

**N00A01**  
**Administration**  
**Department of Human Resources**

***Operating Budget Data***

(\$ in Thousands)

|                                      | <b>FY 02<br/>Actual</b> | <b>FY 03<br/>Working</b> | <b>FY 04<br/>Allowance</b> | <b>FY 03 - 04<br/>Change</b> | <b>FY 03 - 04<br/>% Change</b> |
|--------------------------------------|-------------------------|--------------------------|----------------------------|------------------------------|--------------------------------|
| General Funds                        | \$77,306                | \$61,384                 | \$65,413                   | \$4,029                      | 6.6%                           |
| FY 2003 Cost Containment             | 0                       | -6,600                   | 0                          | 6,600                        |                                |
| Contingent & Back of Bill Reductions | 0                       | -38                      | -248                       | -210                         |                                |
| <b>Adjusted General Funds</b>        | <b>\$77,306</b>         | <b>\$54,746</b>          | <b>\$65,166</b>            | <b>\$10,420</b>              | <b>19.0%</b>                   |
| Special Funds                        | \$4,697                 | \$4,131                  | \$3,168                    | -\$963                       | -23.3%                         |
| Contingent & Back of Bill Reductions | 0                       | -1                       | -9                         | -7                           |                                |
| <b>Adjusted Special Funds</b>        | <b>\$4,697</b>          | <b>\$4,130</b>           | <b>\$3,160</b>             | <b>-\$970</b>                | <b>-23.5%</b>                  |
| Federal Funds                        | \$60,496                | \$69,272                 | \$62,748                   | -\$6,524                     | -9.4%                          |
| Contingent & Back of Bill Reductions | 0                       | -25                      | -169                       | -144                         |                                |
| <b>Adjusted Federal Funds</b>        | <b>\$60,496</b>         | <b>\$69,247</b>          | <b>\$62,578</b>            | <b>-\$6,668</b>              | <b>-9.6%</b>                   |
| <b>Adjusted Grand Total</b>          | <b>\$142,500</b>        | <b>\$128,123</b>         | <b>\$130,904</b>           | <b>\$2,781</b>               | <b>2.2%</b>                    |

- The fiscal 2004 allowance increases by approximately \$2.8 million, or 2.2% over the fiscal 2003 working appropriation.

***Personnel Data***

|                        | <b>FY 02<br/>Actual</b> | <b>FY 03<br/>Working</b> | <b>FY 04<br/>Allowance</b> | <b>Change</b> |
|------------------------|-------------------------|--------------------------|----------------------------|---------------|
| Regular Positions      | 1,061.00                | 1,094.50                 | 1,066.50                   | -28.00        |
| Contractual FTEs       | 13.69                   | 7.18                     | 7.18                       | 0.00          |
| <b>Total Personnel</b> | <b>1,074.69</b>         | <b>1,101.68</b>          | <b>1,073.68</b>            | <b>-28.00</b> |

***Vacancy Data: Regular Positions***

|                                 |       |       |
|---------------------------------|-------|-------|
| Budgeted Turnover: FY 04        | 42.66 | 4.00% |
| Positions Vacant as of 12/31/02 | 59.00 | 5.39% |

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

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- The fiscal 2004 allowance abolishes 28.00 positions. These abolitions occur in the Office of the Secretary (1.00), the Division of Budget, Finance, and Personnel (1.00), the Office of Technology for Human Services (5.00), and local department administration (21.00). Of the 21.00 abolitions in the local departments, 10.00 are in the Baltimore City Department of Social Services.
- The vacancy rate of 59.00 or 5.39% listed above includes the 28 positions that are abolished in the fiscal 2004 allowance.

## Analysis in Brief

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### Major Trends

**Department of Human Resources (DHR) Indications of High Performance May Not Be Realistic:** DHR administrative units show high success rates in achieving their Managing for Results (MFR) objectives. However, these indicators do not include key measures of true performance. Some goals have been consistently met over the past several fiscal years, indicating that perhaps the agency should select different measures in order to strive for ongoing quality improvement.

### Issues

**The Maryland Children’s Electronic Social Services Information Exchange (MD CHESSIE) Project to Remain on “Ramped Down” Schedule for Fiscal 2004:** DHR requested over \$22 million in general and federal funds for MD CHESSIE project for fiscal 2004. The Governor’s allowance includes only a total of \$6.6 million in State and federal funds. This level of funding will not allow the project to progress as scheduled. The continuing concern over the ability of DHR to administer this program and the slowdown of project implementation indicate to the Department of Legislative Services (DLS) that the State should reevaluate this program and consider a temporary halt in activity. **For fiscal 2003 and 2004, DLS recommends reducing operating funds for the MD CHESSIE program. These reductions will allow for full funding of the capital lease on all equipment related to MD CHESSIE in order to indicate the State’s intention to resume the project when the issues identified above are resolved. State fund reductions will be taken from the Major Information Technology Development Project Fund budget.**

### Recommended Actions

|  | <u>Funds</u>        |
|--|---------------------|
| 1. Add budget language to limit the number of contractual positions to 148.2.  |                     |
| 2. Reduce funding for MD CHESSIE program.  | \$ 2,036,151        |
| 3. Reduce funding for stipends and tuition.  | 294,405             |
| 4. Delete funding of contractual services for the Commission for Women and other commissions in the Community Services Administration. | 102,244             |
| 5. Reduce funding for student interns.   | 49,838              |
| 6. Reduce funding for travel to reflect actual 2002 expenditures plus inflation.   | 49,201              |
| <b>Total Reductions</b>  | <b>\$ 2,531,839</b> |

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## ***Operating Budget Analysis***

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### **Program Description**

The Department of Human Resources (DHR) administers its programs through a State-supervised and locally administered system. DHR's State Administration provides overall departmental direction. State Administration consists of three major units: the Office of the Secretary, the Office of Technology for Human Services (OTHS), and the Operations Office. Local departments of social services are situated in each county and Baltimore City. The Secretary of Human Resources and local government officials jointly appoint local directors. Administrative duties of the 24 local departments are combined into a local general administration unit for budgetary purposes.

