fund payables.**

***Missing Personnel Data:*** The fiscal 2018 budget books did not include personnel data, as required by law. **DLS recommends that the legislature add budget bill language requiring that the fiscal 2019 budget books include a volume with personnel and Managing for Results data.**

***Governor's Office of Transformation and Renewal:*** On May 10, 2016, the Administration announced the creation of the Office of Transformation and Renewal and created a Director of Governmental Efficiency. The Administration has tied the creation of the office to the conclusions of the Governor's State Regulatory Reform Commission, which recommended a comprehensive review and reorganization of State government in its December 2015 report. No timeline has been given for the publication of the review of State government. **DLS requests the department to comment on the current status of the Office of Transformation and Renewal and to provide an overview of the office's goals and duties, as well as additional detail on the timeline for completion of its review of State government.**

***Required Managing for Results State Comprehensive Plan Not Submitted:*** A statutorily required report was not submitted to the budget committees by DBM in January. **DLS recommends adding budget bill language to restrict funds until the Managing for Results State Comprehensive Plan is submitted in January 2018 in accordance with State law.**

## Recommended Actions

1. Restrict general funds pending a volume of the fiscal 2019 Governor's budget books that provides personnel and Managing for Results data.
2. Restrict general funds pending Managing for Results indicators for Juvenile Services Education.
3. Restrict general fund reversions to $30.0 million.
4. Add language restricting funds pending submission of the Managing for Results State Comprehensive Plan.
5. Adopt narrative requiring a report that addresses the structural deficit.
6. Amend Section 2 to limit appropriations that can be placed into contingency reserve to items restricted by the General Assembly.
7. Amend Section 17 adding a tracking structure necessary for legislative audits and disallowing transfers to other purposes.
8. Add a section requiring a long-term forecast.
9. Add a section applying across-the-board Executive Branch reductions to higher education institutions.
10. Add a section requiring monthly reporting on the State's workers' compensation account held by the Chesapeake Employers' Insurance Company.
11. Add a section requiring reporting on federal funds received by the State.
12. Add a section defining the usage of federal funds in the budget.
13. Add a section requiring indirect cost recovery reporting.

14. Add a section requiring consistent presentation of budget data and organizational charts.

15. Add a section requiring reporting on interagency agreements and approval by the Department of Budget and Management.

16. Add a section defining the budget amendment process.

17. Add a section defining maintenance of accounting systems.

18. Add a section limiting salary payments to Executive Branch nominees rejected by the Senate.

**F10A**
# Secretary
**Department of Budget and Management**

## *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** (OBA) 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.

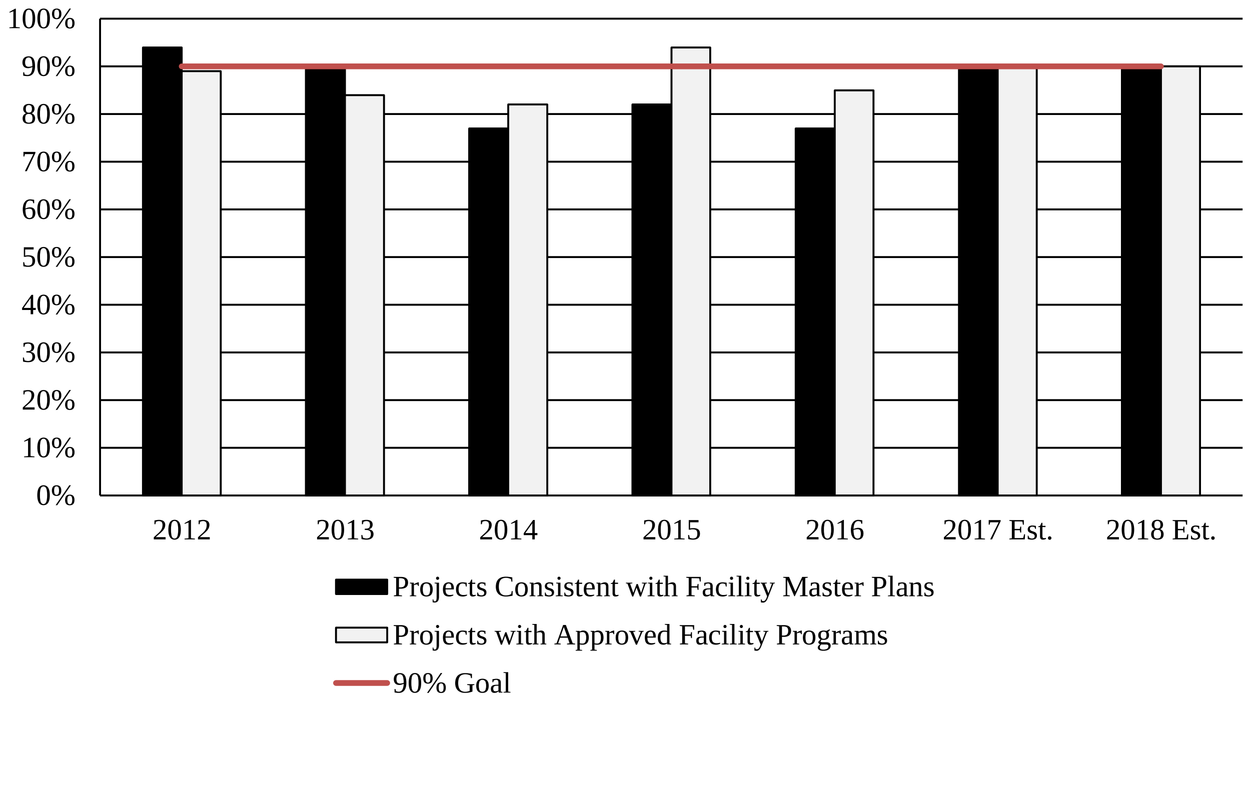
DBM also has an Office of Personnel Services and Benefits (OPSB) (F10A02), which provides State personnel policy direction and support. This budget and related issues are discussed in a separate analysis.

## Performance Analysis: Managing for Results

### 1. Capital Budget Performance

The Office of Capital Budgeting reports two objectives as part of its goal to ensure that capital projects included in the budget are consistent with sound planning practices. Under the first objective, the office seeks to have 90% of State-owned capital projects be consistent with agency facilities master plans. The second objective is that 90% of State-owned capital projects included in the budget bill have approved facility programs. **Exhibit 1** shows that DBM did not reach the 90% goal for projects with approved facility programs or facility master plans in fiscal 2016.

**Exhibit 1**
**Office of Capital Budgeting**
**State-owned Capital Projects Consistent with Facilities Master Plans and Projects with Approved Facility Programs**
**Fiscal 2012-2018 Est.**




Source: Governor's Budget Books, Fiscal 2012-2016; Department of Budget and Management

In fiscal 2014, only 77% of projects were consistent with facility master plans. DBM attributed this percentage to projects included for funding while several agencies were developing new or revised facility master plans, as well as to accommodate emergency projects. In fiscal 2015, the percent of State-owned projects in the capital budget consistent with facility master plans increased to 82%, which is still below the 90% goal but shows improvement. The percent of authorized projects with approved master plans declined to 77% in fiscal 2016. In some cases, such as the Department of Public Safety and Correctional Services' Jessup Region Electrical Infrastructure Upgrade, there is an emergency, and the State needs to complete the project quickly, and DBM did not want to wait another year in the budget cycle to fund it.

