

DEPARTMENT OF GENERAL SERVICES



TRANSITION REPORT

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Executive Summary

Overview of Department of General Services (“DGS”)

DGS serves Maryland and its citizens by supporting other State agencies as they strive to achieve their particular missions. As a business arm of State government, DGS serves as landlord, procurement officer, and real estate agent and provides operating “infrastructure” for the units of State Government. As such, DGS has close involvement and unique relationships with the Governor and his office, all executive agencies, members of the Maryland General Assembly, the Judiciary and all their staffs. With facilities and real estate activities throughout the State, DGS has significant, often high profile, interaction with local elected and appointed officials. DGS also has important relationships with all sectors of the business/vendor community.

The Department of General Services manages, operates, maintains and provides full spectrum real estate support. Its duties include the following:

- Oversee multi-agency state facilities
- Assess state-owned facilities
- Manage facilities renewal funds of those facilities
- Acquire and dispose of any interest in real property in the name of the State master plans
- Manage space in state-owned and leased facilities, and
- Provide professional and technical services for the design and construction of the State public improvements

As a primary procurement agency, DGS is responsible under Maryland Law for procurement of material, supplies, and equipment used by State agencies. DGS provides centralized inventory standards and controls, manages records storage for State agencies, and manages the Maryland State Agency for Surplus Property.

On an annual basis the Department of General Services manages and audits thousands of transactions for other state agencies including the following:

- Over 500 constructions projects in various stages of completion
- Over 370 state office leases, totaling 4.7 million square feet
- All commodities procurement
- Procurements for all services over \$25,000
- Security for the Annapolis and Baltimore State office complexes
- eMaryland Marketplace
- State Energy Performance contracts, and
- Minority and Small Business Procurement

Status of DGS Today

There are significant challenges facing DGS and the arrival of the new O'Malley/Brown Administration could not come at a more critical time in the life of this important agency. The promise of an open and transparent state government, not only for the people of Maryland but for the various agencies within state government through initiatives like StateStat provide hope for this struggling agency.

Over the past ten years this agency's workforce has been cut by over 30% while at the same time, the workload has increased in every aspect of the agency's mission including real estate services, facilities security, facilities operations and maintenance, facilities planning design and construction, and most importantly procurement.

It is unrealistic for anyone to expect that DGS could reasonably meet the expectation of its clients with an underpaid, untrained staff that is 2/3rd the size it used to be. The results are glaringly obvious:

- Over 80 million dollars in deferred maintenance exists across State buildings
- DGS is unable to ensure preventative maintenance programs are in place both internally and at client agencies.
- Continuous construction projects and contract disputes resolution delays result in millions of dollars in additional expenditures.
- There is a lack of communication with client agencies relative to the status of the various projects being performed by the Department.
- DGS is unable to fill 48 (out of 636) open positions for professional services throughout the Department.
- There is an overall inability to provide adequate audit functions that are mandated under COMAR due to the lack of properly trained personnel.
- The agency is unable to track procurement contracts for commodities and services provided by Minority and Small Business.
- eMaryland Marketplace is being under utilized
- The police force that is overstaffed and under equipped resides in a Department who's core mission does not line up with the mission of a law enforcement organization
- There have been delays in the implementation of SB 267 which requires that all agencies reduce energy consumption by 10% by 2010.
- Software applications throughout the division are inadequate and outdated
- There is a proliferation of dramatically underutilized expensive Printing and Duplication Centers.

Over the course of time, the inability of the Department of General Services to provide its services in a timely manner has lead to the duplication of the core missions of DGS in most of the Departments that DGS Serves.

Many of the agencies within the State government have now hired more qualified personnel to provide services such as procurement, facilities maintenance, lease management and facilities planning design and construction services. The administration must understand the significant impact that a broken DGS has on every other agency in State government.

Summary of Recommendations

It is the consensus of this Transition Committee that substantial tax dollars could be saved if the O'Malley/Brown administration invests in the human and information technology resources necessary to provide the critical functions DGS is mandated to provide under State law. These investments will allow for the restoration of confidence from the client agencies that DGS has the proper resources and expertise to meet their increasing demands.

This Transition Subcommittee believes that a significant level of savings could be achieved by implementing the following particularly pertinent recommendations:

- Appoint an independent commission to review the Facilities Operations and Maintenance Division
- Establish an arm of the DGS Facilities Operation and Maintenance division that is specifically responsible for auditing preventative maintenance programs for all State owned office buildings
- Revamp the Departmental Procurement Review Board so it can effectively address contract delays and disputes in a substantive manner
- Establish a StateStat metric to effectively track all requests made to the DGS by other agencies
- Initiate a comprehensive salary review for the entire Department
- Develop an ongoing training program for DGS employees
- Implementation of an online purchasing catalog within eMaryland Marketplace
- Decree an Executive order for all agencies to utilize eMaryland Marketplace for all commodity and service procurement regardless of the size of the transaction.
- Appoint an independent commission to review the role of the DGS Police force
- Decree an Executive order to all state agencies to accelerate the implementation of Energy Performance Contracting
- Implement critical Information technology upgrades
- Decree an Executive order to consolidate all procurement back at the DGS

Conclusion

This Transition Committee appreciates the professionalism and cooperative nature of all agency leadership and other State officials with whom team members met during the research phase of the preparation of this report.