#### **Office of the Secretary**

The Office of the Secretary provides overall direction and coordination for DHR programs and activities. Key goals of the direct Office of the Secretary include resolving critical agency-wide issues and increasing the organizational capacity of the agency to achieve its goals. The Office of the Secretary also includes the independent Citizen's Review Board for Children (CRBC) and the Governor's Commission for Women. The CRBC reviews the cases of children who have been in foster care for at least six months and reports to the juvenile courts on the status of efforts to secure permanent homes for these children. A key goal is to ensure timely, periodic, and high quality case reviews for the children over which it has jurisdiction. The Commission for Women serves as a statewide resource to promote social, political, and economic equality for women and girls.

#### **Operations Office**

The Operations Office consists of the Division of Administrative Services and the Division of Budget, Finance, and Personnel (DBFP). The Division of Administrative Services manages DHR facilities; enforces parking; oversees DHR's vehicles, mailroom warehouse operations, print shop, and inventory; and manages DHR's records. This division operates to ensure that all DHR employees operate in a professional and safe environment to help achieve maximum productivity. The DBFP provides fiscal and personnel support to other units in the department. The division lists securing, allocating, expending, and reporting fiscal resources accurately and in a timely fashion as a key goal.

#### **Office of Technology for Human Services**

OTHS develops, designs, implements, and operates automated systems to support departmental activities. The office is responsible for computer applications, systems, equipment, support, and maintenance as well as telephone systems and other communications equipment. OTHS oversees the

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development, operations, and maintenance of core DHR systems such as the DHR Information System (DHRIS) and Electronic Benefits Transfer System (EBTS) as well as major information and technology development projects in the department. For fiscal 2003 and 2004, these projects include the Maryland Children’s Electronic Social Services Information Exchange (MD CHESSIE), the Child Support Enforcement System (CSES), the Child Care Automated Management Information System (CCAMIS II) and the new Home Energy Assistance Tracking System (HEATS) for administration of the Maryland Energy Assistance Program (MEAP) and the Electric Universal Service Program (EUSP). This office operates to ensure production, support, maintenance, and enhancement of DHR’s electronic information systems.

**Local General Administration**

Local general administration consists of the administrative staff and related expenses at the 24 local departments of social services. Administrative staff include personnel responsible for local management, maintenance, finance, statistics, and general record keeping.

**Performance Analysis: Managing for Results**

**Exhibit 1** presents several performance indicators, intended to capture success at achieving the various goals and functions described above.

**Exhibit 1**

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**Program Measurement Data  
Administration  
Fiscal 2001 through 2004**

|  | <b><u>FY 01</u></b><br><b><u>Actual</u></b> | <b><u>FY 02</u></b><br><b><u>Actual</u></b> | <b><u>FY 03</u></b><br><b><u>Est.</u></b> | <b><u>FY 04</u></b><br><b><u>Est.</u></b> | <b><u>FY 01-04</u></b><br><b><u>Net Chg.</u></b> |
|--|---|---|---|---|--|
| <b><i>Office of the Secretary:</i></b>   |   |   |   |   |  |
| % satisfactory DLS audit reports on DHR programs   | 100%  | 100%  | 100%                                      | 100%                                      | 0%   |
| % of children in out-of-home placements for whom CRBC meets federal administrative review requirements | 82%   | 82%   | 90%                                       | 90%                                       | 8%   |
| <b><i>Operations Office:</i></b>   |   |   |   |   |  |
| % of federal funds submitted for approval that are authorized  | 100%  | 100%  | 100%                                      | 100%                                      | 0%   |

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|   | <u>FY 01</u><br><u>Actual</u> | <u>FY 02</u><br><u>Actual</u> | <u>FY 03</u><br><u>Est.</u> | <u>FY 04</u><br><u>Est.</u> | <u>FY 01-04</u><br><u>Ann. Chg.</u> |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------------------|
| <b>OTHS:</b>  |                               |                               |                             |                             |                                     |
| % of scheduled time that all systems are available        | 99%                           | 99%                           | 99%                         | 99%                         | 0%                                  |
| % of key milestones met within 30 days of target deadline | 100%                          | 100%                          | 100%                        | 100%                        | 0%                                  |

DLS = Department of Legislative Services  
DHR = Department of Human Resources  
CRBC = Citizen’s Review Board for Children

Source: Department of Human Resources

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### **DHR’s Administrative Units Indicating High Performance**

DHR’s administrative units have consistently reported high performance since fiscal 2001. However, as noted in last year’s analysis, the measures listed below may not be reflective of true performance.

**Office of the Secretary:** One of the Office of the Secretary’s goals is to resolve critical agency-wide issues. A measure put forward to indicate success in this area is the percent of “satisfactory” Department of Legislative Services (DLS) audit reports, in which DHR has achieved 100% success. Previously the department stressed the number of repeat audit findings. DHR indicates that the Office of the Inspector General suggested the new measure as sufficient to measure success. **However, given that DHR has shown consistent ability to meet this goal, the department should perhaps consider another measure in order to strive for continuous improvement.**

The CRBC submitted a thoughtful and honest assessment of its Managing for Results achievements. Citing staff shortages as a barrier to peak performance, the board outlined several specific improvement strategies it is pursuing and benchmarks already attained. If the board continues to pursue these initiatives, the 8% performance increase should be attainable even without additional staff resources.