Projects with approved facility programs exceeded the 90% goal in fiscal 2015 with 94% of State-owned capital projects having approved facility programs. This statistic declined to 85% in fiscal 2016. Because the sample size is limited, it is not unusual for this statistic to fluctuate from year to year. In fiscal 2016, some of the projects (such as Maryland Environmental Service projects) without approved program plans are small projects that can be approved quickly. Other projects (such as the veterans' cemeteries) were appropriated in response to receiving federal funds.

Section 3-602 of the State Finance and Procurement Article states that capital projects must have an approved Part 1 program prior to authorization of funds for design and an approved Part 2 program prior to authorization of capital funds. Projects without approved program plans can receive authorizations in the capital bill with the stipulation that no funds can be expended until the program plans are approved.

## 2. Central Collection Unit Net Profit Declines

CCU is responsible for collecting delinquent claims, debts, and accounts owed to the State except for taxes, child support, and unemployment contributions and overpayments. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property, among others. **Exhibit 2** illustrates collection trend activity from fiscal 2012 to 2018. In previous Managing for Results (MFR) submissions, the dollar value of debt collected and the percent outstanding of the total debt were provided, but in fiscal 2017, these measures have been replaced with new measures, such as the agency's net profit (*i.e.*, the amount left over from collection fees recovered on gross collections after operating expenses are paid). According to DBM, the old measures were not valid, short-term indicators of performance; the new metrics provide the ability to be indicators of success or flag a problem with collections.

From fiscal 2012 to 2016, net agency profit decreased by $5.2 million, or 63.1%. Profits are down because CCU operating expenditures include the cash flow for the major information technology (IT) business system replacement. Agency net profit should increase after the upgrade is completed. DBM advises that the project was delayed when the decision was made to include the base telephone system in the scope of the project since the current system was at the end of its life cycle, but overall, the project continues to meet planned milestones. The current budget includes funding to implement the new system, so profits should begin to increase.

**Exhibit 2**
**Central Collection Unit Collection Activity**
**Fiscal 2012-2018 Est.**

| Fiscal Years | Dollar Value of Debt Collected | % of Outstanding Total Collected | Annual % Change in Dollars Collected | Agency Net Profit[1] | % Change in Net Profit |
|---|---|---|---|---|---|
| 2012 | $125,717,129 | 47.5% | -6.9% | $8,187,638 | |
| 2013 | 138,492,905 | 46.9% | 10.2% | 5,798,710 | -29.2% |
| 2014 | 134,590,503 | 46.0% | -2.8% | 5,519,901 | -4.8% |
| 2015 | 140,338,214 | 48.4% | 4.3% | 4,851,628 | -12.1% |
| 2016 Est. | 142,000,000 | 46.0% | 1.2% | 3,019,000 | -37.8% |
| 2017 Est. | 144,000,000 | 46.0% | 1.4% | 6,482,000 | 114.7% |
| 2018 Est. | 150,000,000 | 36.0% | 4.2% | 2,485,108 | -61.7% |

[1] Fiscal 2016 net profit is actual.

Source: Governor's Budget Books, Fiscal 2014-2016; Department of Budget and Management

CCU's account inventory was expanded in fiscal 2015 with the expectation of receiving video tolling violations from the Maryland Transportation Authority (MDTA); however, MDTA did not begin submitting toll violations to CCU until November 2015 and did not submit its first file of Maryland toll violators until February 2016. The volume has been substantial; DBM advises that there are currently approximately 2,980,000 toll debt violations to collect. In response, CCU is adding contractual staff and increasing spending contractors that provide data and collections support.

Net profits are expected to increase from $3.0 million in fiscal 2016 to $6.5 million in fiscal 2017 and then decline to $2.5 million in fiscal 2018. **The department should be prepared to brief the committee on these changes.**

## Fiscal 2017 Actions

### Cost Containment

On November 2, 2016, the Board of Public Works (BPW) adopted the Administration's proposed cost containment reductions. Spending for the Division of Procurement Policy and Administration was reduced $44,000 and spending for OBA was reduced $25,000. This eliminated funding for reclassifications in both offices. OBA also reduced funding for budget CDs.

### Section 20 Position Abolitions

Section 20 of the fiscal 2017 budget bill required that the Administration abolish at least 657 vacant regular positions. The budget was reduced by $20 million in general funds and $5 million in special funds. The reduction to DBM, including OPSB, is $90,000 in general funds and $100,000 in special funds. The annual value of these positions, including fringe benefits, is approximately $266,000 in general funds, $166,000 in special funds, and $57,000 in reimbursable funds. The Secretary's Office lost 5.8 regular positions and OPSB lost 2.0 regular positions.

## Proposed Budget

**Exhibit 3** shows that the fiscal 2018 budget is expected to increase by $1.5 million, when compared to the fiscal 2017 working appropriation. The exhibit groups operating spending into three areas, specifically:

- ***Personnel Spending:*** Across the agency, personnel spending is increasing by approximately $26,000. A large reduction in health insurance costs ($323,000) is offset by increases in other areas. The fiscal 2018 allowance for salaries and wage matches the salary plan to the dollar. However, fiscal 2017 salary and wage spending is less than aggregate salaries in the plan, requiring an increase of $197,000 to fund fiscal 2018 salaries. CCU is budgeting an additional $100,000 for bonuses. If targets are not met, this appropriation will be canceled. Reclassifications, which were reduced in fiscal 2017 cost containment, increase by $41,000 in fiscal 2018.

- ***Central Collection Unit:*** CCU spending, which entirely supported by special funds, increases by $2.0 million, if personnel costs are excluded. The largest increase ($835,000) is attributable to adding contractual full-time equivalents (FTE). **Exhibit 4** shows that these FTEs support implementing the new IT system, adding collections to support workload demands, and providing temporary legal support. CCU now collects E-ZPass debts. This has added 3.0 million toll violation debts and increased the workload. To manage this short-term peak, funding for additional FTEs, collection and data services, and postage is budgeted. Another initiative is to increase legal support services to garnish more wages in response to audit findings.

- ***Office of the Secretary, Office Budget Analysis, and Office of Capital Budgeting:*** Spending in units (excluding personnel costs), which are supported by general funds, declines by approximately $469,000. The reduction is attributable to reductions in service paid to other State agencies. The administrative retirement fee declines by approximately $137,000, shared human services costs to OSPB declines by $166,000, and fees to the Office of Administrative Hearings also declines by $166,000.

**Exhibit 3**
## Proposed Budget
**Department of Budget and Management – Secretary**
**($ in Thousands)**

| How Much It Grows: | General Fund | Special Fund | Reimb. Fund | Total |
|---|---|---|---|---|
| Fiscal 2016 Actual | $8,819 | $13,577 | $225 | $22,621 |
| Fiscal 2017 Working Appropriation | 10,056 | 14,143 | 232 | 24,431 |
| Fiscal 2018 Allowance | 9,742 | 15,983 | 237 | 25,963 |
| Fiscal 2017-2018 Amount Change | -$314 | $1,840 | $5 | $1,532 |
| Fiscal 2017-2018 Percent Change | -3.1% | 13.0% | 2.2% | 6.3% |

| Where It Goes: | |
|---|---|
| **Personnel Expenses** | |
| Adjustments for underfunded fiscal 2017 costs | $197 |
| Anticipated Central Collection Unit bonuses | 100 |
| Reclassifications | 41 |
| Pension contributions | 8 |
| Other fringe benefit adjustments | 3 |
| Employee and retiree health insurance | -323 |
| **Central Collection Unit** | |
| Funding for 30 additional contractual positions | 835 |
| Additional collection and data services attributable to E-ZPass workload | 540 |
| Additional postage attributable to E-ZPass workload | 300 |
| Special fund Office of Administrative Hearing fees | 117 |
| Legal services to increase garnishing wages in response to audit findings | 110 |
| Information technology support | 74 |
| **Secretary and Budget Offices** | |
| Retirement administrative fees | -137 |
| Shared human services costs | -166 |
| General fund Office of Administrative Hearing fees | -166 |
| **Other** | -1 |
| **Total** | **$1,532** |

