State of South Carolina

Report of the

Government Efficiency and Accountability Review Committee

July 2007

Presented to the Budget and Control Board

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Background

On February 26, 2007, Governor Sanford issued Executive Order #2007-06 establishing the nine-member Government Efficiency and Accountability Review (GEAR) Committee. Through the order, the Governor instructed our committee to "analyze the systems and services within and provided by the South Carolina Budget and Control Board in an effort to propose changes which will reduce costs, increase accountability, improve services, consolidate similar functions, return functions to the private sector and help South Carolina become more competitive in a world economy." (*To read the Executive Order, please see appendix #1*)

The Budget and Control Board

The Budget and Control Board is a unique entity to South Carolina government that functions both as a policy setting body and the state's primary administrative agency. The five member Board itself is chaired by the governor who is joined by two popularly elected statewide constitutional officers, the treasurer and comptroller general, and two legislators – the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee. The policy making board usually meets ten times a year to deal with big picture issues such as policies for the state health plan and retirement systems and approving property transactions and capital spending requests.

As an agency, the Budget and Control Board operates as what is typically known as a Department of Administration in the other forty-nine states in the country. It has a significant influence on almost every agency across South Carolina, as it provides the support services to fill their daily practical needs for items such as offices, computers, phones, vehicles and oversees their necessary policies related to purchasing, human resources and budgeting.

Its General Fund budget of $22 million belies its size as it derives approximately 90% of income received from other government agencies. But even its total budget of $190 million does not provide its full scope, as the Budget and Control Board is responsible for billions of dollars in "off-budget" spending through its retirement and insurance divisions. The Budget and Control staff oversaw expenditures of over $1.8 billion last fiscal year (*appendix #2*) and ended the year with over $1.1 billion in cash (*appendix #3*). These enormous numbers do not even include the hundreds of millions of dollars that were approved for capital projects or the billions of dollars in the Retirement System.

Perhaps because the General Fund appropriated budget is only about one percent of its annual expenditures, it does not seem as if much of this spending receives sufficient public scrutiny. In fact, we are not aware of any previous group of private citizens specifically tasked with "looking under the hood of the Budget and Control Board," as Governor Sanford instructed us when creating this committee. We think that this type of effort is long overdue, as we believe that this agency – given its importance, its scope and its function – can benefit more than most from input from our state's private sector.

Unlike most agencies which deal in specific policy areas such as health care or public safety, our state's primary administrative agency faces the same challenges in human resources, facilities management, purchasing, information technology, insurance, and other common areas that business people encounter on a regular basis. Best practices and good ideas in these areas should find equal traction in the public or private realm.

We encourage the Budget and Control Board to regularly call on private sector volunteers to examine this crucial agency and provide recommendations as a starting point for constant improvement of our state government. While the required time commitment may have our family members disagreeing, we thank Governor Sanford for creating this committee and applaud him for the foresight to initiate this effort.

Members of the Gear Committee

The nine members of this committee brought significant private sector expertise to the process as they represent decades of experience from companies as large as international Fortune 500 entities to entrepreneurial start-ups. The committee members also drew upon others in the public and private sector in their areas of expertise.

While this was a private-sector led effort, it is also important to note that eight of the nine committee members have significant experience working for state government. In fact, three of the nine members are currently employed by the state of South Carolina. The committee has four members with previous or current experience as agency heads in state government, including a former state Chief Information Officer, a former Executive Director of the Budget and Control Board and a former Chief of Staff to the Budget and Control Board. In summation, this is a group with a significant knowledge of the workings of South Carolina state government - yet far enough removed to provide an objective analysis of strengths and weaknesses. *(For bios on the entire committee, please see the first page of the appendix)*

In addition to representatives from the three constitutional officers and the two legislative bodies, it is also noteworthy that although both major political parties were represented on this committee, the recommendations that follow are in no way partisan. Neither the Republican nor Democratic Party's platforms have policies on partisan ways to best manage a building, a computer system, a fleet of cars or a group of employees. The following suggestions represent our findings of best practices in running the support functions of the state government. We fervently hope they will be received and implemented in the apolitical spirit in which they are offered.