**Operations Office:** Though the Operations Office also indicates high performance, some of its performance measures may not be reflective of true results. The DBFP indicates that one of its goals is to achieve no less than 95% achievement of federal fund authorization. However, as noted in last year’s analysis, an audit for fiscal 1996 through 1999 found that the office was not recovering federal funds accurately or in a timely fashion. Also, the fiscal 2002 closeout audit identified more than \$34 million in inaccurate federal fund claims in DHR. **Considering these problems the office should include some measure of improvement in this area in its performance analysis.**

**OTHS:** OTHS has demonstrated consistent ability to meet its service goals of having systems available 95% of the time and meeting key milestones within 30 days of the original target. However, as in the Office of the Secretary, perhaps **OTHS should consider developing additional measures to strive for ongoing quality improvement.**

## Fiscal 2003 Actions

### Impact of Cost Containment

The cost containment measures approved by the Board of Public Works in January 2003 reduced general funds for DHR's administrative units by \$6.6 million. Reductions included a 75% decrease in equipment and vehicle purchases; reduced use of contractual services; lowered stipends and grant payments; reduced contractual services; less overtime, temporary staffing, and use of consultants; and reduced expenditures on office supplies, subscriptions, telecommunications and travel. DHR has indicated that these reductions will not have a substantial impact on service delivery. Fiscal 2003 cost containment also reflects the reversion of \$64,000 in appropriations to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003.

### Governor's Proposed Budget

As **Exhibit 2** demonstrates, the fiscal 2004 allowance grows by approximately \$2.8 million, or 2.2% over the fiscal 2003 working appropriation.

### Exhibit 2

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| <b>Governor's Proposed Budget<br/>Administration<br/>(\$ in Thousands)</b> |                  |                  |                  |                   |                   |
|--|------------------|------------------|------------------|-------------------|-------------------|
|  | <b>FY 02</b>     | <b>FY 03</b>     | <b>FY 04</b>     | <b>FY 03 - 04</b> | <b>FY 03 - 04</b> |
|  | <b>Actual</b>    | <b>Working</b>   | <b>Allowance</b> | <b>Change</b>     | <b>% Change</b>   |
| General Funds  | \$77,306         | \$61,384         | \$65,413         | \$4,029           | 6.6%              |
| FY 2003 Cost Containment   | 0                | -6,600           | 0                | 6,600             |                   |
| Contingent & Back of Bill Reductions                                       | 0                | -38              | -248             | -210              |                   |
| <b>Adjusted General Funds</b>  | <b>\$77,306</b>  | <b>\$54,746</b>  | <b>\$65,166</b>  | <b>\$10,420</b>   | <b>19.0%</b>      |
| Special Funds  | \$4,697          | \$4,131          | \$3,168          | -\$963            | -23.3%            |
| Contingent & Back of Bill Reductions                                       | 0                | -1               | -9               | -7                |                   |
| <b>Adjusted Special Funds</b>  | <b>\$4,697</b>   | <b>\$4,130</b>   | <b>\$3,160</b>   | <b>-\$970</b>     | <b>-23.5%</b>     |
| Federal Funds  | \$60,496         | \$69,272         | \$62,748         | -\$6,524          | -9.4%             |
| Contingent & Back of Bill Reductions                                       | 0                | -25              | -169             | -144              |                   |
| <b>Adjusted Federal Funds</b>  | <b>\$60,496</b>  | <b>\$69,247</b>  | <b>\$62,578</b>  | <b>-\$6,668</b>   | <b>-9.6%</b>      |
| <b>Adjusted Grand Total</b>  | <b>\$142,500</b> | <b>\$128,123</b> | <b>\$130,904</b> | <b>\$2,781</b>    | <b>2.2%</b>       |

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**Where It Goes:**

**Personnel Expenses**

|  |           |
|--|-----------|
| Abolished positions.....                   | - \$1,069 |
| Employee and retiree health insurance..... | 977       |
| Deferred compensation matching funds ..... | -355      |
| Turnover and other salary adjustments..... | 2,148     |
| Other fringe benefit adjustments.....      | -259      |

**Major Information Technology Development and Ongoing Systems Support**

|  |        |
|--|--------|
| Revision of contract and schedule for MD CHESSIE.....  | -4,026 |
| Continued development and implementation of child care provider management information system, CCAMIS II and child support enforcement system, CSES..... | 2,137  |
| Development of HEATS system for administration of EUSP and MEAP .....  | 444    |
| Reductions in contract costs for technical support, monitoring and maintenance on DHRIS, EBTS, and various other client server applications.....         | -2,093 |
| Increased contract cost for IBM/GS data processing .....   | 1,136  |

**Headquarters and Local Operational Expenses**

|  |       |
|--|-------|
| Purchase of care funds in local departments.....   | 534   |
| Communications, temporary staff, fuel and utilities, travel, supplies.....                                   | 1,577 |
| Increased fixed charges, restoration of fiscal 2003 funding for local department expansion, renovation ..... | 2,180 |
| Other operating budget adjustments .....   | -550  |

**Total** **\$2,781**

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

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**Impact of Cost Containment**

The fiscal 2004 allowance reflects the elimination of \$355,000 for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003.

## **Major Information and Technology Development**

DHR's fiscal 2004 budget includes several ongoing major information and technology projects.