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

**Exhibit 4**
**New Contractual Positions at the Central Collections Unit**
**($ in Thousands)**

| Purpose | Number of Staff | Salary and Other Costs |
|---|---|---|
| Information Technology Modernization Project | 16 | $552 |
| Central Collection Unit Call Center | 12 | 249 |
| Legal | 2 | 35 |
| **Total** | **30** | **$835** |

Source: Department of Budget and Management

## Personnel Changes

**Exhibit 5** shows personnel changes made since the fiscal 2017 budget was introduced. The agency lost 5.8 positions through the Section 20 position abolitions. A full-time position was made part-time. The agency also gained 2.0 positions by transferring OPSB positions into the Secretary's Office and the Division of Capital Budgeting. The new position in the Secretary's Office is a Director of Governmental Efficiency and capital budgeting has another capital budget analyst.

**Exhibit 5**
**Position Changes in Fiscal 2017**

| | |
|---|---|
| Fiscal 2017 Allowance | 198.80 |
| Section 20 Position Abolitions | -5.80 |
| Make Office of Budget Analysis Administrator VI Position Part-time | -0.40 |
| Transferred from the Office of Personnel Services and Benefits | 2.00 |
| Fiscal 2017 Working Appropriation | 194.60 |

Source: Department of Budget and Management

## Across-the-board Reductions

The fiscal 2018 budget bill includes a $54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is $32,415 in general funds and $31,536 in special funds. This action is tied to a provision in the Budget Reconciliation and Financing Act (BRFA) of 2017.

# *Issues*

## 1. Interagency Agreements

Interagency agreements (IAs) are used by State agencies to obtain services from State institutions of higher education, such as IT assistance and training. These agreements can be beneficial to agencies as a means of tapping research, knowledge, and skills that can support operations and services. IAs are exempt from certain State procurement and personnel laws and subject to indirect cost recovery or overhead costs. Due to various audit findings of improper usage of IAs and concern over indirect cost recoveries charged by institutions of higher education, IAs have come under scrutiny.

### Indirect Cost Recovery

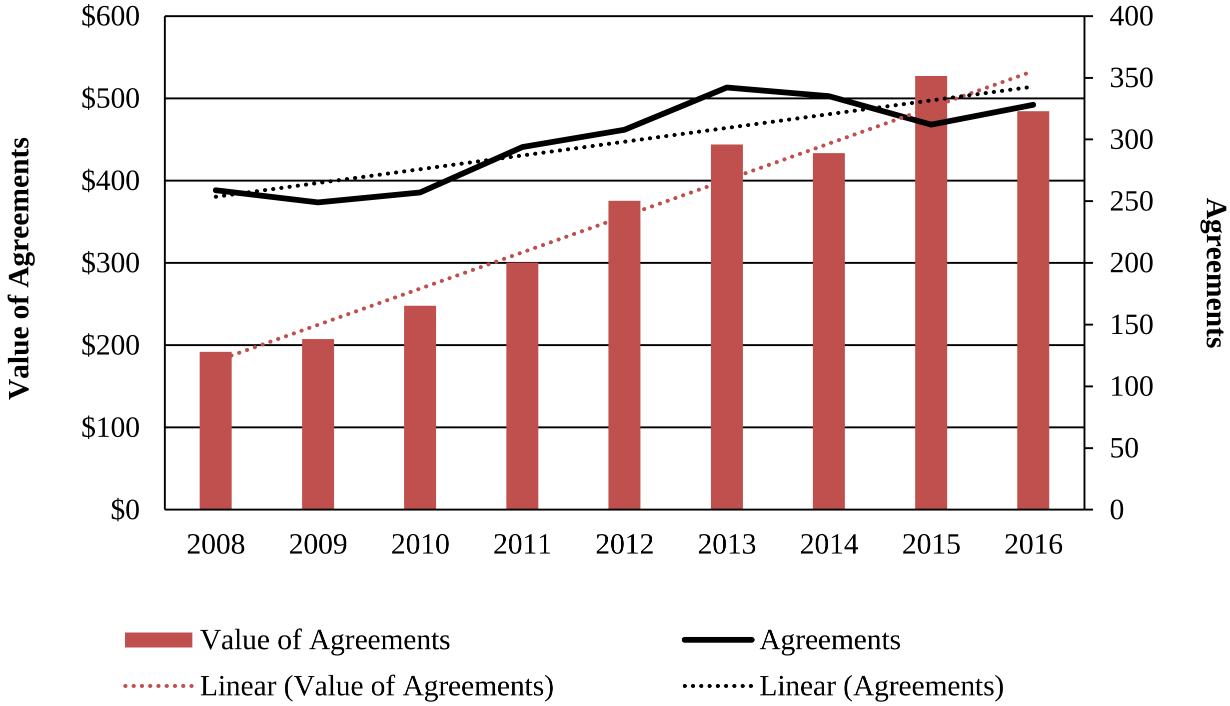
The Department of Legislative Services (DLS) asked institutions of higher education to clarify how indirect cost recovery rates, also known as the facilities and administrative (F&A) costs, were determined for IAs. The facilities cost is determined by how much a space is used for instruction, research, or mixed uses, which is determined by conducting a space survey. The administrative cost is determined by the number of people involved in research activities. F&A rates are only applicable to certain eligible costs of an IA, not the entire projected value.

In determining the appropriate F&A rate, institutions of higher education frequently use the federally set rate, as regulated by *Uniform Guidance 2 CFR 200* and negotiated by the cognizant federal agency; the cognizant federal agency for the University System of Maryland (USM) is the U.S. Department of Health and Human Services. The federal cognizant agency conducts a space survey every three to five years to determine the facilities rate. Facility cost differences can depend on when the space is constructed and whether an activity is conducted on- or off-campus. Administrative rate differences can occur based on the types of sponsored activities performed and the support services required. The federal government has capped the administrative cost recovery rate at 26%, but the facilities cost recovery rate is negotiable. There is no statewide F&A rate currently, and USM does not recommend creating one due to the variability of State projects. Also, institutions of higher education will frequently charge a lower F&A rate than necessary to fully recover costs, even 0% at times, in order to be competitive.

### Reporting

Annual budget bill language requires DBM to consolidate and report on IAs with a projected value in excess of $100,000. According to the most recent report, there were 328 IAs in fiscal 2016 with a total projected value of $484.4 million; this is an increase of 16 agreements and a decrease of $42.7 million in total projected value compared to the fiscal 2015 report. **Exhibit 6** shows the number and total dollar value of IAs with higher education from fiscal 2008 to 2016, as reported by DBM. The total projected value for IAs has increased overall since fiscal 2008, despite slight drops in fiscal 2014 and 2016.

