

F10A
Office of the Secretary
Department of Budget and Management

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 07-08</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$9,008	\$9,593	\$9,356	-\$237	-2.5%
Special Fund	8,477	9,546	9,780	233	2.4%
Reimbursable Fund	<u>254</u>	<u>283</u>	<u>255</u>	<u>-27</u>	<u>-9.7%</u>
Total Funds	\$17,739	\$19,422	\$19,391	-\$31	-0.2%

- A proposed special fund deficiency appropriation of \$325,000 for the Central Collections Unit (CCU) is to provide funds to implement enhancements to the automated collection system and increased credit card fees.
- The overall decrease of \$30,970, or 0.2%, is largely explained by a general fund decrease of \$237,150 and a special fund increase of \$233,493. If the one-time health insurance savings and the deficiency are taken into consideration, the agency has an overall increase of \$514,691, or 2.7%.

Personnel Data

	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 07-08</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	191.80	201.80	204.80	3.00
Contractual FTEs	<u>12.15</u>	<u>11.90</u>	<u>15.90</u>	<u>4.00</u>
Total Personnel	203.95	213.70	220.70	7.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	7.76	3.79%
Positions Vacant as of 12/31/06	18.00	8.92%

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

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- There are 18.0 full-time equivalent (FTE) positions vacant as of December 31, 2006. Eight of those positions are for the new audit unit established by the Department of Budget and Management (DBM) for fiscal 2007 to ensure compliance with legislative audit recommendations (three employees are in place in this unit to date). Six vacancies are with the special funded CCU, and each of the other four remaining divisions has one vacancy. The turnover rate budgeted by the agency requires that 7.8 FTE positions remain open through fiscal 2008.
- DBM is requesting 3.0 additional FTE regular and 4.0 FTE contractual positions in the allowance. Two of the regular positions (research statistical II and budget analyst IV operating budget) are proposed for implementation of the policy and performance measurement aspects of Child Welfare Accountability Act of 2006; one position will work in the capital program to review and evaluate project cost estimates for the out-years in the capital improvement plan.

Analysis in Brief

Major Trends

Central Collections Unit: CCU's performance remains strong in fiscal 2006; it is expected to maintain strong profit levels in fiscal 2007 and 2008. **DBM is asked to comment on its planned use for the Central Collection Fund balance.**

Issues

Performance-based Contracts: The Department of Legislative Services recommends committee narrative that more systematically links performance to payment in vendor contracts, with the goal of encouraging innovative and cost-effective delivery from contractors, while yielding better outcomes and lower costs.

Central Collections Unit Audit: A summary of CCU's recent audit is provided. **DBM is asked to comment on the status of implementation of the controls recommended by the Office of Legislative Audits to address numerous findings.**

Recommended Actions

1. Amend Section 2 to remove the authorization for the Governor to withhold allotments from agencies.
2. Amend Section 17 limiting utilization of certain funds for their intended purposes only and other measures.
3. Add section applying across-the-board reductions in the Executive Branch to higher education, unless otherwise restricted.
4. Add section providing for an accounting of workers' compensation funds.
5. Add section requiring consistent reporting of federal monies received by the State.
6. Add section requiring that capital funds be budgeted in separate eight-digit programs.
7. Add section that defines the policies under which federal funds shall be used in the State budget.
8. Add section that requires a report on indirect costs.
9. Add section that requires the delivery of the executive's general fund forecast and defines the conditions under which it is to be provided.
10. Add section that provides for consistent reporting of fiscal 2007, 2008, and 2009 budget data and other requirements.
11. Add section that requires the maintenance of accounting systems for certain programs and other requirements.
12. Add section that requires the maintenance of certain statewide subobjects.
13. Add section reporting on interagency agreements.
14. Add section which limits the allowable use of budget amendments.
15. Add section denying the payment of a Secretary or an Acting Secretary's salary when his/her nomination as Secretary has been rejected by the Senate.
16. Adopt narrative through which the committees encourage stronger State agency adherence to performance-based contracting.
17. Delete 1.0 new full-time equivalent position from the Capital Budget Analysis and Formulation – Office of Capital Budgeting.

Updates

StateStat: A review of the proposed StateStat program is provided.

F10A
Office of the Secretary
Department of Budget and Management

Operating Budget Analysis

Program Description

This analysis of the Department of Budget and Management (DBM) encompasses the Office of the Secretary, Budget Analysis and Formation, and Capital Budget Analysis and Formation. These units are responsible for coordinating the study and analysis of the needs, administration, organization, functions, efficiency, and performance of State agencies. The department is responsible for preparing and submitting the State budget, including capital items, to the General Assembly; providing ongoing assistance to operating departments for the preparation and execution of the State budget, including Managing for Results (MFR) and strategic budgeting program requirements; and providing both short- and long-range projections of State revenue sources available to the State. The Central Collections Unit (CCU) attempts to collect certain debt owed to the State and is supported by a percentage of the debt collected. The functions of the Office of Personnel Services and Benefits and the Office of Information Technology are reviewed in separate analyses.

Strategic budgeting outcome goals include effective budgeting, effective resource management, and effective public policy.

Primary MFR goals include:

- to allocate resources to contribute to achievement of outcome goals by State agencies;
- to ensure that agencies have a high quality workforce that reflects the diversity of the State;
- to maximize return on investment in CCU; and
- to ensure that State-owned capital projects included in the capital budget are consistent with the principles of sound capital budget planning.