- ***MD CHESSIE:*** Decreases by \$4.0 million to accurately reflect the availability of State matching funds. The original fiscal 2003 appropriation for this program was roughly \$15 million, half in State funds, half in federal matching funds. However, an across-the-board technology cut in fiscal 2003 reduced the available State matching funds to \$3.0 million, effectively reducing the federal appropriation to \$3.0 million as well, though this reduction was not reflected in the fiscal 2003 working appropriation. The fiscal 2004 allowance reflects the availability of \$3.3 million in State funds budgeted in the Department of Budget and Management (DBM), and therefore includes a federal fund appropriation of \$3.3 million as well. The ongoing development of the MD CHESSIE program will be discussed later in the analysis.
- ***CCAMIS II and CSES:*** Increase by \$2.1 million for upgrade development and implementation for the current child care tracking and purchase of care subsidy program as well as the system to monitor enforcement and collection of child support payments. These programs are both 100% federally funded.
- ***HEATS:*** Increases by \$444,000 to begin implementation and development of a system to administer the EUSP and MEAP. The current system for these programs experienced significant difficulties in fiscal 2001, adversely impacting DHR's ability to effectively and accurately administer benefits. The incumbent program has been improved but is still insufficient to efficiently administer the programs. This project is 55% special funded and 45% federally funded.
- ***Core Department Information Management Systems and Client Server Applications:*** Decreases by \$2.1 million reflecting decreased expenditures on contractor monitoring and support for the DHRIS, EBTS, and various client server applications.
- ***IBM/GS Data Processing Contract:*** Increases by \$1.1 million. DHR outsourced its data processing and network monitoring functions to IBM/GS in 1995, and in fiscal 2002, DHR subsidized the data processing center facility's move from Connecticut to Gaithersburg, Maryland.

## ***Issues***

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### **1. MD CHESSIE Project to Remain on “Ramped Down” Schedule for Fiscal 2004**

DHR requested over \$22 million in general and federal funds for the MD CHESSIE project for fiscal 2004. The Governor’s allowance includes only a total of \$6.6 million, which includes \$300,000 in State funds for independent verification and validation (IV&V). Whether this funding is eligible for federal match or not remains unclear; if this \$300,000 is not eligible for matching funds, the project budget is only \$6.3 million. This level of funding will not allow the project to progress as scheduled. The continuing concern over the ability of DHR to administer this program and the slowdown of project implementation indicate to DLS that the State should reevaluate this program and consider a temporary halt in activity.

#### **Background**

In 1995, the federal Department of Health and Human Services (HHS), Administration on Children and Families (ACF) changed its reporting requirements for various child welfare, foster care and adoption services to determine eligibility for federal funding under Titles IV-B and IV-E of the Social Security Act. The federal government also offered states 50% matching funds to create a State Automated Child Welfare Information System (SACWIS) to comply with these new reporting requirements but did not specifically mandate that states develop such systems.

In response to perceived deficiencies in Maryland’s system for tracking and reporting IV-B and IV-E eligible cases, DHR, Social Services Administration contracted with KPMG Accounting Consultants to plan a SACWIS (later renamed MD CHESSIE) in 1998. As planned, MD CHESSIE will conform to and automate federal reporting requirements, and support local departments of social services in intake management, eligibility determination, case management, resource management, court processing and tracking, and financial management and reporting. The project received federal approval in December of 1999, and Deloitte Consulting (Deloitte) received approval for the development and implementation contract in July 2001.

#### **Fiscal 2003 Issues**

Development and implementation of MD CHESSIE was scheduled to begin in fiscal 2003. The original appropriation for the project was roughly \$15 million to begin baseline implementation of the project. However, due to the tight fiscal condition of the State and an across-the-board cut in technology funding, the project has not yet received any funding. DBM has reserved \$3.3 million (again including \$300,000 for IV&V) for the project in the Major Information Technology Development Project Fund (MITDPF). Though the fiscal 2003 federal fund working appropriation is still listed as \$7.3 million, the project can only spend \$3.3 million of these funds for which it has State matching funds, for a total fiscal 2003 budget of \$6.6 million. DBM, however, has yet to release the funds from the MITDPF.

#### **Independent Audit Findings**

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Based on its concerns about the project management of MD CHESSIE, DBM contracted for an independent audit in the 2002 interim. Robbins-Gioia, LLC completed and submitted this assessment in June 2002. Overall, the report stressed that MD CHESSIE is a sound technical solution, based on a successful prototype (West Virginia's FACTS system), and indicated that project staff is dedicated to the success of the project. However, the audit also identified several issues related to the reduced funding level, the lack of finalized program requirements, and deficient resource, cost, procurement, organizational, and communications management. Many of the findings related to the reduced fiscal 2003 funding and the uncertainty of funding for fiscal 2004. The report concluded that if the State could not guarantee appropriate funding for fiscal 2003 and 2004, the system's functionality should be reviewed. An important concern was the State's potential liability to Deloitte for any additional costs due to the project delay. The report made several recommendations to improve project management and control.

After the independent audit was submitted in June 2002, DHR submitted a budget amendment to DBM requesting release of the funds from the MITDPF. However, as of January 2003, DBM has not submitted the budget amendment to the budget committees for review.

### **Revised Schedule, Contract, and Renewed Federal Approval**

The reduced fiscal 2003 funding necessitated revising the project schedule. DHR negotiated with Deloitte to delay baseline implementation by one year, with proposed completion in July 2004. The revised contract proposal re-scheduled the enhancement period, originally from July 2003 to July 2004, to begin one year later, and changed this phase to an optional contract extension. Deloitte agreed to "ramp down" staffing and activities for the year instead of the planned "ramp up." In the contract revision, DHR assumed that approximately \$22 million would be available to the project for implementation and monitoring in fiscal 2004 to make up for the delayed implementation in fiscal 2003.