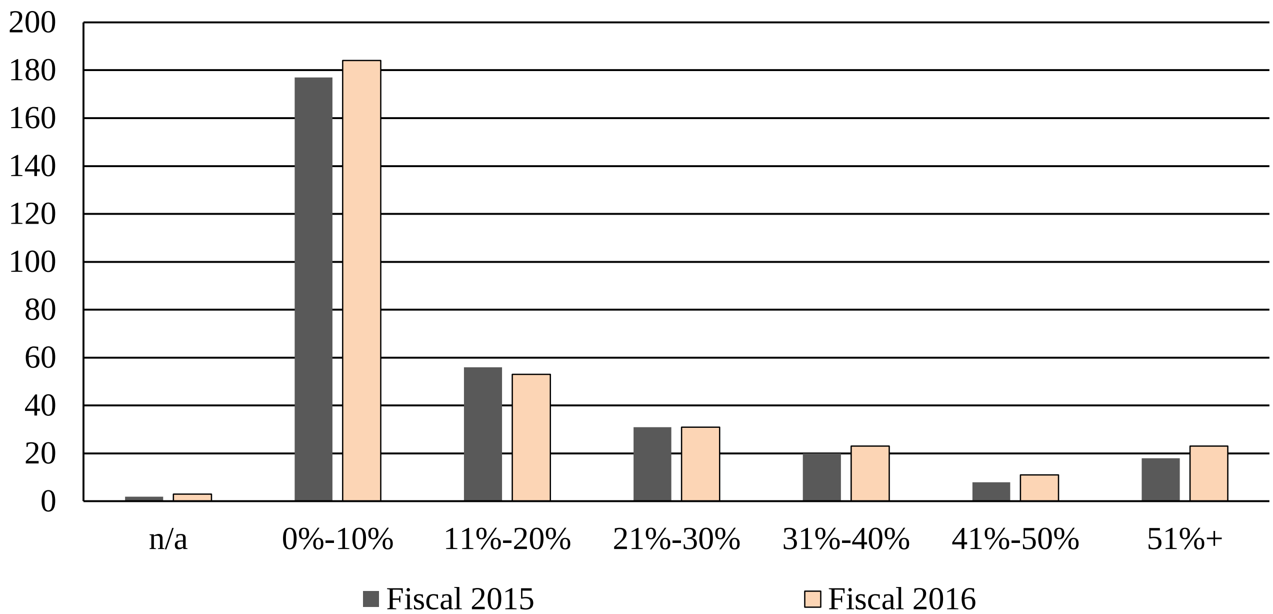
**Exhibit 6**
**Number and Value of Interagency Agreements**
**Fiscal 2008-2016**
**($ in Millions)**




Source: Department of Budget and Management

Over 70% of IAs with higher education, in both fiscal 2015 and 2016, report under 20.0% indirect cost recovery rates, but it should be noted that IAs with rates greater than 20.0% have increased by 14.3%, as shown on **Exhibit 7**.

**Exhibit 7**
**Indirect Cost Recovery Rates**
**Fiscal 2015-2016**




Source: Department of Budget and Management

During the 2016 interim, DLS worked with State agencies, DBM, and the institutions of higher education to determine how to improve the information provided annually on IAs. Based on the interim discussion, the System Research Administrators Group (SRAG), a group consisting of sponsored programs' pre- and post-award representatives from each institution within USM, was able to create a revised template for IA information.

**DLS recommends amending annual budget language on IAs to request information be provided by institutions of higher education using the revised template created by SRAG.**

## Usage of IAs and Review Process

There are certain advantages to IAs that may encourage their usage with State agencies. IAs are able to be executed much faster than the regular procurement process, which can take from 6 to 18 months, because IAs are not subject to State procurement laws, including the requirements for competitive procurement, publication of solicitations and awards, and BPW approval. IAs are easier to amend or add tasks as needed because of the limited review that is required. Because IAs are not subject to State personnel laws, including laws relating to recruitment, selection, and salary schedules, State agencies will sometimes use IAs as a way to pay higher salaries for certain positions, such as IT positions, because the State authorized salary is not competitive. Circumventing either the State procurement or personnel laws is not an appropriate use of IAs. **DBM should discuss ways to discourage improper use of IAs among State agencies, including making the procurement process more efficient and addressing noncompetitive salaries, such as salaries for IT positions.**

Annual budget bill language currently requires DBM to review IAs with a projected value in excess of $500,000 to determine why the services cannot be provided in-house, ensure F&A costs are not excessive, and that all the proper documentation for these agreements is provided. The annual language further requires any new IA with a projected value in excess of $500,000 to be approved by the Secretary of Budget and Management prior to implementation.

**DLS recommends adopting language in the BRFA of 2017 requiring DBM to establish a triennial review cycle of IAs that have been in place for three or more years and have actual expenditures exceeding $750,000 total in the most recent three fiscal years. The following should be taken into consideration during the review process:**

- **Should the services being provided through this IA be provided in-house?**
- **Should the services being provided through this IA be competitively bid?**
- **Is the IA being used as a way to pay higher salaries than what is authorized in the State salary schedule for certain positions? If so, should an annual salary review of these positions be conducted?**
- **Is an agency using an IA as a way of filling positions currently under a hiring freeze or to jumpstart a new program? If so, should these positions be full-time State employees?**

**The provision in the BRFA of 2017 should also require DBM to submit a report to the budget committees and DLS annually summarizing the findings of this review. The first report shall be submitted by December 1, 2017, and will include a review of IAs with actual expenditures in fiscal 2015, 2016, and 2017 exceeding $750,000, when combined.**

## 2. Fiscal 2016 Closeout Audit

Each year the Office of Legislative Audits prepares an audit of the State budget's closeout transactions. The audit identifies transactions that were not in compliance with current law or Generally Accepted Accounting Principles. **Exhibit 8** details the audit findings.

**Exhibit 8**
**Office of Legislative Audits**
**Statewide Review of Fiscal 2016 Budget Closeout Transactions**
**($ in Millions)**

| Agency | Explanation | Amount | Possible General Fund Effect |
|---|---|---|---|
| DLLR | Recorded unsubstantiated federal fund revenues related to receivables from indirect cost recoveries | $9.9 | Agency is working with federal government to recover costs but some may be uncollectible |
| SBE | Recorded federal fund revenues even though related revenues are unavailable | 0.5 | Agency claims to have $181,000 in federal funds available to offset the $523,000 that is unavailable |
| MSP | Revenues generated by the Work Zone Automated Speed Enforcement Program were not sufficient to fund vehicle replacement appropriations | 4.7 | State Highway Administration anticipates providing $1.8 million, so that $2.9 million is unavailable and will need a general fund appropriation |
| DGS | Retained special funds generated from eMaryland Marketplace bidding system | 1.0 | Agency should revert these funds rather than recording them as deferred revenue |
| DHMH | Federal Department of Health and Human Services disallowed certain federal funds billed by the Developmental Disabilities Administration | 34.7 | General fund appropriation is anticipated |

DGS: Department of General Services
DHMH: Department of Health and Mental Hygiene
DLLR: Department of Labor, Licensing, and Regulation
MSP: Maryland State Police
SBE: State Board of Elections

Source: Office of Legislative Audits, January 2017

The audit also identifies general fund payables that do not have an appropriation. **Exhibit 9** lists these appropriations. The Department of Health and Mental Hygiene appropriations relate to the Developmental Disabilities Administration expenditures that the federal Department of Health and Human Services did not approve. The Office of the Public Defender's (OPD) payables are attributable to overspending. Department of State Police payables are the result of overspending in the Office of the Superintendent, Criminal Investigation Bureau, and Support Services Bureau. Overspent items include temporary agency services, building repairs, uniforms, gasoline, and vehicle maintenance. The budget submitted at the 2017 session only included a $5.2 million general fund deficiency for OPD, as shown in Exhibit 9.