Performance Analysis: Managing for Results

As show in **Exhibit 1**, in fiscal 2006, CCU shows strong performance by all measures. It increased total collections, debt referrals collected upon, and debt collected as a percentage of total debt. In addition, net profits increased 180%, from \$2.9 million to \$8.2 million. The agency reports an anticipated reduction in profits in fiscal 2007 with a partial recovery in fiscal 2008. This anticipated reduction in profits is partially reflective of a renewed focus on account controls (see Issue 2), including the development of a new web-based debt collection system.

Exhibit 1
Program Measurement Data
Department of Budget and Management – Central Collections Unit
Fiscal 2005-2008
(\$ in Thousands)

	<u>Actual</u> <u>2005</u>	<u>Actual</u> <u>2006</u>	<u>Est.</u> <u>2007</u>	<u>Est.</u> <u>2008</u>	<u>Change</u> <u>2005-06</u>	<u>Est.</u> <u>Change</u> <u>2006-08</u>
Net profit in CCU – goal: to increase or maintain ¹	\$2,948	\$8,240	\$7,054	\$7,555	179.5%	-8.3%
Change in net profit in CCU	-2,629	5,293	-1,186	501	301.4%	-90.5%
Percent of debt referrals collected upon – goal: 40%	41.5%	44.7%	44.7%	44.7%	7.7%	0.0%
Percent of total dollars value of debt collected upon – goal: 33%	31.8%	32.6%	32.7%	32.8%	2.5%	0.6%

¹ These profit figures correct small errors in the 2008 Governor’s budget books following a re-evaluation by CCU.

Source: Department of Budget and Management

Total collections made by CCU grew from \$102.2 million in fiscal 2005 to \$114.5 million in fiscal 2006 and are expected to grow to \$138.1 million in fiscal 2008 (**Exhibit 2**). CCU collects 17% of these profits except on accounts referred solely for collection under the tax refund intercept program, for which it collects 10%. If operating costs and information technology costs are deducted from these estimated fees, the funds remaining (profit) grow from \$2.9 million in fiscal 2005 to \$7.6 million in fiscal 2008. If these funds are unspent, they stay in the Central Collection Fund, a continuous, nonlapsing fund. In fact, CCU reports that the cumulative value of the fund is \$23.6 million on December 31, 2006, and is expected to grow to \$37.3 million by the end of fiscal 2008.

The Department of Legislative Services (DLS) requests that DBM discuss its planned use for the \$37.3 million Central Collection Fund balance.

Exhibit 2
Estimated Profits
Department of Budget and Management – Central Collections Unit
Fiscal 2005-2008
(\$ in Thousands)

	Actual <u>2005</u>	Actual <u>2006</u>	Est. <u>2007</u>	Est. <u>2008</u>
Total Collections	\$102,156	\$114,451	\$126,185	\$138,126
Estimated fees collected by CCU ¹	10,756	16,717	18,445	18,010
Less:				
Operating expenses	-7,808	-8,477	-9,792	-9,780
Major Information Technology projects			-1,653	-675
Total Expenses	-\$7,808	-\$8,477	-\$11,445	-\$10,455
Estimated funds remaining (profit)	\$2,948	\$8,240	\$7,054	\$7,555
Cumulative Central Collection Fund Balance	\$14,442	\$22,682	\$29,736	\$37,291

¹ CCU collects 17% in fees except for collections made for select entities under the tax refund intercept program, for which it collects 10%. The Maryland Auto Insurance Fund, the Office of the Public Defender, the Department of Labor, Licensing, and Regulation, and the U.S. Higher Education Loan program are charged 10%. The effective overall rates are 13 to 14%, except in fiscal 2005, when 11% was paid in fees.

Source: Department of Budget and Management – Central Collections Unit

Fiscal 2007 Actions

Proposed Deficiency

A proposed special fund deficiency appropriation of \$325,000 for the Central Collections Unit is to provide funds to implement enhancements to the automated collection system. These enhancements include a predictive dialer system where calls are automatically made to select debtors' homes. If the debtor answers, a representative of CCU will provide the debtor with information specific to their account. The deficiency also covers increased credit card fees paid by the State resulting from greater collection volume. Both these expenditures are covered by the fees paid to CCU for the successful collection of debt.

Governor’s Proposed Budget

Increases in the Governor’s allowance, shown in **Exhibit 3**, are primarily related to personnel expenditures paid to existing personnel, as well as funding for the addition of 3.0 new full-time equivalent (FTE) regular positions and 4.0 FTE contractual positions. These contractual positions restore the number of Governor’s Policy Fellows employed up through fiscal 2005, bringing the total number in the State to 8.0 FTEs. When these positions were included as regular positions in the fiscal 2006 allowance, they were deleted by the General Assembly as a cost-savings measure, with the understanding that the Department of Budget and Management could again carry them as contractuels, as they had prior to fiscal 2006. DBM added 4.0 FTE policy fellows contractuels in the fiscal 2007 allowance and added the remaining 4.0 FTEs in the fiscal 2008 allowance.