The detailed information further compiled in this report includes challenges that were identified by the six subcommittees along with recommended actions the O'Malley Brown administration can act upon immediately.

Members of the Department of General Services Transition Committee sincerely wish to thank Governor Martin O'Malley and Lieutenant Governor Anthony Brown for the opportunity to present this report to them and to the citizens of Maryland. It has been our honor and pleasure to serve.

Methodology

The O'Malley/Brown Transition Office supplied this Transition committee with the names of citizens who volunteered to serve on the Department of General Services Subcommittee. In addition, the Chair of the subcommittee added members in order to ensure a high level of expertise was represented relevant to the six critical functions of the Department.

The Department of General Services Transition Subcommittee Chairs took responsibility for studying each critical division of the Department including

- Administration
- Security
- Facilities Operations Maintenance
- Facilities Design Planning and Construction
- Real Estate
- Procurement and Logistics

On December 20th, 2006, the entire committee met with Secretary Cassard for an overview of the Department and to walk through the transition reports that were prepared by the office of the Secretary.

On January 3rd, the subcommittee met with the Assistant Secretaries from each Division at the 201 Preston Conference Center to have detailed discussions. At the end of the overview the committee divided into study teams to discuss follow up dates for the subcommittee to engage the leadership from the divisions they were responsible for evaluating

On January 4th the entire subcommittee met with various representatives from client agencies to gain an understanding of their interactions with DGS and to discuss the strengths and weakness of the Department.

On January 8th and 10th the teams held to an aggressive schedule, conducting meetings with division leadership groups and program managers, reviewing audits and having detailed discussions on recommendations made to the committee by senior members of the DGS staff.

The final recommendations were compiled by the Chair and staff and a final meeting was held on January 14th to present the recommendations contained in this report to the entire committee and the Interim Secretary.

Department of General Services Transition Team

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Administration Overview

The Office of Administration provides support services for the Department, including fiscal services, personnel services, and Information Technology support. The Personnel unit provides management and coordination of all human resources activities including recruitment, hiring, salary and classification determinations, promotion, employee counseling, benefits management, grievance resolution, affirmative action compliance and various training initiatives. Fiscal Services provides budget management and accounting services for DGS and the statewide capital construction and DGS maintenance projects. The Information Technology Group is responsible for automation of DGS processes including systems development, systems installation and integration, data center operations, system maintenance, and end-user support.

This Division will play a critical role in solving most of the problems that are plaguing the entire agency. Administration is responsible for human resource functions and the implementation of the information technology upgrades that are critical to the future of this Department. The Administration needs to work closely with the new leadership of the Department to ensure that the administrative arm of the DGS has the tools to implement these recommendations. The committee recommends that the administration work closely with the Administrative Division of DGS to immediately implement StateStat metrics for all activities that are occurring between the DGS and its client agencies.

Administration Problem Identification and Recommended Actions

Problem Identification 1: Comprehensive Salary Review

Lack of a recent statewide salary review of Maryland State job classifications has resulted in uncompetitive salaries for many positions compared to similar jobs in the private sector and even in other State agencies. This has created tremendous difficulties in recruiting and retaining a qualified workforce, particularly in the skilled trades and architecture/engineering fields. Examples of such negative impacts are;

- Electricians at MDOT earn more than electricians at DGS, resulting in recruitment difficulty and qualified DGS electricians leaving the agency for higher pay.
- The Facilities, Planning, Design and Construction's three Project Management teams are severely understaffed and under-qualified, inhibiting the unit's ability to make adequate reviews of drawings and specifications prepared by outside consultants.
- The Facilities, Planning, Design and Construction's Construction Building Inspectors are classified at Grade 13 with little opportunity for advancement, meaning that the inspector earns at a lower pay rate than every construction worker and supervisor on the project with the possible exception of unskilled labor.

The last comprehensive salary study performed for positions in the State Personnel Management System occurred in the early 1990's. Although some salary adjustments were made, based on that study's recommendations, budget constraints shortly thereafter put an end to further implementation.

➤ **Recommended Action:**

- Complete a thorough analysis of compensation and benefits for State positions (DBM is currently in the process of initiating such a study).
- Identify the most urgently needed adjustments to specific positions.
- Allocate funds to upgrade salaries and benefits as verified by the study.

Problem Identification 2: Training and Employee Development

The Department of General Services currently lacks a Department-wide staff development and training program. Staff cuts, budget cuts, and lack of top down support have lead to deterioration in the DGS training program. In addition, training that had previously been available through the Office of Personnel Services and Benefits ended due to budget cuts to that agency. While this saves money in the short term, lack of training over the years leads to a decrease in staff efficiency as well as increased liability to the State. The Department struggles with recruitment difficulties and is experiencing a decrease in job applicants who already possess the education and training needed. Therefore, it is imperative that we allocate resources for training employees already available to us, and in some cases, retraining them for jobs that cannot be filled by hiring new applicants that cannot be found externally.

➤ **Recommended Action:**

- Complete a thorough analysis of the training needs of DGS employees and managers
- Develop in-house training programs and/or identify outsourced programs to meet needs
- Allocate resources for training employees already available and in some cases, retraining them for jobs that cannot be filled by hiring new applicants that cannot be found externally.