As current and former employees of the state, we also want to be very clear in stating that we found many individuals, divisions and offices doing excellent work within the Budget and Control Board. In those cases, we usually had few, if any, recommendations for improvement. This is not an effort to discredit the good work of those who work there have and will accomplish. Instead, this report will hopefully be received as it is intended – a good faith effort to reveal specific opportunities to improve the central agency in South Carolina state government. It is our hope that the many good employees of the Board, many of whom provided us with the ideas that follow, will look forward to implementing these and other ideas to improve their agency in the months and years ahead.

The GEAR Process

The first meeting of the GEAR Committee took place in March where we heard from two of our members, JT Gandolfo and Marcia Adams, about their efforts to reform the Department of Motor Vehicles (DMV). In a situation seemingly similar to ours, Gandolfo headed up a committee five years ago to help Adams, the new director at the DMV, in identifying and implementing recommendations to improve the agency.

Adams and Gandolfo reported that the key to their successful efforts at the DMV was not from bringing in outside ideas to the department, but rather uncovering solutions from those who knew the agency best – its employees and customers. The role of their committee was essentially to find and organize the best ideas in a sensible manner and then help implement them.

We unanimously agreed to adopt a similar approach by pledging to reach out to Budget and Control Board employees and customers to gain their perspectives about the agency. The committee also established a website where Board employees and customers could submit their opinions either anonymously or by identifying themselves for follow-up. The website was hosted by an outside vendor to protect the anonymity of those who responded.

In the introduction of the survey, GEAR chairman Chad Walldorf wrote that the Committee's "goal is simply to help bring the best ideas to light so they can be acted upon. The best ideas for improvement will undoubtedly come from the folks who know the agency best – the employees and customers of the Board."

The ideas certainly came as over 120 people responded to the survey and provided many of the suggestions that will be discussed in the pages that follow. In addition to receiving helpful information from the survey responses, we interviewed and received information from approximately 180 employees, customers and observers of the Budget and Control Board in formulating these recommendations. In total, our recommendations are pulled on the collective thoughts of 300 people. To all who offered their suggestions through the online survey and who put up with our pestering inquiries while still trying to perform their regular jobs, this Committee and the people of South Carolina owe their thanks.

We would also like to offer our sincere apologies to those officials at the Budget and Control Board we did not interview as well as the employees and customers who filled out a survey but did not hear back from us. The overwhelming number of suggestions made it difficult to talk with so many people and address as many topics as we would have liked. As volunteers with other jobs and responsibilities, we estimate that we've invested nearly 1500 collective hours in this project over the past few months. But even that has not felt like enough.

Our resources and our time limitations also lead to another caveat. This report is the collective wisdom of a group of individuals who do not pretend to have all the answers. This document represents our good faith effort to present the facts and solutions as we see them. For those who disagree with any of our suggestions, we submit that this document is merely the beginning of an effort to improve our state's administrative functions and not an end unto itself. Our survey is still up at https://ssl.sc.gov/GEARSurvey/ and we encourage continued feedback from those with thoughts on this topic.

Our committee certainly reached the same conclusions of those who worked on the DMV process – that it is best to listen to the employees and customers of an agency if you want to uncover problems and their solutions. As a result, in order to provide everyone with the benefit of their actual insights, when appropriate, we have provided quotes from some of the first-hand sources that lead to our recommendations. One of our country's most successful businessmen, Bill Gates, has said that "unhappy customers are your greatest source of learning." So, we offer some of their thoughts in the spirit of self-improvement.

Brief Summary and Next Steps

Our findings indicate that there are significant opportunities for improvement within the Budget and Control Board. The following pages contain sixty-one suggestions the committee believes will materially improve our state government. Along with each of our recommendations, we have included a brief background, our rationale for the suggestion and what we understand to be the proper authority to implement each suggestion.