**Exhibit 9**
## Unprovided for General Fund Payables
**Fiscal 2016**

| Agency | Liability | Amount Funded |
|---|---|---|
| Department of Health and Mental Hygiene | $34,661,369 | $0 |
| Office of the Public Defender | 5,216,698 | 5,216,698 |
| Maryland Health Benefit Exchange | 1,533,761 | 0 |
| Department of State Police | 925,582 | 0 |
| **Total** | **$42,337,410** | **$5,216,698** |

Source: Office of Legislative Audits, January 2017

**The department should be prepared to brief the committees on the fiscal 2016 closeout audit. This should include discussing a timetable for making appropriations for general fund payables.**

## 3. Missing Personnel Data

Section 7-121 of the State Finance and Procurement Article requires that the budget books include personnel data. The section is as follows:

**7-121. Operating Expenses of State Units**

(1) ***Budget Books Requirements*** – The budget books shall contain a section that, by unit of the State government, sets forth, for each program or purpose of that unit:

(a) the total number of officers and employees and the number in each job classification:

(i) authorized in the State budget for the last full fiscal year and the current fiscal year; and

(ii) requested for the next fiscal year;

(b) the total amount for salaries of officers and employees and the amount for salaries of each job classification:

(i) spent during the last full fiscal year;

(ii) authorized in the State budget for the current fiscal year; and

(iii) requested for the next fiscal year.

DBM did not provide this data with the fiscal 2017 budget books. DLS raised an issue about this and requested that DBM provide personnel data with the fiscal 2018 budget books, as required by law.

DBM is also no longer providing MFR data with the budget books. MFR defines an agencies mission, vision, and goals. The data provides insights as to how well an agency is succeeding at achieving its goals. Providing MFR data with the budget books enhances legislators' evaluation of the operating budget. Including the data also provides a record of the data for posterity.

**DLS recommends that the legislature add budget bill language requiring that the fiscal 2019 budget books include a volume with personnel and MFR data.**

## 4. Governor's Office of Transformation and Renewal

On May 10, 2016, the Administration announced the creation of the Office of Transformation and Renewal in the Executive Department effective July 1, 2016. The announcement identified three main areas in which he would be working with executive agencies:

- improving efficiency;
- increasing accountability and the utilization of performance benchmarks; and
- improving customer service.

The Administration has tied the creation of the office to the conclusions of the Governor's State Regulatory Reform Commission, which recommended a comprehensive review and reorganization of State government in its December 2015 report.

It appears that the office is intending to offer ongoing advice on the agency level to improve performance in the three areas identified above, as well as guiding a longer term project to reorganize State government comparable to the last major reorganization that took place during Marvin Mandel's first term as Governor (1969 to 1972).

While the office has been working in the Administration since July 2016, there have been no further statements or reporting on the office or its work and, to the extent that the office has been involved in the projects or the development of new policies, that role has not been public. No timeline has been given for the publication of the review of State government.

**DLS requests the department to comment on the current status of the Office of Transformation and Renewal and provide an overview of the office's goals and duties, as well as additional detail on the timeline for completion of its review of State government.**

## 5. Required Managing for Results State Comprehensive Plan Not Submitted

Section 3-1002 of the State Finance and Procurement Article requires DBM to annually submit a MFR State Comprehensive Plan, which is to include a statement of goals which serve as a broad directive for improving or making more cost effective State resources and services. The plan shall include no more than 10 statewide goals and 50 to 100 performance measures that describe the statewide progress toward its goals. The agency did not submit this plan in January 2017 as required by law.

**DLS recommends adding budget bill language to restrict funds until the MFR State Comprehensive Plan is submitted in January 2018 in accordance with State law.**

# *Recommended Actions*

1. Add the following language to the general fund appropriation:

<u>, provided that $100,000 of this appropriation made for the purpose of executive direction may not be expended unless the Department of Budget and Management includes in its submission of the fiscal 2019 Governor's budget books a separate volume that provides personnel and Managing for Results (MFR) data by agency. The personnel data shall be consistent with Section 7-121 of the State Finance and Procurement Article. The MFR data shall include the mission, vision, as well as key goals, objectives, and at least five performance indicators per objective. Funds restricted pending receipt of the volume of the Governor's budget book may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the volume is not included with the Governor's budget books submitted on the third Wednesday of January 2018.</u>

**Explanation:** The Administration has previously provided personnel and MFR data in the annual budget books that are printed when the State budget is introduced. The fiscal 2017 and 2018 budget books did not include this data. Section 7-121 requires this personnel data and outlines how it should be formatted. This section reduces appropriations if the budget books are not consistent with State law or provides MFR data published in the budget books. This data is important to permit the budget committees to exercise oversight during the review of agency budgets each session.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Budget book volume with personnel and MFR data | Department of Budget and Management | With the submission of the Governor's fiscal 2019 budget books |

2. Add the following language to the general fund appropriation:

<u>Further provided that $100,000 of this appropriation made for the purpose of executive direction may not be expended until:</u>

<u>(1)</u> <u>The Department of Juvenile Services and the Maryland State Department of Education (MSDE) jointly develop measures that evaluate the performance of the Juvenile Services Education (JSE) program, to include but not be limited to the following measures:</u>

<u>(a)</u> <u>average length of time to transition student records between a JSE school and a local school system;</u>

(b) teacher vacancy rates and length of tenure;

(c) contacts with local school system liaisons to support student transition into the community;

(d) students participating in postsecondary opportunities and vocational opportunities; and

(e) the number of classroom hours canceled due to the unavailability of a teacher or substitute; and

(2) Data for the identified performance measures shall be included in MSDE's annual Managing for Results performance measure submission beginning with the fiscal 2019 allowance submitted in January 2018.

Funds restricted pending performance indicators may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the performance indicators are not included with the Governor's budget books.

**Explanation:** Concerns have been raised questioning whether MSDE is providing the appropriate level of services to students in Department of Juvenile Services (DJS) facilities, particularly to students with special education needs. This language requires DJS and MSDE to work jointly regarding progress made toward addressing the deficiencies in the provision of education services to youth in DJS facilities. It also requires the development of performance measures to evaluate how well the program is functioning, as opposed to only evaluating student performance. This requirement was originally included in Section 43 of the fiscal 2017 budget bill. The section also required a report from DJS and MSDE. The report was submitted, and the funds contingent on the report have been released by the budget committees. The Department of Budget and Management (DBM) did not include performance measures in the Managing for Results (MFR) submission. This language applies this section to DBM and requires the submission of these MFR performance indicators.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| MFR indicators for JSE | DBM | With the submission of the Governor's fiscal 2019 budget books |

3. Add the following language to the general fund appropriation:

   Further provided that $100,000 for the purposes of executive direction, may not be expended unless the Department of Budget and Management, in Appendix A in the Maryland Budget Highlights for fiscal 2019, reflects no more than $30,000,000 in general fund reversions for fiscal 2018. For appropriations approved in this Act that are determined to be in excess of the needs of any agency or program above the aggregate estimate of $30,000,000 in reversions, the fiscal 2019 budget bill should include negative fiscal 2018 deficiencies. Funds restricted may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the estimate for general fund reversions for fiscal 2018 listed in Appendix A of the Budget Highlights at the 2018 session exceed $30,000,000.