Problem Identification 3: Information Technology Deficiencies

The Department of General Services suffers from a variety of Information Technology deficiencies among its various divisions. The following IT needs (in no prioritized order) have been identified during this committee’s information gathering process;

- DGS is currently using a real estate management system called “AS400,” which has been in place since 1992 without modification. Changes in staff and business processes have reduced the relevance of this system and inhibit the effectiveness with which the Department can manage its leased space, buildings, and land.
- The Capital Projects Database used by the Facilities, Planning, Design and Construction Division is a relational database that resides on the Department’s AS400. The system was developed 20 years ago houses over 30 years of project history. The hardware and software that support the database have become antiquated due to technological and software advances. Current DGS officials state there is an immediate concern that the system could “fail,” leaving the Department unable to perform mandatory functions.

- The Facilities Operations and Maintenance division currently uses a system named “Service Call” to internally manage work orders for its buildings. Ideally, the system could manage work orders, assets, preventative maintenance schedules, repair and replacement schedules and costs, and any other functions related to routine or preventative maintenance. However, the current system only allows for very limited functionality in each of these areas. DGS officials believe that a web-based system modeled after Baltimore City’s 311 systems could greatly enhance this operation.
- All of the Department’s Multi-Service Centers (15 MSCs/District Court buildings) are currently using dial-up Internet, putting personnel at those buildings a communications and IT disadvantage. Funds should be identified to upgrade those buildings to DSL at the very least. Approximate costs to do so are \$2,000 per building to install, and \$60 per month, per building for on-going service.
- Most current applications across the Department are in excess of 15 years old and are no longer supported by the manufacturers. These systems include the capital projects database and service call system listed above as well as the following systems;
 - Capital Grants and Loan Management
 - Facilities Deficiency System
 - Project Cost Center Program
 - AE and Contractor Evaluation System
 - Construction Procurement and Contracting System
 - Capital Projects Accounting System
 - Lease Management and Procurement System
 - BPW Administration System
 - Personnel Records Management System
 - Statewide Asset Management System
- **Recommended Action:** It recommended that the incoming Secretary commission an outside consultant or the in-house IT agency to develop a “Business Enterprise Management Program” for DGS. DGS estimates that it can make strides to improving its current IT deficiencies with an additional \$750,000 per year, but has yet to professionally determine the scope of its needs. With such a professional review, the Secretary can then evaluate and prioritize those needs to gradually modernize the agency.

DGS officials provided the following recommended method to develop the Business Enterprise Management Program, but the incoming Secretary should note this serves only as a guide;

1. Assess, reengineer and document each business process to produce the design specifications for each database application (Business Enterprise Reengineering Project)
2. Evaluate, develop and deploy a central data repository system to serve as the central collection and translation point for all business applications (Central Data Repository Project)

3. Based on the criteria and requirements identified in steps one & two, evaluate, select and develop business applications for each business function (Business Application Development Project)

Estimated Annual Fiscal Impact: The estimated \$750,000/yr cost to maintain and support the program (systems, applications, ongoing improvements) is potentially offset by the significant improvements made in operational efficiencies and productivity throughout the Department.

Estimated One-Time Implementation Cost:

\$6,000,000 over 4 years:

- FY 2008: \$1,000,000
- FY 2009: 2,000,000
- FY 2010: 2,000,000
- FY 2011: 1,000,000

Problem Identification 4: Proper Budget Forecasting

Interviews conducted with DGS administration officials cite a need to improve budget forecasting within the Department. Officials cited a historical problem with submitting late and inaccurate budgets due to lack of staff within the DGS Administrative Budget Unit. A look at the DGS's current budget preparation personnel suggests that a personnel shift could alleviate this problem. Currently, there are several positions within FOM that prepare and analyze the division's budget internally. However, there is an apparent lack of skill and training among those employees. In fact, those employees often seek assistance from the Administrative Budget Unit.

- **Recommended Action:** The DGS Secretary should consider shifting two of FOM's internal budget positions to the Administrative Budget Unit. Interviews with the Department suggest that FOM would still be able to manage its budget if two employees were part of the Administrative Budget Unit. The transferred employees would benefit from the expertise and advice of the Administrative Budget Unit, and the Unit would benefit from the additional staff.

The DGS Police Overview

DGS Police (DGSP) and Security Officers offer around-the-clock law enforcement and security for 30 State buildings, 9 parking garages, and surface parking lots used by State employees and visited by thousands of Maryland citizens. DGS Police is comprised of sworn police officers, security officers, and police communication operators.

DGSP works closely with other Federal, State, and local agencies on homeland defense and security missions. The Baltimore DGS Police Detachment provides law enforcement and security for a total of 11 buildings, six State parking lots, and four parking garages. The Annapolis Detachment of DGS Police provides security at 19 buildings, including the Maryland State House, the Revenue Administration and the Goldstein Treasury Buildings, as well as the Lowe House Office Building, the James Senate Office Building, and the Miller Senate Office Building. In addition, the detachment covers five parking garages and 11 surface parking lots.

The Annapolis DGS police also oversee both scheduled and unscheduled demonstrations held on State property and coordinate closely with the Annapolis City and Maryland State Police.