Exhibit 3
Governor’s Proposed Budget
DBM – Office of the Secretary
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2007 Working Appropriation	\$9,593	\$9,546	\$283	\$19,422
2008 Governor’s Allowance	<u>9,356</u>	<u>9,780</u>	<u>255</u>	<u>19,391</u>
Amount Change	-\$237	\$233	-\$27	-\$31
Percent Change	-2.5%	2.4%	-9.7%	-0.2%

Where It Goes:

Personnel Expenses

Increments	\$268
Retirement	218
4.0 FTE additional Governor’s Policy Fellows positions (to a total of 8.0 FTEs)	192
Three new positions. Two new positions (research statistical II and budget analyst IV) are proposed for the policy and performance measurement aspects of Child Welfare Accountability Act of 2006, and one position (budget analyst III) will review and evaluate out-year capital improvement plan cost estimates	139
Increased accrued leave payout payments based on specific anticipated retirements and historical patterns	68
Turnover adjustments	22
Decrease in the salary base due to retirements, increased funds to hire replacements above minimum, and fiscal 2007 agency-level reclassifications not reflected in the working appropriation	9
Health insurance costs decline due to one-time savings	-719
Other	2

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Where It Goes:

Central Collections Unit

Contractual services, primarily for secondary collection services and the installation of a cash handling module on the computer software used to track debt collection.....	\$161
Additional overtime and other assistance (temporary help to staff a new predictive dialer system).....	112
Increased postage costs.....	103
Systems software acquisition and maintenance.....	60
Increased contractual expenses (15.3% increase).....	30
Rent paid to the Department of General Services.....	16
Applications software maintenance.....	-79
Equipment rental.....	-62
Decrease in anticipated incentive pay in the Central Collections Unit.....	-43
Other	6

Other Changes

Annapolis Data Center charges	-170
Office of Administrative Hearings charges	-157
Communications expenditures, primarily the Department of Budget and Management paid telecommunication.....	-109
Other service contracts	-69
Office supplies and equipment	-28
Other	-1

Total **-\$31**

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

Issues

1. Performance-based Contracts

In recent years, at all levels of government, greater emphasis has been placed on the effectiveness of government programs. In Maryland State government, this emphasis is best reflected in the Managing for Results process. A natural adjunct of MFR with its development of performance goals and the measurement of outcomes is the concept of performance-based contracting.

Performance-based contracting means different things to different people. However, at its core, performance-based contracting is intended to change the behavior of contractors (and by extension the agencies overseeing those contracts and contractors) to focus more on performance.

Typically, a performance-based contract contains a number of elements:

- ***Desired Outcomes:*** What does the agency want to get accomplished as the end result of the contract?
- ***Service Requirement:*** What tasks have to be fulfilled in order to get the required result (these may include, for example, adherence to key agency standards or procedures)?
- ***Performance:*** What are the standards for completeness, reliability, accuracy, timeliness, customer satisfaction, quality, and cost?
- ***Monitoring:*** How will the contracting agency determine that success has been achieved?
- ***Incentives/Disincentives:*** How will good performance be rewarded and poor performance addressed?

Benefits and Drawbacks of Performance-based Contracts

Performance-based contracts offer a number of potentially important benefits:

- By focusing on solutions and outcomes, performance-based contracts may encourage contractors to be innovative and to find cost-effective ways of delivering services. However, to do so effectively, the contract must not be overly focused on specifications for required elements.
- In turn, by shifting the focus from process to results, performance-based contracts hold the promise of better outcomes and lower costs.

- The use of measurable outcomes that are at the heart of performance-based contracts increases accountability both on the part of the contracting agency as well as the contractor.
- Linking results to compensation rewards quality and underscores the potential benefits of performance-based contracts.

There are also potential drawbacks to the use of performance-based contracts:

- Performance-based contracts are best used for contracts that are well-defined, have accepted metrics, and the time-frame for achieving the desired outcomes is reasonably predicted. If an agency does not have a clear idea of what it wants and/or has no ability to measure what it wants, the use of performance-based contracts may result in more problems for an agency than maintaining the status quo.
- Initially, the development of performance-based contracts may be time-consuming and lead to delays in the awarding of contracts, although as agencies become more experienced with the award of these kinds of contracts these delays should diminish.
- For contractors, developing responses for performance-based contract awards may be more expensive in that they often involve more upfront work.

The Use of Performance-based Contracts in Maryland

A review of major contracts (individual contracts valued at over \$1 million or contracts for a type of service where the collective value of the contracts are over \$1 million) in several State agencies reveals the use of contracts that may be considered performance-based contracts or at least containing some aspects of what would normally be part of a performance-based contract. However, there continues to be awarded a considerable number of contracts that contain no performance/outcomes element even though performance elements could be suitably included in those contracts.

Where performance elements are contained within contracts, a number of general observations may be made about the use of these contracts:

- The importance of agency oversight of performance is clearly enhanced. However, agencies were often unable to readily provide the Department of Legislative Services with performance data that is included within contracts, raising questions about their ongoing monitoring of contract performance. This concern is buttressed by reviews of audits conducted by the Office of Legislative Audits which frequently cite a lack of agency oversight over contracts and grants.

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- For some human services contracts, agencies have to be vigilant about contractors “cherry-picking” clients in order to boost outcomes. Agencies have tried to combat this issue by having various kinds of “no reject” policies in contracts.
- The range of incentives provided in contracts varies considerably. Some contracts utilize a percentage of contract value, some have a set dollar figure up to established maximums, while others establish performance requirements but provide for no articulated incentives or penalties. In some cases, there is little relationship between the maximum amount of incentive dollars that may be earned and the value of the contracts.