Some of our recommendations have little immediate fiscal impact but will still have significant positive impacts on the Budget and Control Board and the agencies it serves. We estimated the total potential calculable savings of our recommendations to be approximately $497 million over the next three years. We also think that the Budget and Control Board could make better use of its $1.1 billion dollars in carry-forward funds and have identified an additional $146 million that we believe could be re-allocated to pay for more pressing needs of our state such the staggering tens of billions in unfunded costs related to state retirees. In total, we estimate that the implementation of our suggestions would free up over $640 million in the next few years to use for other budgetary needs or return to the taxpayers of our state.

While we were frankly shocked at some of our findings and are somewhat daunted by the challenges facing our state, we remain optimistic that solutions are achievable. We were also heartened having met so many good people associated with the Budget and Control Board and South Carolina who are eager for improvement.

We are as well. The GEAR Committee offers its assistance in helping to implement these ideas and offers its services to any of the five Board members, to the Executive Director or staff of the agency, and to any interested legislators. At our first meeting, we agreed to follow the example of the DMV Task Force by pledging to be an active participant in implementing these recommendations. At that time we adopted the following mission statement for our group:

> *The Committee will analyze the systems and services within and provided by the South Carolina Budget and Control Board in an effort to propose and help implement changes to make the Board more efficient, effective and to better serve its customers.*

The recommendations that follow constitute the collective opinions of our committee. Although the two former Budget and Control Board executives on our committee ultimately did not vote in favor of the full report, they expressed support for many of the recommendations and assisted in crafting some of them. It is important to note, however, that ninety percent of the following recommendations were approved without any dissenting votes and all were approved by a clear majority.

These findings represent - overall – a significant consensus of the majority of our committee based on a comprehensive review process carried out over several months. We hope that the upcoming months will lead to a significant consensus on their implementation.

Recommendation One
The Budget and Control Board should replace their "We Make Government Better" slogan with something more service-oriented and customer focused.

"The Board has some history of ignoring the needs and input of state agencies, the actual customers and users of goods and services, in decision making processes."

Agency Director in a letter to Committee

Background
A frequent complaint from customers of the Budget and Control Board is related to the agency's perceived arrogance and unwillingness to listen to customers. While this is true in some cases and certainly not an accurate characterization in others, there is no denying that the perception amongst the Board's customers is very real.

Rationale
In most cases, the Budget and Control Board does not deliver services to the people of South Carolina - it provides resources and central support to those agencies which do. The Budget and Control Board should not view itself at the top of the pyramid (i.e. "in control") but as the supportive agency at the bottom which is there to support the agencies which actually deliver services to the residents of South Carolina. Slogans of the Department of Administration in other states and of our federal government seem to better grasp this important nuance. Some examples (emphasis added) include the following:

- We *provide consistent and efficient support services* to State agencies *so that they may better serve Alaskans.*
- DAS provides policy leadership, strategies and services that *help our customers get their jobs done* "Better, Cheaper, Quicker." (CT)
- We *serve* those who *serve* Florida.
- The Department of Administration exists to *provide professional and responsive services* to the state agencies, state employees, and local governments that serve the citizens of Montana.
- To *provide* expertly managed *services* to our *customers* that maximize the efficiency of state government. (NE)
- *Help federal agencies better serve the public* by offering, at best value, superior workplaces, expert solutions, acquisition services and management policies. (Federal Government)

The above slogans much better reflect the ideal customer-centric, servant-leadership approach that a support agency like the Budget and Control Board should embrace. The leadership of the Budget and Control Board should adopt their own slogan which encapsulates these ideals and also consider annual surveys of agencies to benchmark service scores so that Board employees better recognize agencies as their customers.

To save any cost from this change, the new slogan should not be immediately switched out everywhere. Instead, over time as new signs, stationary, etc are replaced, the new slogan can be incorporated.