Any major contract revisions require federal approval to ensure the continued availability of federal funds. DHR resubmitted the planning document to ACF in February 2002. ACF conditionally approved the contract revisions and \$19.1 million in funding for implementation, development, and training. Federal fund support of the project remains at 50%, or \$9.5 million for this phase. This approval brought total federal authorization on the project to \$33.5 million. However, citing critical deficiencies and inconsistencies in the project plan and budget in the submission, ACF required DHR to submit further revisions. DHR complied, and ACF granted final approval of the revised project plan in September 2002. The revised contract has not yet been submitted to the Board of Public Works due to the lack of funding to support the revised contract.

### **Implications for Total Project Cost**

The impact of the delay on total project cost remains uncertain. Even though the development and implementation contract is based on fixed deliverables, DHR and DBM have expressed differing opinions as to how the delay will affect total contract cost; DHR has stated that contract cost will remain the same, while DBM has expressed that total cost will likely increase. In a letter to project staff in May 2002,

Deloitte indicated that the slowdown would increase implementation costs by roughly \$6.8 million. DHR contends that reducing the enhancement period from two years to one year has offset this increase. DBM does not agree with this assessment.

### **Fiscal 2004 Issues**

The fiscal 2004 allowance includes only \$6.6 million (again including the \$300,000 in State funds for IV&V) in funding for MD CHESSIE, far less than the \$22 million the revised contract and schedule assumed. The impact of this further delay on the project is unknown. MD CHESSIE program staff was unaware that the State's funding commitment would be less than requested until the Governor's budget was publicly released on January 17. MD CHESSIE staff has stated that further slowdown of project implementation will cause loss of momentum and local department confidence in DHR's ability to complete the project. Staff has also indicated that further delay may require manufacturer updates of the system, which are not currently in the project budget. Project staff has not yet been able to confer with the contractor, senior management at DHR or DBM to discuss the possibility of another contract and schedule revision. The likelihood of federal approval of another contract revision is also uncertain.

### **Moving Forward**

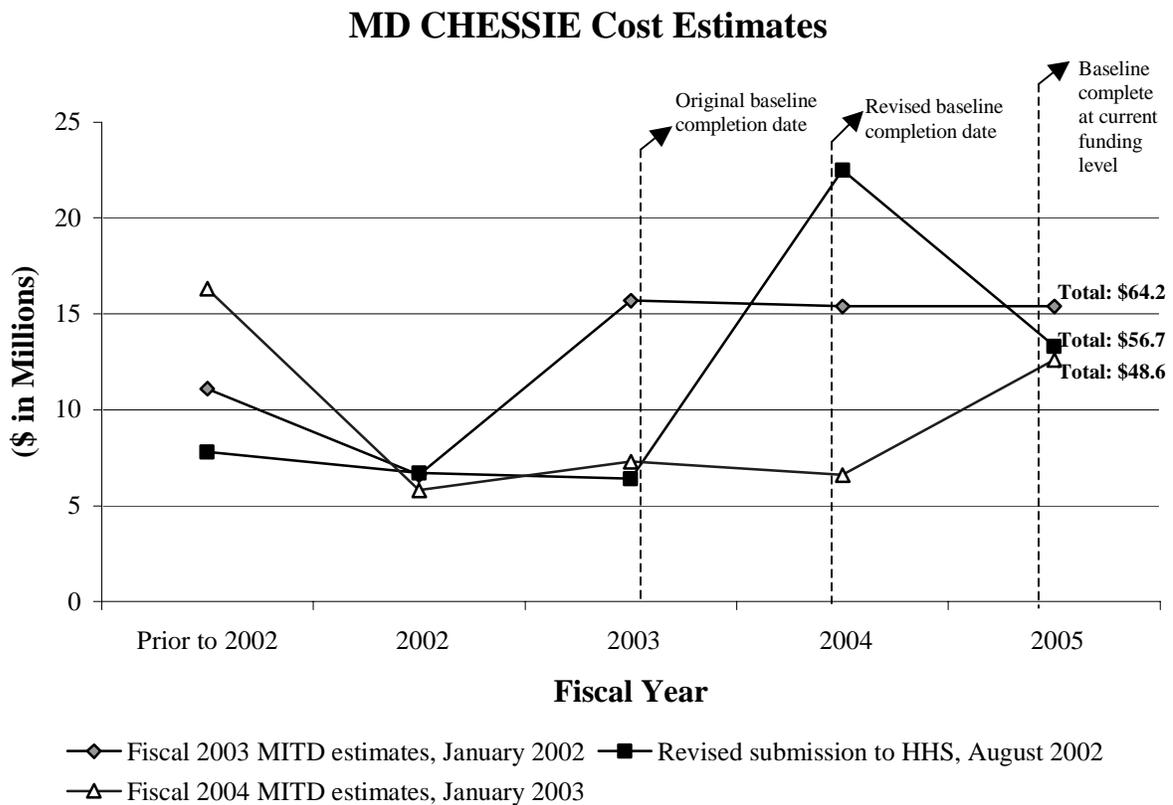
Given the fiscal condition of the State and the less than requested funding commitment, MD CHESSIE will not be able to progress as planned in fiscal 2004. The continued slowdown raises and renews several issues that call into question DHR's ability to effectively manage this project throughout the coming fiscal year.