   **Explanation:** This requirement was originally included in Section 28 of the fiscal 2017 budget bill. It limits general fund revisions to $30.0 million in unspecified agency reversions. In Appendix A of the Maryland Budget Highlights, $125.8 million are included in addition to the $30.0 million. The concern is that these reversions are planned and do not have the force of law. Instead listing these items as reversions, the Administration should instead include negative deficiencies. This provides a higher level of certainty that the Administration's proposed reductions are realized.

4. Add the following language to the general fund appropriation:

   Further provided that $100,000 of this appropriation may not be expended unless the agency submits a Managing for Results State Comprehensive Plan in January 2018 as required by Section 3-1002 of the State Finance and Procurement Article. Funds restricted pending receipt of the plan may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the plan is not submitted by the end of January 2018.

   **Explanation**: Statute requires that the Department of Budget and Management submit an annual Managing for Results State Comprehensive Plan in January each year to the budget committees. Funds are restricted pending the receipt of the plan.

5. Adopt the following narrative:

   **Report That Addresses the Structural Deficit:** The Administration's long-term general fund forecast projects that the structural deficit increases steadily throughout the forecast period. By fiscal 2022, the structural deficit is expected to reach $1.2 billion. The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. In five of the last seven years, the recommendation of the committee focused on closing the sizeable structural deficit that had been generated by extraordinary fiscal issues – plummeting revenues, substantial short-term federal assistance, and extensive reliance on one-time budget balancing actions. The Spending Affordability Committee (SAC) has expressed concerns that, despite a favorable fiscal outlook at the close of the 2016 session, slower than anticipated economic growth has resulted in the downward revision of general fund revenues and a sizeable structural imbalance for fiscal 2018 and subsequent years. It its December 2016 report, SAC recommends that the Administration prepare a detailed report with specific proposals for achieving structural balance in fiscal 2019. The report should specify actions at the program level. The report should be submitted to SAC, the House Appropriations Committee, and the Senate Budget and Taxation Committee no later than July 1, 2017.

| **Information Request** | **Author** | **Due Date** |
| --- | --- | --- |
| Structural deficit report | Department of Budget and Management | July 1, 2017 |

6. Add the following section:

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

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

The Secretary shall, before the beginning of the fiscal year, file with the Comptroller of the Treasury a list limited to the appropriations restricted in this Act, to be placed in contingency reserve ~~a schedule of allotments, if any~~. The Comptroller shall not authorize any expenditure or obligation in excess of the allotment made and any expenditure so made shall be illegal.

~~(b)~~ ~~To allot all or any portion of funds coming into the hands of any department, board, commission, officer, school and institution of the State, from sources not estimated or calculated upon in the budget.~~

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

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

**Explanation:** This language limits the amount of appropriations that can be placed into contingency reserve to only those items restricted by the General Assembly.

7. Add 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), 0217 (Health Insurance), 0305 (DBM Paid Telecommunications), 0322 (Capital Lease Telecommunications), 0839 (HR Shared Services), 0874 (Office of Attorney General Administrative Fee), 0876 (DoIT IT Services Allocation), 0894 (State Personnel System Allocation), 0897 (Enterprise Budget System Allocation), and 1303 (rent paid to DGS) 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, 0217, 0305, 0322, and 0876 between State departments and agencies by approved budget amendment in fiscal 2017 and 2018. 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 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 pertaining to restricted objects of expenditure is amended to disallow transfers to other purposes and makes it possible for the Office of Legislative Audits to track the disposition of funds in restricted statewide subobjects.

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, the Transportation Trust Fund, and higher education Current Unrestricted Fund accounts. This forecast shall estimate aggregate revenues, expenditures, and fund balances in each account for the fiscal year last completed, the current year, the budget year, and four years thereafter. Expenditures shall be reported at such agency, program or unit levels, or categories as may be determined appropriate after consultation with the Department of Legislative Services. A statement of major assumptions underlying the forecast shall also be provided, including but not limited to general salary increases, inflation, and growth of caseloads in significant program areas.

**Explanation:** This annual language provides for the delivery of the executive's General Fund, transportation, and higher education forecasts and defines the conditions under which they are to be provided.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Executive forecasts | Department of Budget and Management | With the submission of the Governor's fiscal 2019 budget books |

9. 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.

10. Add the following section:

**Section __ Chesapeake Employers' Insurance Company Fund Accounts**

SECTION __. AND BE IT FURTHER ENACTED, That the General Accounting Division of the Comptroller of Maryland shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (Workers' Compensation) and to credit all payments disbursed to the Chesapeake Employers' Insurance Company (CEIC) via transmittal. The control account shall also record all funds withdrawn from CEIC and returned to the State and subsequently transferred to the General Fund. CEIC 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 the CEIC Fund 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 | CEIC | Monthly beginning on July 1, 2017 |

11. 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** |
|---|---|---|
| Reporting components of each federal fund appropriation | DBM | With submission of the fiscal 2019 budget |

12. Add the following section:

**Section __ Federal Fund Spending**

<u>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:</u>

<u>(1)</u> <u>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.</u>

<u>(2)</u> <u>For fiscal 2018, except with respect to capital appropriations, to the extent consistent with federal requirements:</u>

<u>(a)</u> <u>when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged except that 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;</u>

<u>(b)</u> <u>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 (DBM), whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and</u>

<u>(c)</u> <u>DBM shall take appropriate actions to effectively establish the provisions of this section as policies of the State with respect to the administration of federal funds by executive agencies.</u>

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

13. 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 2018 as an appendix in the Governor's fiscal 2019 budget books. The report must detail by agency for the actual fiscal 2017 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, the report must 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, 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 2018, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery shall be transferred only 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 the submission of the Governor's fiscal 2019 budget books |

14. 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 2019 budget detailed by Comptroller subobject classification in accordance with instructions promulgated by the Comptroller of Maryland. The presentation of budget data in the Governor's budget books shall include object, fund, and personnel data in the manner provided for in fiscal 2018 except as indicated elsewhere in this Act; however, this may not preclude the placement of additional information into the budget books. For actual fiscal 2017 spending, the fiscal 2018 working appropriation, and the fiscal 2019 allowance, the budget detail shall be available from the Department of Budget and Management (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 2017 spending, the fiscal 2018 working appropriation, and the fiscal 2019 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 on 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 Maryland.

Further provided that due diligence shall be taken to accurately report full-time equivalent counts of contractual full-time equivalents in the budget books. For the purpose of this count, contractual full-time equivalents 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 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.

Further provided that for each across-the-board reduction to appropriations or positions in the fiscal 2019 budget bill affecting fiscal 2018 or 2019, DBM shall allocate the reduction for each agency in a level of detail not less than the three-digit R*Stars financial agency code and by each fund type.

Further provided that, for the purposes of developing Appendix A in the Maryland Budget Highlights for fiscal 2019, the Governor may not reflect more than $30,000,000 in general fund reversions for fiscal 2018. For appropriations approved in this Act that are determined to be in excess of the needs of any agency or program above the aggregate estimate of $30,000,000 in reversions, the fiscal 2019 budget bill should include negative deficiencies.