It is the opinion of the team that the future of the DGS Police should be studied carefully to determine if a Police Organization should exist within this Department. The team recognizes the need for security at buildings, however there is some question as to the need for a sworn police force, operating in a Department whose core mission is not public safety.

The DGS is “Operating at Risk” by not following standard security practices and isolating a law enforcement agency out of the State’s Police Chain of Command. The lack of training and proper police equipment is placing the police that serve this Department at considerable risk, compared with their counterparts from other law enforcement organizations.

A Commission appointed by the Governor should investigate authority for the operational and jurisdictional control of the DGS Police. The appointment of such a commission is captured in the first recommendation below. Many of the other findings of this team would no longer be relevant if a decision is made to move all or significant portions of DGSP out of DGS. However, those findings, along with recommendations, are presented below for short-term guidance or action items should DGSP permanently remain within DGS. Regardless of the outcome of this commission’s report, the following recommendations need to be implemented in order to ensure the safety of the DGS Police and increase the efficiency with which this Division operates.

DGS Police Problem Identification and Recommended Actions

Problem Identification 1: Commission to Study Proper Placement of DGS Police

This basic mission of DGS is to manage, operate, and maintain multi-agency State facilities. While building security might fall into that mission, supporting an actual law-enforcement agency likely does not. As stated in the summary, the DGS police force is potentially overstaffed, but also under-trained and equipped. As it currently stands, the mission of the DGS Police has become blurred between providing building security and being a law enforcement agency. It is the opinion of this team if DGS Police remains with the Department, their sole focus should be on building security. Furthermore, the team got the sense during interviews with the current Chief and staff at DGS Police that it desires to move closer to being a more traditional law enforcement agency. The team believes that DGS is the not the right agency to house such a function.

- **Recommended Action:** The Governor should commission a working group to study the mission of the DGS Police and propose a series of alternative options regarding the future of the Department. Possible options to consider are privatized building security and complete or partial absorption into another State law enforcement agency.

Problem Identification 2: Flawed Command Structure

The DGSP do not report through the State's Secretary of Law enforcement (Superintendent of Maryland State Police) although they consider themselves to be a law enforcement agency. We believe that this could be a violation of the State Charter and that DGS is operating at risk by inserting this organization under what is essentially a facilities administration and maintenance organization instead of the State's established chain of command.

- **Recommended Action:** It is recommended that DGS Police have a direct reporting line to the Superintendent of Maryland State Police in addition to a reporting line to the Secretary of DGS. Authority for operational and jurisdictional control of DGS should flow through the Superintendent.

Problem Identification 3: Lack of Interoperable Communications

DGSP is currently unable to adequately communicate with other police agencies due to lack of interoperable communications systems.

- **Recommended Action:** DGSP should have an upgraded radio system that is interoperable with other State and Local law enforcement agencies.

Problem Identification 4: Unclear Lines of Authority

DGSP has experienced difficulty establishing their authority as lead agency during building evacuations. In some cases, Department heads and managers have overruled DGSP regarding evacuation procedures.

- **Recommended Action:** It is unacceptable and a risk to public safety for agencies to grapple for control during a potential emergency evacuation. The Governor needs to establish clear lines of authority during building evacuations and encourage all State facilities to engage in evacuation drills.

Problem Identification 5: Lack of Funding for Equipment Replacement

DGSP has cited many examples of equipment in disrepair, as well as an inability to identify funds to repair that equipment. This includes a large number of broken security monitoring cameras. Broken/inadequate equipment could be a safety issue for the Department.

- **Recommended Action:** DGSP should create a master inventory of broken equipment to be prioritized by the Governor's Office for repair and replacement.

Problem Identification 6: Lack of Grant Activity

DGSP appears to have been very lethargic in its efforts to secure homeland security grant money that could be used to provide additional building security, upgraded communications systems, and enhancements to security access systems.

- **Recommended Action:** DGSP should become more closely aligned with public safety agencies and the Governor’s Office of Homeland Security to research federal homeland security funds that may be used to address many different fiscal issues with the agency.

Problem Identification 7: Security Entry System

The apparent lack of enforcement and control of the proximity card system has led to potential employee safety issues. Because of the large number of cards issued, over 55,000 cards, there may be a need for a more robust control and use policy.

- **Recommended Action:** The team recommended that the following actions occur to ensure proper control and use of the State’s over 55,000 prox cards;
 - DGS Police should have access to human resource employee database to ensure expedient removal of employees’ access rights at employment termination or change in employment status.
 - Establish punitive actions to be used when rules are violated it appears currently when an employee violates a proxy card procedure there is no punitive action take against them. This in turn leads to further non-compliance.
 - Consider assigning a staff person to this specific responsibility.
 - Consider moving process to H.R.

Problem Identification 8: Large Item Procurement

DGSP currently conducts their own procurement of large-ticket item such as vehicles, equipment, etc. It might be more efficient to piggyback off of existing contracts with other police agencies.

- **Recommended Action:** DGSP should explore buying off of contracts of other police agencies to determine if it could produce savings.