- ***Project and Contract Management:*** DBM required the fiscal 2003 project assessment based on concerns about project management. The Robbins-Gioia assessment confirmed many of these concerns, citing ineffective mechanisms for resolving program requirements and other issues, ongoing reorganization of program staff and resources, an inability to effectively communicate historical, current and projected program costs, and an inefficient allocation of resources to the monitoring contractor. The federal government's request for additional information and clarification in May 2002 also indicated a lack of confidence in program management and planning mechanisms. DBM's failure to release fiscal 2003 funding provides further evidence of a lack of confidence.
- ***Communication Between MD CHESSIE, DHR, and DBM:*** DHR's renegotiation of the MD CHESSIE contract without the commitment of necessary funds and support from DBM raises serious concerns about the communication between the two agencies. DHR's assumption of a 350% increase in project funding for fiscal 2004 was clearly unrealistic and should have been identified as such before negotiations with the contractor began. The submission of this revision to the federal government without DBM support is also troubling. Furthermore, the program staff's lack of awareness of the Governor's funding commitment until public release of the budget indicates insufficient communication between program staff and central DHR administration.
- ***Conflicting Total Cost Estimates:*** Three separate cost estimates through the development phase have been presented in the past year. The fiscal 2003 Major Information Technology Development (MITD)

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allowance estimated total costs through fiscal 2005 of \$64.2 million. This planning assumed that baseline implementation would be complete in June 2003 and included two years of program enhancements. The revised planning document submitted to HHS in August 2002 reflected costs through fiscal 2005 of \$56.8 million. This estimate assumed baseline implementation would be complete in June 2004, and included one year of optional enhancements. The fiscal 2004 MITD allowance estimates a total cost of \$48.6 million. This estimate assumes that baseline implementation will be complete in June 2005. **Exhibit 3** shows the varying cost estimates by year. The three estimates are inconsistent on how much was spent before fiscal 2002, a quantity that should have been known before any of these estimates were created. These vast fluctuations are a sign of inconsistent planning and an uncertainty over total project cost that must be resolved.

**Exhibit 3**



Source: Department of Budget and Management; Department of Human Resources

- **Impact of Fiscal 2004 Funding:** DHR’s revised schedule for fiscal 2004 includes full baseline implementation of the MD CHESSIE program. However, without the requested \$22 million in

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funding, completion of the system is unlikely. DHR has not had an opportunity to confer with the contractor to determine what objectives can be accomplished with the available funding. The contractor has expressed reluctance to continue the project beyond 2005. This issue must be resolved with the contractor before DHR moves forward with implementation of the system.

The proper and timely development of the MD CHESSIE system is critical to the State's ability to ensure the well-being of the vulnerable children under its care. Recent instances of "missing" foster children in other states only drive home the importance of having a viable system in place before similar tragedies arise in Maryland.

Given the importance of the project's success, DLS cannot recommend moving forward with this project until the issues identified above can be resolved to the satisfaction of DHR, DBM, the federal government and the contractor. DHR should negotiate with HHS to temporarily halt the project until a revised and realistic project plan can be finalized. DHR should consult with DBM to revisit the importance of the project and its priority in the State's overall major information technology plan. Uncertainty over current and future funding levels has created tension with the contractor in fiscal 2003. In order to restore good will and good faith, DHR and DBM should work together to develop a project plan that accurately reflects both State resources and project needs.

**DLS recommends reducing operating funds for the MD CHESSIE program in fiscal 2003 and 2004. In fiscal 2003, DLS recommends reducing special funds in the MITDPF by \$2.036 million. In fiscal 2004, DLS recommends reducing special funds in the MITDPF by \$2.036 million and federal funds in the DHR Administration budget by \$2.036 million. These reductions will allow for full funding of the capital lease on all equipment related to MD CHESSIE in order to indicate the State's intention to resume the project when the issues identified above are resolved. Reductions in State funds will be taken from the MITDPF budget, and federal funds will be reduced in the DHR Administration budget.**

## ***Recommended Actions***

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1. Add the following language:

Provided that the Department of Human Resources will be restricted to 148.2 contractual full-time equivalent positions at any one time consistent with existing funds in fiscal 2004. The department shall provide the budget committees with a quarterly report for review on the number and purpose of each contractual position above the maximum including the source of funds. The level of 148.2 contractual full-time equivalents may only be exceeded if the Department of Human Resources notifies the budget committees of the need for additional contractual personnel and the committees have 45 days to review and comment upon the request.

The level of 148.2 contractual full-time positions is exclusive of those fully reimbursed from non-State funding (federal, local, foundation, endowment, etc.).

The Department of Human Resources shall provide the committees a report for their review on these excluded positions on a quarterly basis.

**Explanation:** A ceiling on the recommended number of contractual personnel which the Department of Human Resources (DHR) can employ at any one time is established. The ceiling caps the number of contractual positions included in the fiscal 2004 allowance. Contractual positions defined as “fully reimbursed” are time-limited, dedicated purpose positions funded to enhance services to DHR customers and should be considered outside those contractual positions provided in DHR’s budget appropriation.

| <b>Information Request</b>   | <b>Author</b> | <b>Due Date</b>   |
|--|---------------|---|
| Report providing: (1) the number, purpose, and fund source for each contractual position created above the maximum; and (2) information on excluded positions. | DHR           | October 1, 2003<br>January 1, 2004<br>April 1, 2004<br>July 1, 2004 |