**Explanation:** This annual language provides for consistent reporting of fiscal 2017, 2018, and 2019 budget data and provides for the submission of department, unit, agency, office, and institutions' organizational charts to DLS with the allowance. It also requires DBM to allocate across-the-board reductions to positions or funding, to ensure transparency in budget allocations approved by the General Assembly. It further requires that appropriations in fiscal 2018 that are deemed to be in excess of agency needs beyond the $30 million assumed in the budget be withdrawn by deficiency appropriation.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Agency organizational charts | DBM | With submission of the fiscal 2019 budget |

15. Add the following section:

**Section __ Interagency Agreements**

SECTION __. AND BE IT FURTHER ENACTED, That on or before August 1, 2017, 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 2017 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;

(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;

**(8) total indirect cost recovery or facilities and administrative (F&A) expenditures authorized for the agreement;**

**(9) the indirect cost recovery or F&A rate for the agreement and brief description of how the rate was determined;**

**(10) actual expenditures for the most recently closed fiscal year;**

**(11) actual base expenditures that the indirect cost recovery or F&A rate may be applied against the most recently closed fiscal year;**

**(12)** **actual expenditures for indirect cost recovery or F&A for the most recently closed fiscal year; and**

**(13)** **total authorized expenditure for any subaward(s) or subcontract(s) being used as part of the agreement and a brief description of the type of award or contract.**

Further provided that DBM shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2017, 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 2017.

**Further provided that no new higher education interagency agreement with State agencies with a projected value in excess of $500,000 may be entered into during fiscal 2018 without prior approval of the Secretary of Budget and Management.**

**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. The language requires that DBM submit a consolidated report on all agreements by December 1, 2017, to the budget committees and the Department of Legislative Services. Further, it requires that no new higher education interagency agreement with State agencies with a projected value in excess of $500,000 be entered into during fiscal 2018 without prior approval of the Secretary of Budget and Management.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Consolidated report on interagency agreements | DBM | December 1, 2017 |

16. 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:

(1) This section may not apply to budget amendments for the sole purpose of:

(a) appropriating funds available as a result of the award of federal disaster assistance; and

(b) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee.

(2) Budget amendments increasing total appropriations in any fund account by $100,000 or more may not be approved by the Governor until:

(a) that amendment has been submitted to the Department of Legislative Services (DLS); and

(b) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to DLS shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of the impact on regular position or contractual full-time equivalent payroll requirements.

(3) Unless permitted by the budget bill or the accompanying supporting documentation or by any 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 (MDOT) 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 MDOT; 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.

(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 the Department of Budget and Management (DBM).

(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) Budget amendments for new major information technology projects, as defined by Sections 3A-301 and 3A-302 of the State Finance and Procurement Article, must include an Information Technology Project Request, as defined in Section 3A-308 of the State Finance and Procurement Article.

(8) Further provided that the fiscal 2018 appropriation detail as shown in the Governor's budget books submitted to the General Assembly in January 2018 and the supporting electronic detail may not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the MDOT pay-as-you-go capital program.

(9) 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 2019 allowance, DBM 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.

17. Add the following section:

**Section __ Maintenance of Accounting Systems**

SECTION __. AND BE IT FURTHER ENACTED, That:

(1) The Secretary of the Department of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2017 in program M00Q01.03 Medical Care Provider Reimbursements have

been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.

(2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2017 to program R00A02.07 Students With Disabilities for nonpublic 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 the Department of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2017 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year, including detail on average monthly caseload, average monthly cost per case, and the total expended for each foster care program, and to prepare the periodic reports required under this section for that program.

(4) For the programs specified, reports must indicate total appropriations for fiscal 2017 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, 2017; March 1, 2018; and June 1, 2018.

(6) It is the intent of the General Assembly that general funds appropriated for fiscal 2017 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 (DHMH), the Maryland State Department of Education (MSDE), and the Department of Human Resources (DHR).

| **Information Request** | **Authors** | **Due Date** |
|---|---|---|
| Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01 | DHMH<br>DHR<br>MSDE | November 1, 2017<br>March 1, 2018<br>June 1, 2018 |

18. Add the following section:

**Section __ Secretary's or Acting Secretary's Nomination and Salary**

SECTION __. AND BE IT FURTHER ENTACTED, That no funds in this budget may be expended to pay the salary of a Secretary or an 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 2017 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2017 session unless the Acting Secretary is appointed under Article II, Section 11 of the Maryland Constitution prior to July 1, 2017.

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

## Appendix 1
# Current and Prior Year Budgets
### Department of Budget and Management – Secretary
### ($ in Thousands)

| | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| **Fiscal 2016** | | | | | |
| Legislative Appropriation | $8,936 | $13,625 | $0 | $225 | $22,786 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 195 | 338 | 0 | 0 | 534 |
| Reversions and Cancellations | -312 | -386 | 0 | 0 | -699 |
| **Actual Expenditures** | **$8,819** | **$13,577** | **$0** | **$225** | **$22,621** |
| **Fiscal 2017** | | | | | |
| Legislative Appropriation | $9,676 | $13,989 | $0 | $232 | $23,898 |
| Cost Containment | -69 | 0 | 0 | 0 | -69 |
| Budget Amendments | 449 | 154 | 0 | 0 | 602 |
| **Working Appropriation** | **$10,056** | **$14,143** | **$0** | **$232** | **$24,431** |

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

## Fiscal 2016

Fiscal 2016 actual spending totaled $22.6 million, which is approximately $165,000 less than the legislative appropriation. The following budget amendments add to spending:

- $200,479 in special funds for the Annual Salary Review salary enhancements at the Central Collection Unit (CCU);
- $133,443 in general funds and $138,000 in special funds for a general salary increase;
- $54,000 in a general fund closeout amendment moving funds from the Department of Budget and Management (DBM) – Personnel to DBM – Secretary agencies; and
- $7,631 in other amendments moving funds across DBM agencies.

Reversions and cancellations total approximately $699,000. The most significant reversion was in CCU, which canceled $386,000 in special funds, primarily relating to reduced personnel by keeping positions vacant and health care costs. The Office of Budget Analysis reverted $149,000 in general funds, of which over $120,000 was in personnel attributable to keeping positons vacant. In Finance and Administration, $64,000 in general funds was reverted due to hiring new personnel with lower salaries.

## Fiscal 2017

The fiscal 2017 working appropriation totals $24.4 million, an increase of $0.5 million over the legislative appropriation. To date, there have been two actions. A budget amendment transferred $602,279 into the DBM – Secretary's agencies to support increments. Cost containment reduced funds available for reclassifications and budget CDs by $69,000.

# Appendix 2
# Major Information Technology Projects
## Department of Budget and Management
## Enterprise Budget System

| | | | |
|---|---|---|---|
| **Project Status** | Implementation. | **New/Ongoing Project:** | Ongoing. |
| **Project Description:** | Replace the Hands on Budget Office, the Department of Budget and Management's (DBM) legacy budget system. | | |
| **Project Business Goals:** | Goals are to replace the system in danger of failing due to antiquated technology that is difficult to staff and support and to improve efficiency of budget preparation, analysis, and approval. | | |
| **Estimated Total Project Cost:** | $26,136,400 | **Estimated Planning Project Cost:** | $1,750,000 |
| **Project Start Date:** | January 2008. | **Projected Completion Date:** | October 2019. |
| **Schedule Status:** | Project is on schedule to begin implementation at the end of fiscal 2017 when it will prepare the *Fiscal Digest*. In fiscal 2018, the system will be used by DBM to prepare the budget and transfer data to the legislature. Other State agencies will begin using the system in fiscal 2019. | | |
| **Cost Status:** | The bid for the commercial off-the-shelf package was considerably lower than anticipated. No additional appropriations are needed, which reduces total costs by at least $9.9 million. | | |
| **Scope Status:** | No change. | | |
| **Project Management Oversight Status:** | Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured. | | |
| **Identifiable Risks:** | Interdependencies with other projects are a high risk since the project will need to interface with personnel and financial systems, which are being replaced. There are concerns about resource availability, since DBM staff may be occupied at certain times of the budget cycle. Since this is replacing a legacy system, users will need to adapt to a new system, which has proven difficult with other systems, such as the Statewide Personnel System. | | |
| **Additional Comments:** | Begin typing here. | | |

| **Fiscal Year Funding ($ in Thousands)** | **Prior Years** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **FY 2022** | **Balance to Complete** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Personnel Services | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Professional and Outside Services | 26,136.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 26,136.4 |
| Other Expenditures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Funding** | **$26,136.4** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$26,136.4** |