In most of the reviewed contracts where incentives/penalties were included, these incentives/penalties were linked to a single performance point. Agencies might wish to consider the use of step-up and step-down, or graduated incentives and penalties.

Step-up and step-down incentives and penalties are considered to accentuate the focus on performance, and the implications of superior and inferior performance are made abundantly clear. Further, when incentives and penalties step up and step down in similar fashion, an appeal is also made to fairness. Interestingly, many State contracts reviewed contain penalties (in the form of liquidated damages) but no incentives.

- Where performance measures are specified and linked to incentives, it remains unclear how attainable these measures are. In some contracts, the goals appear reasonably set in that they balance attainability against the need to challenge vendors to achieve an appropriate level of performance. However, in other contracts, agencies were unable to provide evidence of the range of performance achieved under these contracts making an assessment of attainability difficult.
- Some major contracts have performance requirements but no built-in incentives/penalties.
- Some contracts offer incentives for performance but are still overly prescriptive in terms of how the work is to be performed, limiting how a potential contractor may actually provide services.
- In some human service areas that are currently contracted out using performance-based contracts, similar functions are provided by State employees. However, while similar performance criteria exist to measure the performance of State employees, there are no obvious incentives/penalties available to State employees.
- Past performance is arguably the key indicator for predicting future performance quality and customer satisfaction. However, it is interesting to note that in its November 2006 report on the effectiveness of the MFR process, the Department of Budget and Management reported that only 52% of program administrators/directors reported using performance measurement data when monitoring contract performance.

- It is unclear to what extent an agency and contractors discuss performance or provide formal written evaluations. These evaluations can serve as useful tools for agencies and contractors in terms of formalizing feedback as well as providing a vehicle for holding agencies and contractors accountable for performance.

In response to these various issues, DLS recommends committee narrative that more systematically links performance to payment in vendor contracts, with the goal of encouraging innovation and cost-effective delivery from contractors while yielding better outcomes and lower costs. This link will be established through a more thorough examination of the issue at the point that agencies approach the Board of Public Workers with a proposed contract.

2. Central Collections Unit Audit

The Office of Legislative Audits (OLA) conducted a fiscal audit of the Central Collections Unit from April 9, 2002, through June 30, 2005. Unfortunately, the audit uncovered a number of issues related to controls over procedures, accounts, contractors, collection discrepancies, and other areas of responsibility in CCU.

The auditors disclosed that accountability and control over collections was not sufficient at two major CCU locations where \$16.4 million of the \$25.5 million of the fiscal 2005 cash collections originated. CCU did not have a systematic policy or procedure for monitoring, investigating, and resolving collection discrepancies such as deposit shortages. There were several collection and deposit discrepancies recorded during the audit period.

The auditors also found that certain collection procedures, such as wage garnishments, were not always pursued in a timely manner. In addition, certain debtor accounts were excluded from the automated tax refund intercept program for extended periods without documented explanation or timely follow-up. The auditors also felt that CCU needs to take steps to better monitor the private collection agency it uses to help collect particularly difficult accounts. For example, on-site reviews of the agency's records (which are permitted by the contract) were not conducted periodically to ensure that the agency had initiated all required collection efforts on referred accounts. OLA suggested that ensuring debt collection efforts are consistently applied and establishing adequate controls over collections is particularly important for CCU since its collections from all sources (for example, lockbox receipts) totaled over \$100 million in fiscal 2005 (and are projected to be approximately \$138 million in fiscal 2008).

This audit report for CCU was dated March 2006, providing CCU and DBM with the opportunity to put controls in place to resolve some or all of these findings for fiscal 2008. **DLS requests that DBM provide the committees with information on the status of those controls and any other strategies for ensuring compliance with the audit.**

Recommended Actions

1. Amend the following section:

SECTION 2. AND BE IT FURTHER ENACTED, ~~That: 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 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) (1) Prior to July 1, 2007, the Department of Budget and Management shall file with the Comptroller of the Treasury a list of the appropriations for each program in the State budget.
- (2) Prior to July 1, 2007, the Presiding Officers of the General Assembly shall submit to the Comptroller of the Treasury a list of the appropriations restricted in this Act. The Comptroller of the Treasury shall place the restricted appropriations into a contingency reserve until such time as the Comptroller of the Treasury receives written notification from the chairmen of the Senate Budget and Taxation Committee and House Committee on Appropriations that the funds may be released from the contingency reserve and made available to the appropriate department, board, commission, officer, school, or institution.
- (3) Except as provided in paragraph (2) of this section, the Comptroller of the Treasury may not authorize any expenditure or obligation that requires use of funds in the contingency reserve and any expenditure so made shall be illegal.
- (4) The Secretary of Budget and Management is authorized to ~~To~~ fix the number and classes of positions, including ~~temporary~~ contractual and ~~permanent~~ regular 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.

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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 determination. 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) ~~To prescribe procedures and forms for carrying out the above provisions.~~

Explanation: Amendments to this section remove the authorization for the Governor to unilaterally withhold allotments from agencies and provide a process for the release of funds restricted by the General Assembly.

Information Request	Author	Due Date
List of appropriations for each program in the State budget	DBM	Prior to July 1, 2007

2. Add the following section:

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 – MDOT only), 0305 (DBM Paid Telecommunications) and 0322 (Capital Lease Telecommunications) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller Objects ~~0152, 0152 and 0154, 0305, and 0322~~ between State departments and agencies by approved budget amendment in fiscal year 2007 and fiscal year 2008. 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 funds may be transferred between State agency programs and subprograms within Comptroller Objects 0305 and 0322.