*N00A01 - DHR - Administration*

|   | <u>Amount<br/>Reduction</u> | <u>Position<br/>Reduction</u> |
|---|-----------------------------|-------------------------------|
| 2. Reduce funding for MD CHESSIE program. The Department of Legislative Services has recommended halting progress on this project until several budget and management issues can be resolved. The reduction in funding still allows for payment of the capital lease on all MD CHESSIE equipment.   | \$ 2,036,151                | FF                            |
| 3. Reduce funding for stipends and tuition to reflect actual 2002 expenditures. The reduction allows for a 2% inflationary increase in fiscal 2003 and 2004. This reduction should be distributed throughout the following programs: N00A0101, N00A0102, N00A0103, N00E0101, N00E0102, N00F0002, N00F0004, and N00G0005.  | 184,465                     | GF                            |
|   | 109,940                     | FF                            |
| 4. Delete funding of contractual services for the Commission for Women and other commissions in the Community Services Administration. The commissions provide an important service to the State. However, given the budgetary condition of the State, funding must focus on the core responsibilities of the agency: to foster independence and safety for individuals and families. | 102,244                     | GF                            |
| 5. Reduce funding for student interns. The reduction still allows \$100,000 for intern funding. Given the tight fiscal condition of the State, the Department should be limited in its use of interns.  | 29,903                      | GF                            |
|   | 19,935                      | FF                            |
| 6. Reduce funding for travel to reflect actual 2002 expenditures plus 2% inflation for fiscal 2003 and 2004. The cut should be distributed throughout the following programs: N00A0101, N00A0102, N00A0103, N00E0102, N00F0002, N00F0004, and N00G0005.   | 29,521                      | GF                            |
|   | 19,680                      | FF                            |
| <b>Total Reductions</b>   | <b>\$ 2,531,839</b>         |                               |
| <b>Total General Fund Reductions</b>  | <b>\$ 346,133</b>           |                               |
| <b>Total Federal Fund Reductions</b>  | <b>\$ 2,185,706</b>         |                               |

***Current and Prior Year Budgets***

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**Current and Prior Year Budgets  
Administration  
(\$ in Thousands)**

|                                  | <u>General<br/>Fund</u> | <u>Special<br/>Fund</u> | <u>Federal<br/>Fund</u> | <u>Reimb.<br/>Fund</u> | <u>Total</u>     |
|----------------------------------|-------------------------|-------------------------|-------------------------|------------------------|------------------|
| <b>Fiscal 2002</b>               |                         |                         |                         |                        |                  |
| Legislative<br>Appropriation     | \$65,591                | \$3,305                 | \$61,030                | \$0                    | \$129,926        |
| Deficiency<br>Appropriation      | 600                     | 500                     | 0                       | 0                      | 1,100            |
| Budget<br>Amendments             | 13,132                  | 1,016                   | 10,494                  | 0                      | 24,642           |
| Reversions and<br>Cancellations  | -2,017                  | -124                    | -11,028                 | 0                      | -13,169          |
| <b>Actual<br/>Expenditures</b>   | <b>\$77,306</b>         | <b>\$4,697</b>          | <b>\$60,496</b>         | <b>\$ 0</b>            | <b>\$142,499</b> |
| <b>Fiscal 2003</b>               |                         |                         |                         |                        |                  |
| Legislative<br>Appropriation     | \$60,883                | \$4,090                 | \$68,612                | \$0                    | \$133,585        |
| Budget<br>Amendments             | -6,137                  | 40                      | 635                     | 0                      | -5,462           |
| <b>Working<br/>Appropriation</b> | <b>\$54,746</b>         | <b>\$4,130</b>          | <b>\$69,247</b>         | <b>\$ 0</b>            | <b>\$128,123</b> |

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

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## **Fiscal 2002**

The fiscal 2002 appropriation increased by a net of \$12.6 million. Cost containment reduced the general fund appropriation by \$2.017 million. \$15.2 million in the total fund increase represents the transfer of general (\$3.3 million), special (\$2.1 million) and federal (\$9.5 million) funding for major information and technology projects into the OTHS budget from other divisions, as required by budget bill language. Fiscal 2002 closeout transferred \$9.4 million from other divisions into the administration budget. Major changes included the addition of \$1.2 million in general funds for salaries in the Office of the Secretary, the addition of \$2.3 million in general funds to OTHS for less than anticipated federal fund attainment, the addition of \$1.4 million in general and federal funds to the Office of Administrative Services for various local department moves and renovations, and the transfer of \$1.1 million in OTHS special funds for development of a new computer system for the EUSP and MEAP programs to the Office of Home Energy Programs to be used in direct benefit payments.

## **Fiscal 2003**

Cost containment reduced the fiscal 2003 working appropriation by \$6.6 million. Reductions included a 75% decrease in equipment and vehicle purchases; reduced use of contractual services; lowered stipends and grant payments; reduced contractual services; less overtime, temporary staffing, and use of consultants; and reduced expenditures on office supplies, subscriptions, telecommunications, and travel. A budget amendment transferred \$500,000 from the Community Services Administration to the Office of the Secretary to reflect the relocation of the Commission on Women. Federal and special fund increases reflect the transfer of funds for the Child Support Enforcement System from the Child Support Enforcement Administration to the Major Information and Technology Development Budget.