## Appendix 3

# Major Information Technology Projects

### Department of Budget and Management

### Central Collection Unit Systems Modernization

| | | | |
|---|---|---|---|
| **Project Status** | Implementation. | **New/Ongoing Project:** | Ongoing. |
| **Project Description:** | Replace legacy Columbia Ultimate Business System, which is the system used to support the Central Collection Unit's (CCU) activities. The project's scope has been expanded to include comprehensive review processes and systems. The first part of the process involves the core debt collection software. The second part integrates the core system with other systems, such as document management, interactive voice response, payment processing, and other systems. | | |
| **Project Business Goals:** | Provide direct support for collection activities to maximize debt collections. CCU expects to achieve the following quantifiable goals one year after implementation: a 15% to 20% increase in net profits on debt accounts; a 15% to 20% increase of debt accounts collected; and a 5% to 10% decrease in the cost of printing and mailing. | | |
| **Estimated Total Project Cost:** | $19,096,973 | **Estimated Planning Project Cost:** | $8,578,250 |
| **Project Start Date:** | August 2008. | **Projected Completion Date:** | August 2017. |
| **Schedule Status:** | Operations are scheduled to begin in October 2017. The fiscal 2018 budget provides additional short-term funding for training staff. | | |
| **Cost Status:** | Costs increased $1.6 million primarily to support an externally hosted Voice over Internet Protocol telephone system. | | |
| **Scope Status:** | The scope of the project has increased to include an externally hosted Voice over Internet Protocol telephone system. | | |
| **Project Management Oversight Status:** | Because the Department of Information Technology is the implementing and oversight agency, the project poses some unique challenges. To address this, project managers have been procured. | | |
| **Additional Comments:** | None. | | |

| **Fiscal Year Funding ($ in Thousands)** | **Prior Years** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **FY 2022** | **Balance to Complete** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Personnel Services | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Professional and Outside Services | 17,491.0 | 1,606.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Expenditures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Funding** | **$17,491.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** |

**Appendix 4**
**Object/Fund Difference Report**
**Department of Budget and Management – Secretary**

| Object/Fund | FY 16 Actual | FY 17 Working Appropriation | FY 18 Allowance | FY 17 - FY 18 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 198.80 | 194.60 | 194.60 | 0.00 | 0% |
| 02 Contractual | 9.90 | 9.00 | 36.00 | 27.00 | 300.0% |
| **Total Positions** | **208.70** | **203.60** | **230.60** | **27.00** | **13.3%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 16,897,781 | $ 18,571,815 | $ 18,662,160 | $ 90,345 | 0.5% |
| 02 Technical and Spec. Fees | 209,179 | 300,318 | 1,162,688 | 862,370 | 287.2% |
| 03 Communication | 1,410,209 | 1,129,480 | 1,369,367 | 239,887 | 21.2% |
| 04 Travel | 32,381 | 44,548 | 47,500 | 2,952 | 6.6% |
| 07 Motor Vehicles | 5,391 | 30,020 | 11,523 | -18,497 | -61.6% |
| 08 Contractual Services | 3,268,370 | 3,625,641 | 3,974,270 | 348,629 | 9.6% |
| 09 Supplies and Materials | 120,446 | 132,500 | 130,000 | -2,500 | -1.9% |
| 10 Equipment – Replacement | 180,005 | 75,700 | 119,482 | 43,782 | 57.8% |
| 13 Fixed Charges | 497,027 | 521,387 | 549,955 | 28,568 | 5.5% |
| **Total Objects** | **$ 22,620,789** | **$ 24,431,409** | **$ 26,026,945** | **$ 1,595,536** | **6.5%** |
| **Funds** | | | | | |
| 01 General Fund | $ 8,818,724 | $ 10,056,248 | $ 9,774,647 | -$ 281,601 | -2.8% |
| 03 Special Fund | 13,576,983 | 14,142,977 | 16,014,892 | 1,871,915 | 13.2% |
| 09 Reimbursable Fund | 225,082 | 232,184 | 237,406 | 5,222 | 2.2% |
| **Total Funds** | **$ 22,620,789** | **$ 24,431,409** | **$ 26,026,945** | **$ 1,595,536** | **6.5%** |

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 5**
**Fiscal Summary**
**Department of Budget and Management – Secretary**

| Program/Unit | FY 16 Actual | FY 17 Wrk Approp | FY 18 Allowance | Change | FY 17 - FY 18 % Change |
|---|---|---|---|---|---|
| 01 Office of the Secretary | $ 18,758,475 | $ 20,235,110 | $ 21,778,056 | $ 1,542,946 | 7.6% |
| 05 Office of Budget Analysis | 2,741,516 | 2,996,746 | 2,924,961 | -71,785 | -2.4% |
| 06 Office of Capital Budgeting | 1,120,798 | 1,199,553 | 1,323,928 | 124,375 | 10.4% |
| **Total Expenditures** | **$ 22,620,789** | **$ 24,431,409** | **$ 26,026,945** | **$ 1,595,536** | **6.5%** |
| | | | | | |
| General Fund | $ 8,818,724 | $ 10,056,248 | $ 9,774,647 | -$ 281,601 | -2.8% |
| Special Fund | 13,576,983 | 14,142,977 | 16,014,892 | 1,871,915 | 13.2% |
| **Total Appropriations** | **$ 22,395,707** | **$ 24,199,225** | **$ 25,789,539** | **$ 1,590,314** | **6.6%** |
| | | | | | |
| Reimbursable Fund | $ 225,082 | $ 232,184 | $ 237,406 | $ 5,222 | 2.2% |
| **Total Funds** | **$ 22,620,789** | **$ 24,431,409** | **$ 26,026,945** | **$ 1,595,536** | **6.5%** |

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

## Appendix 6
# Maryland Transportation Authority Toll Fine Process

| Action | Time | Amount |
|---|---|---|
| A driver enters toll without paying and images of front and rear of vehicle are captured. The owner of the vehicle is the identified. | It generally takes 30 to 60 days to identify the owner. | Not yet assessed. |
| When the owner is identified, a "notice of toll due" is mailed. | The owner has 45 days to pay the toll. | The toll rate is 50% more than the cash or base rate to cover administrative costs. The minimum toll is $1, and the maximum toll is $15. |
| If the owner does not pay in the allotted time, a citation with a civil penalty is issued. The owner can pay or contest in the District Court. | The owner has 30 days to pay or contest in the District Court. | $50 civil penalty. |
| If the owner does not pay or is found guilty in the District Court, a "past due notice" is issued. | The owner has 15 days to pay the "past due notice." | No additional fees are assessed with a "past due notice." |
| If the owner does not pay the "past due notice," a "final notice" is issued. | The owner has 15 days to pay the "final notice." | No additional fees are assessed with a "past due notice." |
| If the owner does not pay the "final notice," it is referred to the Central Collection Unit. | n/a. | The Central Collection Unit adds a 17% collection fee to the fines. |