Further provided that each agency that receives funding in this budget in any of the restricted Comptroller Objects herein listed within this section shall establish within the State's accounting system a structure of accounts to separately identify for each restricted Comptroller Object by fund source, the legislative appropriation, monthly transactions, and final expenditures. It is the intent of the General Assembly that 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 cancelled.

Explanation: This amendment withdraws the opportunity for the Secretary of Budget and Management to redirect certain funds for other purposes and makes it possible for the Office of Legislative Audits to track the disposition of funds in Comptroller objects 0152, 0154, 0217, 0305, and 0322.

3. Add the following section:

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

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

4. Add the following section:

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

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

Information Request	Author	Due Date
Report on status of ledger control account	IWIF	Monthly beginning July 1, 2007

5. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That executive budget books shall include a summary statement of federal revenues by major federal program source 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 these 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 Catalogue of Federal Domestic Assistance number or equivalent detail for programs not in the catalogue. Data shall be provided in an electronic format subject to the concurrence of DLS.

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

Information Request	Author	Due Date
Report of components of each federal fund appropriation	DBM	With submission of the fiscal 2009 budget

6. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That for fiscal 2009, capital funds shall be budgeted in separate eight-digit programs. When multiple projects and/or programs are budgeted within the same non-transportation eight-digit program, each distinct program and project shall be budgeted in a distinct subprogram. To the extent possible, subprograms for projects spanning multiple years shall be retained to preserve funding history. Furthermore, the budget detail for fiscal 2007 and 2008 submitted with the fiscal 2009 budget shall be organized in the same fashion to allow comparison between years.

Explanation: This annual language requires that capital funds be budgeted in separate eight-digit programs to aid in the identification of individual capital projects.

7. Add the following section:

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

- (1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.
- (2) For fiscal 2008, except with respect to capital appropriations, to the extent consistent with federal requirements:
 - (a) when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged; this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child welfare or welfare reform activities, or to the Department of Health and Mental Hygiene with respect to funds to be carried forward into future years for the purpose of reducing the waiting list for community services for individuals with developmental disabilities or with respect to funds to be carried forward into future years for HIV/AIDS-related activities, or to the Maryland State Department of Education with respect to funds to be carried forward into future years for child care;
 - (b) when additional federal funds are sought or otherwise become available in the course of the fiscal year, agencies shall consider, in consultation with the Department of Budget and Management, whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and
 - (c) the Department of Budget and Management shall take appropriate actions to effectively establish these as policies of the State with respect to administration of federal funds by executive agencies.

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

8. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management shall provide an annual report on indirect costs to the General Assembly in January 2008 as an appendix in the Governor’s fiscal 2009 budget books. The report shall detail by agency for the actual fiscal 2007 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the general fund, and the amount of indirect cost recovery retained for use by each agency. In addition, it shall list the most recently available federally approved statewide and internal agency cost recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years, the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies. Further provided that for fiscal 2008, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery may only be transferred to the general fund and may not be retained in any clearing account or by any other means, nor may the Department of Budget and Management 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, requiring that recovered funds may only be transferred to the general fund.

Information Request	Author	Due Date
Annual report on indirect costs	DBM	With submission of Governor’s fiscal 2009 budget books

9. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the executive budget books shall include a forecast of the impact of the executive budget proposal on the long-term fiscal condition of general fund, Transportation Trust Fund, and higher education current unrestricted fund accounts. This forecast shall estimate aggregate revenues, expenditures and fund balances in each account for the fiscal year last completed, the current year, the budget year, and 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 forecast and defines the conditions under which it is to be provided.

Information Request	Author	Due Date
Executive’s general fund forecast	DBM	With submission of Governor’s fiscal 2009 budget books

10. Add the following section:

SECTION X. 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 2009 budget detailed by "Statewide Subobject" classification in accordance with instructions promulgated by the Comptroller of the Treasury. The presentation of budget data in the State budget book shall include object, fund, and personnel data in the manner provided for fiscal 2008 except as indicated elsewhere in this Act; however, this shall not preclude the placement of additional information into the budget book. For actual fiscal 2007 spending, the fiscal 2008 working appropriation, and the fiscal 2009 allowance, the budget detail shall be available from the Department of Budget and Management's automated data system at the subobject level by statewide 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 2007 spending, the fiscal 2008 working appropriation, and the fiscal 2009 allowance. The agencies shall exercise due diligence in reporting these data and ensuring correspondence between reported position and expenditure data for the actual, current, and budget fiscal years. These data shall be made available upon request and in a format subject to the concurrence of the Department of Legislative Services. Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of the Treasury.

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

Further provided that the Department of Budget and Management shall provide to the Department of Legislative Services with the allowance for each department, unit, agency, office, and institution an organizational chart that depicts the allocation of personnel across operational and administrative activities of the entity.

Explanation: This annual language provides for consistent reporting of fiscal 2007, 2008, and 2009 budget data, and for the third year provides for the submission of department, unit, agency, office, and institutions’ organizational charts to the Department of Legislative Services with the allowance.

11. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That:

- (1) The Secretary of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2007 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 2007 to program R00A02.07 Students With Disabilities for Non-Public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.
- (3) The Secretary of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2007 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year and to prepare the periodic reports required under this section for that program.
- (4) For the programs specified, reports shall indicate total appropriations for fiscal 2007 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, 2007, March 1, 2008, and June 1, 2008.
- (6) It is the intent of the General Assembly that general funds appropriated for fiscal 2007 to the programs specified which 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).

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Information Request	Authors	Due Date
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH MSDE DHR	November 1, 2007 March 1, 2008 June 1, 2008

12. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall maintain statewide subobjects for fiscal 2008 to capture:

- (1) leave payout funds used when long-term employees leave State service and are entitled to payment for accrued leave in subobject 0111;
- (2) funds to be used for reclassifications and hiring above the minimum for a classification in subobject 0112; and
- (3) funds used for cell phone expenditures in subobject 0306.

Further provided that DBM shall require that agency programs and subprograms specify in agency budget requests the use to which subobjects 0110 (Miscellaneous Adjustments) and 0199 (Other Fringe Benefit Costs) are being put.

Explanation: Agencies have treated two potentially notable personnel expenditures inconsistently. Some agencies in the past have budgeted vacation leave payout and expenditures related to hiring above the minimum rate in subobject 0110. Both of these are expenditures that other agencies have taken into consideration when calculating their turnover expectancy because they budgeted them within regular earnings (subobject 0101). By treating these expenditures differently in different agencies, it is difficult to consistently calculate and adequately compare turnover expectancy between agencies or to an agency's vacancy experience.

The addition of the cell phone expenditure subobject was necessary because it was found that without it, agencies were inconsistently budgeting cell phone expenditures, using as many as 30 different subobjects. That practice made cell phone expenditures extremely difficult to track.

Agencies also have the option of using subobjects 0110 and 0199 for various purposes, making it possible that expenditures more appropriately budgeted elsewhere will be reflected in these undefined categories.

13. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that on or before August 1, 2007, each State agency and each public institution of higher education shall report to the Department of Budget and Management any agreements in place for any part of fiscal 2007 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 the Department of Budget and Management shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

- (1) A common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;
- (2) The starting date for each agreement;
- (3) The ending date for each agreement;
- (4) A total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;
- (5) A description of the nature of the goods and services to be provided;
- (6) The total number of personnel, both full-time and part-time, associated with the agreement; and
- (7) Contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement.

Further provided that the Department of Budget and Management shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2007, which 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 year 2007.

Explanation: The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of \$100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. Further, it requires that the Department of Budget and Management submit a consolidated report on all agreements by December 1, 2007, to the budget committees and the Department of Legislative Services.

Information Request	Author	Due Date
Consolidated report on all interagency agreements	DBM	December 1, 2007

14. Add the following section:

SECTION X. 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 shall not apply to budget amendments for the sole purpose of:
 - (a) appropriating funds available as a result of the award of federal disaster assistance;
 - (b) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee; and
 - (c) appropriating funds for Major Information Technology Development Project Fund projects approved by the budget committees.
- (2) Budget amendments increasing total appropriations in any fund account by \$100,000 or more may not be approved by the Governor until (i) that amendment has been submitted to the Department of Legislative Services and (ii) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to the Department of Legislative Services shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of impact on budgeted or contractual position and payroll requirements.
- (3) Unless permitted by the budget bill or the accompanying supporting documentation or by other authorizing legislation, and notwithstanding the provisions of Section 3-216 of the Transportation Article, a budget amendment may not:
 - (a) restore funds for items or purposes specifically denied by the General Assembly;

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- (b) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation shall be restricted as provided in Section 1 of this Act;
 - (c) increase the scope of a capital project by an amount 7.5 percent or more over the approved estimate or 5 percent or more over the net square footage of the approved project until the amendment has been submitted to the Department of Legislative Services and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to the Maryland Department of Transportation; and
 - (d) provide for the additional appropriation of special, federal, or higher education funds of more than \$100,000 for the reclassification of a position or positions.
- (4) A budget may not be amended to increase a federal fund appropriation by \$100,000 or more unless documentation evidencing the increase in funds is provided with the amendment and fund availability is certified by the Secretary of Budget and Management.
 - (5) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.
 - (6) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health or welfare, including protecting the environment or economic welfare of the State.
 - (7) Further provided that the fiscal 2008 appropriation detail as shown in the Governor's budget books submitted to the General Assembly in January 2008 and the supporting electronic detail, shall not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the Maryland Department of Transportation PAYGO capital program.
 - (8) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. Further provided that for the 2009 allowance the Department of Budget and Management (DBM) shall continue policies and procedures to minimize reliance on budget amendments for appropriations that could be included in a deficiency appropriation.

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

15. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That no funds in this budget may be expended to pay the salary of a Secretary or Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate or an Acting Secretary who was serving in that capacity prior to the 2007 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2007 session.

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

16. Adopt the following narrative:

Performance-based Contracting: The committees are concerned that State agencies pay too little attention to performance when monitoring contracts. By including specific performance goals and outcomes within contracts and linking payment to performance, agencies can encourage innovation and cost-effective delivery from contractors while yielding better outcomes and lower costs. Monitoring outcomes will also hold contractors and agencies more accountable for the considerable State dollars spent on contracts. The committees request the Department of Budget and Management, in consultation with the Departments of Transportation and General Services and the Board of Public Works, to augment the current pro forma supporting documentation that is presented to the Board of Public Works to include a designation of a proposed contract as performance-based or otherwise; how performance is being measured within a contract; how performance is linked to payment; and, where applicable, past contractor performance.