N00A01 – DHR - Administration

Appendix 2

| Object/Fund            |                           | Object/Fund Difference Report<br>DHR - Administration |                                   |                       |                                | Percent<br>Change |
|------------------------|---------------------------|---|-----------------------------------|-----------------------|--------------------------------|-------------------|
|                        |                           | FY 02<br>Actual                                       | FY 03<br>Working<br>Appropriation | FY 04<br>Allowance    | FY 03 – FY 04<br>Amount Change |                   |
| <b>Positions</b>       |                           |   |                                   |                       |                                |                   |
| 01                     | Regular                   | 1061.00   | 1094.50                           | 1066.50               | -28.00                         | -2.6%             |
| 02                     | Contractual               | 13.69   | 7.18                              | 7.18                  | 0                              | 0%                |
| <b>Total Positions</b> |                           | <b>1074.69</b>  | <b>1101.68</b>                    | <b>1073.68</b>        | <b>-28.00</b>                  | <b>-2.5%</b>      |
| <b>Objects</b>         |                           |   |                                   |                       |                                |                   |
| 01                     | Salaries and Wages        | \$ 58,527,457   | \$ 55,748,870                     | \$ 57,551,283         | \$ 1,802,413                   | 3.2%              |
| 02                     | Technical & Spec Fees     | 1,661,029   | 1,035,306                         | 992,400               | -42,906                        | -4.1%             |
| 03                     | Communication             | 10,057,447  | 8,624,147                         | 8,047,395             | -576,752                       | -6.7%             |
| 04                     | Travel                    | 729,423   | 752,868                           | 808,328               | 55,460                         | 7.4%              |
| 06                     | Fuel & Utilities          | 290,828   | 255,648                           | 325,127               | 69,479                         | 27.2%             |
| 07                     | Motor Vehicles            | 726,922   | 995,357                           | 736,293               | -259,064                       | -26.0%            |
| 08                     | Contractual Services      | 55,358,758  | 50,290,168                        | 46,668,147            | -3,622,021                     | -7.2%             |
| 09                     | Supplies & Materials      | 1,981,346   | 2,333,125                         | 2,147,568             | -185,557                       | -8.0%             |
| 10                     | Equip - Replacement       | 424,408   | 406,178                           | 168,851               | -237,327                       | -58.4%            |
| 11                     | Equip - Additional        | 5,644,854   | 3,547,558                         | 1,350,013             | -2,197,545                     | -61.9%            |
| 12                     | Grants, Subsidies, Contr. | 705,940   | 2,975,471                         | 2,580,882             | -394,589                       | -13.3%            |
| 13                     | Fixed Charges             | 6,391,513   | 7,821,650                         | 9,952,793             | 2,131,143                      | 27.2%             |
| <b>Total Objects</b>   |                           | <b>\$ 142,499,925</b>                                 | <b>\$ 134,786,346</b>             | <b>\$ 131,329,080</b> | <b>-\$ 3,457,266</b>           | <b>-2.6%</b>      |
| <b>Funds</b>           |                           |   |                                   |                       |                                |                   |
| 01                     | General Fund              | \$ 77,306,343   | \$ 61,384,073                     | \$ 65,413,382         | \$ 4,029,309                   | 6.6%              |
| 03                     | Special Fund              | 4,697,119   | 4,130,714                         | 3,168,082             | -962,632                       | -23.3%            |
| 05                     | Federal Fund              | 60,496,463  | 69,271,559                        | 62,747,616            | -6,523,943                     | -9.4%             |
| <b>Total Funds</b>     |                           | <b>\$ 142,499,925</b>                                 | <b>\$ 134,786,346</b>             | <b>\$ 131,329,080</b> | <b>-\$ 3,457,266</b>           | <b>-2.6%</b>      |

Notes:

1. Full-time and contractual positions and salaries are reflected for operating budget programs only.
2. Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

Fiscal Summary  
DHR - Administration

| <u>Unit/Program</u>                          | FY 02                 |  | FY 03                            |  | FY 03                        |  | FY 02 - FY 03   |  | FY 04                 |  | FY 03 - FY 04   |  |
|--|-----------------------|--|----------------------------------|--|------------------------------|--|-----------------|--|-----------------------|--|-----------------|--|
|  | <u>Actual</u>         |  | <u>Legislative Appropriation</u> |  | <u>Working Appropriation</u> |  | <u>% Change</u> |  | <u>Allowance</u>      |  | <u>% Change</u> |  |
| 01 Office of the Secretary                   | \$ 11,028,273         |  | \$ 11,849,769                    |  | \$ 11,849,769                |  | 7.4%            |  | \$ 11,664,129         |  | -1.6%           |  |
| 02 Citizen's Review Board for Children       | 1,468,671             |  | 1,439,289                        |  | 1,439,289                    |  | -2.0%           |  | 1,534,091             |  | 6.6%            |  |
| 03 Maryland Commission for Women             | 0                     |  | 0                                |  | 500,589                      |  |                 |  | 447,993               |  | -10.5%          |  |
| 01 Division of Budget, Finance and Personnel | 12,800,440            |  | 13,299,047                       |  | 13,299,047                   |  | 3.9%            |  | 13,119,460            |  | -1.4%           |  |
| 02 Division of Administrative Services       | 7,455,698             |  | 5,056,573                        |  | 5,056,573                    |  | -32.2%          |  | 4,621,690             |  | -8.6%           |  |
| 02 Major Information Technology Development  | 9,287,582             |  | 11,514,696                       |  | 11,207,651                   |  | 20.7%           |  | 9,763,225             |  | -12.9%          |  |
| 04 General Administration                    | 58,151,624            |  | 48,473,749                       |  | 49,481,894                   |  | -14.9%          |  | 46,794,845            |  | -5.4%           |  |
| 05 General Administration                    | 42,307,637            |  | 41,951,534                       |  | 41,951,534                   |  | -0.8%           |  | 43,383,647            |  | 3.4%            |  |
| <b>Total Expenditures</b>                    | <b>\$ 142,499,925</b> |  | <b>\$ 133,584,657</b>            |  | <b>\$ 134,786,346</b>        |  | <b>-5.4%</b>    |  | <b>\$ 131,329,080</b> |  | <b>-2.6%</b>    |  |
| General Fund                                 | \$ 77,306,343         |  | \$ 60,883,484                    |  | \$ 61,384,073                |  | -20.6%          |  | \$ 65,413,382         |  | 6.6%            |  |
| Special Fund                                 | 4,697,119             |  | 4,089,614                        |  | 4,130,714                    |  | -12.1%          |  | 3,168,082             |  | -23.3%          |  |
| Federal Fund                                 | 60,496,463            |  | 68,611,559                       |  | 69,271,559                   |  | 14.5%           |  | 62,747,616            |  | -9.4%           |  |
| <b>Total Appropriations</b>                  | <b>\$ 142,499,925</b> |  | <b>\$ 133,584,657</b>            |  | <b>\$ 134,786,346</b>        |  | <b>-5.4%</b>    |  | <b>\$ 131,329,080</b> |  | <b>-2.6%</b>    |  |

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.