Facilities Operation and Maintenance Overview

Facilities Operations and Maintenance (FOM) is responsible for establishing policy and directing the statewide operation and maintenance of 56 buildings totaling 6.3 million square feet of space. FOM oversees two principal office centers – Annapolis Public Buildings and Grounds and Baltimore Public Buildings and Grounds – along with 15 regional District Court/Multi-Service Centers. The Division accomplishes the majority of its mission by employing maintenance, trades and other special service personnel to support the operations, preventive maintenance, and repair services.

This Division seems to struggle due to the lack of accountability and the significant reduction of its workforce. The purpose of this division is to protect the state’s assets and ensure that they realize their life expectancies. The organization expends tremendous staff resources “putting out fires,” meaning dealing with emergencies caused by a lack of preventative maintenance. The result is a minimum of \$80 million dollars in deferred maintenance.

There are many unresolved questions and systemic issues that are visible to the sub-committee. The implementation of StateStat metrics to track the activities of this Division is critical. The reduction of staff and the lack of proper training are major obstructions to the effectiveness of this Division. These issues must be addressed and resolved quickly.

We recommend that the O'Malley Brown administration immediately appoint a commission to facilitate substantive procedural reviews relating to the process of operating and maintaining the 56 buildings for which DGS is responsible and to make recommendations that are consistent with private and public best practices.

Facilities Operations and Maintenance Problem Identification and Recommended Actions

Problem Identification 1: Better Work Order Management System

Although previously mentioned as an example of DGS's IT needs, DGS must improve its "Service Call" work order management system as soon as possible. Currently, FOM does not have an adequate system to track the timeliness of repairs and schedule of preventative maintenance.

- **Recommended Action:** Service Call should be replaced with a more modern, functional, and web-based work order tracking system.

Problem Identification 2: Establish Cost of Operating a Building

FOM officials desire additional funding for the replacement of old equipment that is constantly in need of repair. FOM suggested instituting a fee per square foot to State Agencies to be funneled into the operating budget for building and equipment upkeep. However, when asked to provide the full range of needs and exactly what it costs to run each of the 56 building under their control, DGS was unable to do so.

- **Recommended Action:** Use the private sector industry standard methodology of budgeting and tracking facility operating expenses and revenues.

Problem Identification 3: Rapidly Aging Workforce

FOM, perhaps even more so than DGS's other divisions, has a rapidly aging workforce and is having difficulty attracting new employees for what appears to be a below-wage market.

- **Recommended Action:** Establish an intern program that attracts Vo-tech or construction graduates from the Maryland Community College systems as a recruiting and training strategy.

Problem Identification 4: Over \$80 Million in Deferred Maintenance

DGS has \$80 million in deferred maintenance needs. This number would include both large projects such as the State House HVAC renovation/repiping and smaller capital projects. FOM's inability to survey all state owned building and lack of a preventative maintenance schedule could mean millions more in potential deferred maintenance.

- **Recommended Action:** DGS should complete a comprehensive review of all state-owned buildings for which it is responsible for maintaining. The Department could then inventory and prioritize all deferred maintenance. The team suggested using potential savings from energy performance contracting (EPC's) as a potential funding source to tackle deferred maintenance.

Problem Identification 5: Potential Inflated Interest Rates on EPC Leases

The Department's energy performance contracting leases are now relatively aged. Therefore, the team believes that DGS might be able to take advantage of decreasing interest rates over the past several years. The older agreements might be renegotiated at a reduced interest rate to produce positive cash flow. Such a positive budget impact could be used to alleviate the deferred maintenance backlog.

- **Recommended Action:** Establish the current value and maturity dates on the \$42,356,000 saved on energy performance contract leases to determine if interested rates could be renegotiated for a positive gain.

Problem Identification 6: Maintenance Staffing per Building

DGS operates and maintains 6.3 million square feet of State office facilities with a budget to do so of \$43 million. This equates to approximately \$6.83/sq.ft. From this they have some cleaning service contracts at \$2.50/sq.ft. (\$1.00 over industry standards) and approximately \$2.50/sq.ft. for utilities leaving only \$1.83/sq.ft, for repairs, major capital needs, service personnel, and other property demands. This amount is well below the industry standards of between \$10.00 to \$14.00 per square foot depending on certain factors. According to the expertise of the team, this appears to be an unnecessarily high number of staff per building. The Department has no historical data or means to evaluate its needs on a per asset or per task basis.

- **Recommended Action:** Conduct review of appropriate maintenance staffing per building in line with industry standards and data produced by the National Association of State Facility Administrators.

Problem Identification 7: Value from Preferred Provider Maintenance Contract

DGS currently participates in awarding maintenance contracts for many of its Baltimore and Annapolis buildings to "preferred providers." These are contracts given to groups identified by the State's Department of Health and Mental Hygiene whose workers suffer from developmental disabilities. While the social impacts of such a program are noble, the quality and cost associated with them are harmful to DGS.

DGS officials cited poor performance coupled with comparatively high costs. DGS is paying \$2.50 per square foot for these contracts compared to the \$1.50 per square foot that is generally accepted as the industry standard.

- **Recommended Action:** While the team does not advocate abandoning the preferred provider program, it does believe that DGS can achieve greater value from these preferred provider contracts through greater supervision and management. DGS officials informed the team that no DGS staff is available at night to spot-check the preferred provider employees. Furthermore, DGS expresses little connection with or confidence in the respective preferred provider crew supervisors. DGS should work more closely with these groups in terms of communication of expectations and supervision.