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

, provided that 1.0 new full-time equivalent position (personal identification number NEW001) is deleted from the budget.

Explanation: For fiscal 2008, the Spending Affordability Committee (SAC) recommended that new positions should be created only when it may be demonstrated that existing vacant positions are filled to the extent feasible. To encourage agencies to fill vacancies, SAC recommended that no new positions be authorized in principal units in the Executive Branch, exclusive of higher education, with vacancy rates in excess of 8 percent. The Department of Budget and Management's (DBM) vacancy rate was 12% on December 31, 2006; the vacancy rate in the DBM – Office of the Secretary (including the Office of Budget Analysis and the Office of Capital Budgeting) was 8.9%. Six of the vacancies are, however, in the special funded Central Collections Unit and are unavailable to be used for general funded positions. This recommended action deletes the requested position in Capital Budgeting, as recommended by SAC, but leaves the funds. DBM is able then to transfer another vacant position into the unit, either from within the agency or from another department with excess vacancies.

Updates

1. StateStat

StateStat is modeled on the CitiStat program implemented in 2000 in Baltimore City by then-Mayor Martin O'Malley. Governor O'Malley proposes the same management accountability process for State Executive Branch agencies, to take effect on June 1, 2007.

Baltimore's CitiStat Program

Baltimore's CitiStat, modeled on former New York City Police Commissioner William Bratton's CompStat program, relies on data to track agency performance and redirect resources to areas in need. The program requires each city agency director to submit bi-monthly accountability reports covering key agency functions to the mayor. In addition, data are also collected from the city's citizen complaint hotline and incorporated into the accountability reports. Every two weeks, agency heads appear before city leaders, often including the mayor, to report on their progress in meeting their goals and to respond to questions and complaints. Problems identified during these meetings are expected to be resolved in a timely fashion, with follow-up occurring in subsequent meetings.

The StateStat Proposal

DBM reports that the departments of Public Safety and Correctional Services, Human Resources, and Juvenile Services will pilot StateStat in fiscal 2008, although the Governor may require any Executive Branch agency to participate. The program involves the analysis of the underlying data used in the more macro-level analysis already provide under the MFR program and requires that the data be monitored more closely and carefully. Participating agencies must submit a strategic plan and performance measurement report to the Secretary of Budget and Management by August 15 of each year; the report should contain information similar to that currently required in the MFR strategic plan. Each agency selected to participate in StateStat must:

- adopt a strategic plan and establish goals for its operation;
- adopt a comprehensive set of performance and citizen satisfaction measurements;
- regularly and frequently:
 - submit timely and accurate data;
 - review and analyze its submitted data; and
 - attend accountability meetings to assess its performance;

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- continuously review its strategies and tactics to meet its goals; and
- continuously assess its progress toward meeting its goals.

In conducting its audits of Executive Branch agencies, the Office of Legislative Audits may determine the reliability of an agency's performance measures identified in its StateStat strategic plan. In addition, the data will be made available for public scrutiny on-line.

DBM initially estimated that six new positions would be necessary to implement the StateStat process. Implementation will include establishing procedures for collecting and verifying data on a more frequent basis than is currently required under MFR and analyzing data in an effort to identify potential cost savings. The DLS fiscal note supporting the StateStat bill assumes that since the program is in the pilot stage in fiscal 2008 it will only require four new positions, the estimated value of which is \$361,444.

No new positions were submitted along with the allowance to support this program. DBM reports that plans for staffing have not yet been finalized but will very likely involve using existing vacancies within DBM. One person was hired for the program by the end of January 2007; the position had been a vacancy in the Office of Personnel Services and Benefits and was transferred to the Office of Budget Analysis for the new program.

Current and Prior Year Budgets

Current and Prior Year Budgets DBM – Office of the Secretary (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$8,485	\$7,921	\$0	\$186	\$16,592
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	756	585	0	113	1,453
Reversions and Cancellations	-232	-28	0	-45	-306
Actual Expenditures	\$9,008	\$8,477	\$0	\$254	\$17,739
Fiscal 2007					
Legislative Appropriation	\$9,133	\$9,438	\$0	\$283	\$18,854
Budget Amendments	459	108	0	0	568
Working Appropriation	\$9,593	\$9,546	\$0	\$283	\$19,422

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

Fiscal 2006

- A special fund increase of \$584,800 is made due to greater than anticipated debt referrals and collections resulting from increased service demands at the Maryland Motor Vehicle Administration satellite offices.
- An increase of \$359,737 in general funds is due to a realignment of funds within the agency.
- A \$359,818 increase in general funds from the DBM – Office of Personnel Services and Benefits provides funding for the fiscal 2006 general salary increase.
- A reimbursable fund increase of \$79,000 is due to increased revenue from various agencies for which the Division of Policy Analysis procured media services.
- A reimbursable fund increase of \$23,500 is due to increased revenue from the Department of Health and Mental Hygiene (DHMH), which is jointly working with the Office of Budget Analysis in order to review operations for potential cost-saving opportunities within DHMH.
- A reimbursable fund increase of \$10,214 is due to increased revenue from the Employees' and Retirees' Health Insurance Non-Budgeted Fund Account and the Office of Information Technology for legal services.