Problem Identification 8: Overhead on Leased Space

It appears to the team that federal grants to the State allow the potential for greater compensation of overhead on lease space that what is currently being received.

- **Recommended Action:** DGS should determine the potential dollar value that could be generated annually by increasing the State's charge for this space.

Procurement and Logistics Overview

As a primary procurement agency, DGS has numerous responsibilities for statewide purchasing of a variety of goods and services. The Procurement and Logistics Division provides procurement support and expertise to DGS and to all other State agencies for the timely delivery of quality products and support services through generally funded and reimbursable funded programs. Included in the Division are the following programs:

- Board of Public Work (BPW) and Management Support;
- Facilities & Construction;
- Commodity Procurement;
- Procurement Technology and Support;
- Inventory Standards and Support Services Division (ISSSD);
- Records Management; and the
- Office of Business Enterprise.

The Maryland State Agency for Surplus Property (MSASP) is a self-sustaining agency within the Division which acquires property declared surplus by the State or Federal government.

The Procurement and Logistics Division impacts every agency in State Government and is in need of serious immediate attention to bring it in line with the vision of the O'Malley Brown Administration. Over the last nine years, this Division's staff has been reduced from 96 PINS in 1998 to just fewer than 65 PINS in 2007.

The Division lacks properly trained staff and the information technology infrastructure to carry out its duties and functions as mandated under COMAR. The result is that most other Agencies within State Government have added procurement offices with higher paid and better trained staff. The \$25,000 procurement limitation, which is a nominal amount in 2007, blocks the efficiency with which State government must operate.

The O'Malley Brown Administration needs to address the human resource and information technology deficiencies of this division immediately. The recommendations contained in this report will serve as a guide and will allow for substantial progress to be made toward restoring confidence in its client agencies and engaging in countless opportunities to maximize taxpayer dollars.

Procurement and Logistics Problem Identification and Recommended Actions

Problem Identification 1: Overhaul of eMarylandMarketplace

eMaryland Marketplace is an on-line, interactive bidding service administered through DGS's Procurement division for its client agencies. The system was designed to provide a uniform procurement system across state agencies. However, the lack of a mandate to use eMM, coupled with State law (House Bill 702) that says advertising is required only for solicitations and awards in excess of \$25,000, results in many State agencies using alternative procurement methods for goods and services.

There is currently no standardization in the way procurements are conducted. Some agencies are relying on mail or fax distribution, and some require vendors to physically pick up bid packages and mail or fax them back. eMM is more efficient--it has the ability to distribute bid packages and receive vendor responses electronically.

DGS has also lost its "Catalog Purchasing" function of eMM, which allowed client agencies to log onto the system and make any type of commodity or service procurement it needed. The State of Virginia has a model online "catalog" purchasing system for its state agencies.

DGS has a regulatory responsibility to audit procurements and purchases under its delegation of commodities and facilities maintenance procurements to ensure they are being conducted in accordance to the Code of Maryland Regulation (COMAR). While agencies are required to utilize state contracts, there is no audit tool to ensure that this is being done. In addition, DGS cannot audit purchases when they are made using one of 7,800 state-issued credit cards.

Based on interviews conducted with client agencies and DGS personnel, this committee also believes that the eMM interface should be overhauled to be more user-friendly. DGS also reports that the contractor community, particularly small businesses which might not have experience/expertise in the bidding process, are often discouraged by the complexities of the system, sometimes to the point which they withdrawal their bid.

➤ **Recommended Action:**

1. The Governor should issue an Executive Order mandating that state agencies use eMaryland Marketplace for all procurement, not just those over \$25,000.
2. Reinstate the eMaryland Marketplace Catalog System, which comes with an estimated associated cost of \$360,000. The reinstatement of this system should be coupled with the elimination of state-issued credit cards, which would no longer be necessary if agencies purchased from a central, online catalog.
3. BPW Advisory and Legislative and Regulatory changes.
4. Interface with a preferably modernized, or at least the current state financial system, which ever is more feasible; centralize all procurements under DGS except for personal services (Health Insurance, Travel, etc).
5. Establish a commission of DGS procurement officials, client agencies, and a group of representatives from the contractor community to present recommendations on strategies to make eMM more “user-friendly.”

Problem Identification 2: Consolidate Agency Procurement

Many State agencies are currently using their own procurement agents for procurements up to \$25,000, which by law do not have to go through DGS’s procurement division. Therefore, there are many, many entities throughout State agencies procuring independently. Furthermore, there does not appear to be any outlet in the State to ensure that all of the different procurement shops are adhering to State regulations. DGS procurement officials contend that agency procurement personnel are more qualified and better trained than DGS’s own procurement agents. The resulting lack of standardization in price, maverick credit card spending, lack of spending oversight, and disparity in skills and training make the State’s current procurement structure ineffective.

- **Recommended Action:** The new Administration should consider consolidating all State agency procurement divisions under a central procurement agency, independently or under DGS. The goal would be to have the most qualified procurement agents in one location and promoting the use and sharing of contracts for goods and services to ensure the most efficient use of taxpayer dollars.

Facilities Planning, Design, and Construction Overview

The Facilities Planning, Design and Construction (FPDC) Division is responsible for the management of the design and construction of capital construction and maintenance projects for the majority of State agencies and the Baltimore City Community College.

The Construction Unit ended FY06 with 57 projects worth \$89 million under construction, 14 projects worth \$93 million in the punch list stage, and 22 projects worth \$12 million awaiting final payment for a total workload of 109 projects valued at \$198 million. A total of 154 projects valued at \$109 million were completed in FY06. In addition, there were 283 projects under warranty, valued at \$162 million. During this period, 476 warranty inspections valued at \$250 million were performed.

FPDC administers the State's Capital Grant & Loan Programs, which total more than 100 awards annually to local governments and non-profits agencies. In FY06 contracts awarded totaled \$241.8 million and FPDC provided design and eligibility review for the Interagency Committee (IAC) on Public School Construction. Additionally, FPDC is responsible for architect/engineer (A/E) selection for all projects (with the exception of USM and MDOT) with design fees greater than \$25,000. In FY 06, the Division negotiated 100 design contracts totaling \$9.9 million with an estimated construction value of \$322.8 million.

DGS shares responsibility for State Executive Branch Capital Project Program review with the Department of Budget and Management, providing feasible alternatives, costs estimates, technical review comments, and design and construction schedules. FPDC also provides quality assessment and maintenance of State facilities so that buildings and their components maximize their expected life.

The FPDC is no different than the other divisions of DGS. It has major human resource issues and outdated and inefficient information technology platforms. This Division, more than any other, needs a review of salaries for the professional services that it is responsible for providing to other state agencies. The 14 open professional positions that will be extremely hard to fill unless competitive salaries for these positions can be obtained. This division also needs to take a closer look at privatizing several of its functions including,

- Architectural and engineers services
- Commissioning services
- Project Management Services
- Design Review Services

With the privatization of these services the remaining properly paid and trained staff can focus on ensuring the divisions responsibilities are being carried out in an effective and efficient manner. The Transition Team's recommendations will serve as a guide to the new administration for realizing the potential for this critical department.

Facilities Planning, Design, and Construction Problem Identification and Recommended Actions

Problem Identification 1: Energy Performance Contracting (“EPC”)

The State has employed 25 energy performance contracts for \$42.4 million of energy savings for State and local governments.

However, this team believes that State government could do more to promote energy performance contracting both internally and with local jurisdictions. Currently, there is no mechanism in place to efficiently and effectively allow agencies to present energy savings plans. Furthermore, this team did not get the sense that DGS is doing enough to market EPC to local jurisdictions or offer the use of existing state contracts to do so.

- **Recommended Action:** It is recommended that the Governor require State agencies to present energy savings plans through the use of energy performance contracting. Additionally, DGS should be directed to market the benefits of energy performance contracting to local governments, particularly school systems, along with the option to use the State's existing contracts.

Problem Identification 2: Slow Implementation of Senate Bill 267

The State Building Energy Efficiency and Conservation Act, SB 267, was enacted during the 2006 session of the General Assembly to require DGS and the Maryland Energy Administration to develop energy use index and savings goals for every State facility. The bill requires that each State agency reduce utility consumption by 10 percent by 2010 from a 2005 baseline. The projected total savings from this measure are \$35 million. Lacking a strong commitment in the previous administration, agency participation has varied. As it stands only 15 of approximately 70 agencies have complied. Additionally, the fiscal note with the legislation recommended that DGS hire two additional "energy coordinators" at DGS to manage this process with the agencies. DBM has yet to approve PINS for these positions.

- **Recommended Action:** The Administration should act as quickly as possible to adopt the provisions of SB 267. It is recommended that each agency assign an "energy coordinator" to act as that agency's lead in this effort. The Governor might consider issuing an Executive Order to all agencies to designate such a person and to require participation in the program.

Problem Identification 3: Low BPW Limits for Small Procurements

There are a series of dollar thresholds related to FPDC projects requiring Board of Public Works approval that seem too low. An unnecessarily large number of FPDC actions have to pass through BPW before a project can proceed, often adding weeks or months to a given project. The limits have been reviewed and adjusted upwards in the past to keep up with the increasing costs of materials and inflation, but that type of review has not happened since 1999. The team believes that it might be time to review certain limits that are hindering projects.

- **Recommended Action:** The team recommends that the following BPW thresholds be reviewed and adjusted to the suggested level;
 - Increase the small procurement threshold from the current \$25,000 to \$50,000.
 - Increase the dollar threshold of DGS procurement authority from the current \$200,000 to \$500,000.
 - Increase the dollar threshold of DGS change order approval authority from the current \$50,000 level to at least \$100,000.

Problem Identification 4: Proactive Contract Dispute Resolution

Disputes between contractors and FPDC, regardless of their magnitude, are currently forwarded directly to the Procurement Division as a formal claim. The formality often dictates the involvement of attorney and/or consultant costs at the contractor's expense. Currently, there is an entity called the Departmental Procurement Review Board that exists within DGS's current infrastructure but is not utilized. Its purpose is to review disputes prior to the initiation of the formal claims process. According to DGS officials, the current standard from the filing of the claim to a procurement resolution is 180 days, which is a long and burdensome time, particularly for small jobs and small contractors.

- **Recommended Action:** Utilize the authority and present composition of the Departmental Procurement Review Board to review disputes at the notice of claim, prior to the initiation of a formal claim.