Fiscal 2007

- General funds increase by \$487,309 and special funds increase by \$108,112 through a transfer from the Office of Personnel Services and Benefits for the reallocation of general salary increase funding. A portion of these general funds is intended to be transferred in the future to reimbursable fund agencies to cover the general salary increase.
- General funds decreased by \$3,831 through a transfer to the Department of Budget and Management – Office of Personnel Services and Benefits for a comprehensive salary study.

Audit Findings

Department of Budget and Management – Office of the Secretary and Other Units Audit

Audit Period for Last Audit:	July 1, 2002 – August 31, 2005
Issue Date:	August 30, 2006
Number of Findings:	2
Number of Repeat Findings:	1
% of Repeat Findings:	50%
Rating: (if applicable)	n/a

Findings 1 through 6, 9, and 10 are reviewed in the Department of Budget and Management – Information Technology analysis.

Finding 7: DBM did not ensure that indirect cost allocation plans were prepared by applicable state agencies.

Finding 8: DBM had not received a complete accounting for fund activity or all required documentation to support fund disbursements.

Department of Budget and Management – Central Collections Unit Audit

Audit Period for Last Audit:	April 9, 2002 – June 30, 2005
Issue Date:	March 13, 2006
Number of Findings:	10
Number of Repeat Findings:	3
% of Repeat Findings:	30%
Rating: (if applicable)	n/a

Central Collections Unit satisfactorily addressed 4 of the 7 findings from the preceding audit report dated December 13, 2002; resolution of 3 findings remains outstanding.

Finding 1: Accountability and control were not sufficient for collections received at CCU’s headquarters office and at the one satellite office we reviewed.

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- Finding 2:** CCU lacked a systematic policy or procedures for tracking, investigating, and resolving deposit adjustments.
- Finding 3:** Critical cash receipt reconciliations were not performed.
- Finding 4:** **CCU did not always pursue potential wage garnishments and property liens in a timely manner, and unpaid garnishment payments due from debtors' employers were not always investigated promptly.**
- Finding 5:** Certain accounts were excluded from the tax refund intercept program without adequate documentation or follow-up.
- Finding 6:** CCU did not adequately monitor the private collection agency used to help collect delinquent debts.
- Finding 7:** Account adjustment requests received from State agencies did not always include adequate documentation, and there was a lack of assurance that authorizing signatures were valid.
- Finding 8:** The collections server was subject to improper internal network access.
- Finding 9:** CCU did not adequately address backup of critical files.
- Finding 10:** **Proper internal controls were not established over the processing of disbursement transactions.**

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

**Object/Fund Difference Report
DBM – Office of the Secretary**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	191.80	201.80	204.80	3.00	1.5%
02 Contractual	12.15	11.90	15.90	4.00	33.6%
Total Positions	203.95	213.70	220.70	7.00	3.3%
Objects					
01 Salaries and Wages	\$ 12,901,271	\$ 14,484,422	\$ 14,561,829	\$ 77,407	0.5%
02 Technical and Spec. Fees	399,411	374,647	596,228	221,581	59.1%
03 Communication	1,520,791	1,466,302	1,444,134	-22,168	-1.5%
04 Travel	40,054	49,440	41,700	-7,740	-15.7%
07 Motor Vehicles	11,946	13,601	13,051	-550	-4.0%
08 Contractual Services	2,145,729	2,181,164	1,945,883	-235,281	-10.8%
09 Supplies and Materials	248,980	365,034	350,942	-14,092	-3.9%
10 Equipment – Replacement	174,590	154,277	82,350	-71,927	-46.6%
13 Fixed Charges	296,334	333,030	354,830	21,800	6.5%
Total Objects	\$ 17,739,106	\$ 19,421,917	\$ 19,390,947	-\$ 30,970	-0.2%
Funds					
01 General Fund	\$ 9,007,843	\$ 9,592,907	\$ 9,355,757	-\$ 237,150	-2.5%
03 Special Fund	8,477,191	9,546,280	9,779,773	233,493	2.4%
09 Reimbursable Fund	254,072	282,730	255,417	-27,313	-9.7%
Total Funds	\$ 17,739,106	\$ 19,421,917	\$ 19,390,947	-\$ 30,970	-0.2%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
DBM – Office of the Secretary**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Office of the Secretary	\$ 14,203,443	\$ 16,147,593	\$ 15,941,794	-\$ 205,799	-1.3%
05 Office of Budget Analysis	2,592,717	2,276,635	2,424,448	147,813	6.5%
06 Office of Capital Budgeting	942,946	997,689	1,024,705	27,016	2.7%
Total Expenditures	\$ 17,739,106	\$ 19,421,917	\$ 19,390,947	-\$ 30,970	-0.2%
General Fund	\$ 9,007,843	\$ 9,592,907	\$ 9,355,757	-\$ 237,150	-2.5%
Special Fund	8,477,191	9,546,280	9,779,773	233,493	2.4%
Total Appropriations	\$ 17,485,034	\$ 19,139,187	\$ 19,135,530	-\$ 3,657	0%
Reimbursable Fund	\$ 254,072	\$ 282,730	\$ 255,417	-\$ 27,313	-9.7%
Total Funds	\$ 17,739,106	\$ 19,421,917	\$ 19,390,947	-\$ 30,970	-0.2%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.