Problem Identification 5: Use of Commissioning Agents

DGS has been managing projects with increasingly complex mechanical and electrical systems for State facilities. It is apparent that DGS does not possess the in-house ability to "commission" such facilities properly. Commissioning consists of systematically documenting that specified components and systems have been installed and started up properly, operationally tested, and then functionally tested to verify and document proper operation through all modes and conditions (i.e. HVAC systems, life safety systems, communications systems, and building security systems). In general, projects with construction costs over \$10 million will require some level of commissioning services. The approximate cost of a commissioning agent for such highly technical projects amounts to an extra 1.5 percent per project. The previous Administration, as well as the General Assembly have shown reluctance to grant additional funds for commissioning agents, which could prove costly down the line with system failure.

- **Recommended Action:** Include funding in the budgets of Capital Projects for the services of a commissioning agent when necessary.

Real Estate Overview

On behalf of State agencies, the Real Estate Division acquires and disposes of real property interests serving the specific agency's mission, protecting the legal interests of the State, and ensuring a reasonable value for the State and its citizens. The Division consists of three main units, which include Lease Management and Procurement, Land Acquisition and Disposal, and Valuation and Appraisal. Lease Management and Procurement acquires lease space on behalf of State agencies, oversees the construction and modification of leased space, and enforces lease terms.

The Lease Management and Procurement Unit acquires and manages new and renewal leasehold agreements for real property between State agencies (excluding University System of Maryland USM and certain Maryland department of Transportation - MDOT actions) and commercial and governmental landlords. This Unit currently manages 370 leases for 4.7 million square feet of office space with an annual rent of \$70.6 million.

Land Acquisition and Disposal evaluates property to be purchased or sold, coordinates program requirements for capital projects, and negotiates contract terms and conditions. The Land Acquisition Unit receives special funding for its support of Program Open Space from the Department of Natural Resources. The Unit presented 31 purchase and sale agreements, options, and easements to the Board of Public Works for a total FY 2006 transaction value of \$12.8 million with 1,166 acres protected. Additionally, the Unit receives special fund support from the Maryland Agricultural Land Preservation Foundation through the Department of Agriculture for its support of the Agricultural Easement Program. In FY06, the Unit presented to the Board of Public Works 68 easement options valued at \$22.9 million with 8,482 acres protected.

Valuation and Appraisal appraises property for State agencies, provides valuation services for State agencies and organizations that receive State grants and loans, provides value recommendations, and maintains a list of approved appraisers.

The Real Estate division has suffered a significant reduction in staff and lacks the information technology resources to efficiently carry out its duties as mandated by COMAR. We believe that the Administration should consider opportunities to privatize its lease management functions and allow for the existing staff to provide the mandated audit functions as required by State charter. Similar models have recently been established in at least 10 states including Florida. The combination of privatization of certain functions and the implementation of information technology upgrades would allow for significant cost savings for this Division thereby increasing the effectiveness and efficiency with which this Division operates.

Real Estate Problem Identification and Recommended Actions

Problem Identification 1: Need for a streamlined method of procuring leases

This department is responsible for managing over 370 leases to various state agencies throughout the state. The group of three agents average 113 Board of Public works submissions per year, or 38 per agent. Each agent maintains approximately 50 open and active cases. Each case assignment can take from 6 months to 2 years to close depending on the real estate market and other private sector factors. The leasing process is long and inefficient. The current staffs, although knowledgeable, are not capable of understanding the various market conditions that exist throughout the state. Outsourcing this process to at least three professional leasing firms allows the process to stay in the hands of professionals that understand the various markets that exist in the state.

Outside brokerage firms receive brokerage commissions not from the agency looking for space, but from the Landlord leasing space. Therefore, there is no cost to the State to explore this option, and there may be additional cost savings to be realized in this process by retaining a percentage of the real estate commission that could be used to defer costs associated with the leasing of the space.

The existing staff would be retained to provide oversight of the process and to ensure that lease compliance, construction oversight and enforcement measures are being properly carried out. Today, all of those responsibilities, which are mandated by law, are not being carried out at the level the department believes is satisfactory.

- **Recommended Action:** DGS should explore the opportunities to outsource the leasing transactional functions of this department.

Problem Identification 2: Lack of information to determine space requirements for DGS client agencies

Currently there is no reporting system in place to determine the ongoing space requirements for DGS client agencies. Although Client agencies are required to justify their space requirements when engaging in new Leases, Client agencies do not continue to report the number of full time employees at each location FTE (full time employee) status on an ongoing basis. As a result the real estate department cannot continually audit for proper space utilization.

It is highly possible, even probable, that there are agencies that have engaged in long-term leases and over the course of the lease, or subsequent renewals, have reduced the size of their workforce and subsequently their space needs. Upon the institution of a reporting program the DGS could look to place other agencies in the same spaces that already have a lease commitment that is not being fully utilized, as opposed to engaging in additional lease commitments that may not be needed. Clearly, the potential for savings upon the institution of a regularly updated reporting system could be substantial.

- **Recommended Action:** DGS should require client agencies provide the total number of full time employees for both State owned space as well as privately leased space on a quarterly basis. That information should be used to determine proper space utilization.