Authority for Change
Within the Agency

Recommendation Two
The Executive Director should reduce the Board-wide Allocation charged to offices and divisions within the Budget and Control Board by a minimum of five percent.

Background
The board-wide cost allocation is essentially a charge which divisions and offices within the Budget and Control Board pay to support the central administrative functions of the agency. The amount that they "kick upstairs" as one agency official put it, comes from the fees that they charge outside agencies and is used to provide approximately 70% of the budget for the Office of the Executive Director, Internal Audit and Performance Review, Agency Support, the Office of Internal Operations, and other agency-wide initiatives.

The fees that the Budget and Control Board divisions and offices pay for central administration increased dramatically earlier this decade, likely as a way to counteract mid-year budget cuts. In FY 2001, the fees totaled just under $1.1 million, but that number doubled after FY 2002 and jumped again to over $3 million in FY 2003. After topping out at $3.2 million in FY 2005, the number has averaged around $2.9 million the past two years. *(please see appendix 4 and 4.5)*

Rationale
When asked about ways to cut cost for state agencies, several division and office directors within the Budget and Control Board would somewhat laughingly start with a request to reduce the amount they paid for administrative oversight. Given the dramatic increase in these payments in recent years, the point is a serious one. If divisions within the Budget and Control Board are being asked to reduce their charges to other state agencies, the example for this sacrifice should start at the top.

We recommend the agency's new Executive Director reduce the Board-wide charges to the divisions and offices within the agency by a minimum of five percent as of the new fiscal year (which just began on July 1st) and look for opportunities to continue reducing them in the future. While the total savings are not large compared with some other items, they are symbolically very important in creating a culture focused on reducing the cost of government support services rather than increasing them.

If every division within the Budget and Control Board – excluding the Retirement System – can find a way to reduce their own charges by a similar five percent, the total annual savings to the agencies and taxpayers of South Carolina would be approximately $95 million.

Authority for Change	First Year Savings
Within the agency	$145,000

Savings (three years)
$435,000

Recommendation Three
The General Services Division should close the agency's Business Development Office.

Background
In 2002, the General Services Division opened a Business Development Office and hired a "Business Developer" to help market the Budget and Control Board's services to state agencies and local government. A Business Developer was hired in November of 2002 and replaced in 2005 by the Director of the Executive Institute. The office, which has an annual budget of approximately $130,000, has only one employee.

Rationale
Some at the Budget and Control Board seem to have taken the "run government like a business" mantra to the extreme by trying to grow the agency's revenue. In fact, in a presentation to the GEAR Committee, one Budget and Control Board official talked about "replacing lost business" from the closure of one division with increased revenue from another. However, it is far from a core function of government to grow – especially an agency that primarily exists to serve other agencies. This off-mission focus is even more egregious in that time and taxpayer resources are being spent on it.

Additionally, the "Business Development News" section of the Business Operations website has not been updated in over two years and the website's calendar of events has no events. Whether well run or not, there is no justification for spending this kind of money – or any taxpayer money – on a government to government (G2G?) marketing campaign.

Authority for Change	First Year Savings
Within the Agency	$130,000

Savings (three years)
$390,000

Introduction

State Fleet Management seems to be a generally well run department. The team members appear to be dedicated and earnest professionals who recognize that improvements can be made to run State Fleet Management more efficiently while saving the state money. The recommendations contained in this section have been discussed thoroughly with the State Fleet Management employees.

A few years ago the state lease program was criticized for charging uncompetitive rates. However, with some prompting from the Governor's office, officials at State Fleet Management dramatically lowered their lease rates on most vehicles. Today, the state lease program offers rates lower than the private sector, including insurance, fuel and maintenance. Even well run organizations have opportunities to improve and State Fleet Management is no exception. Through modifications to its bid structure, for example, the state has the opportunity to save significant money on vehicle purchases.

There are also opportunities for more efficiently providing vehicle repairs, most significantly by consolidating the duplication of various agencies' repair shops across the state and moving more agencies into the well-run Commercial Vehicle Repair Program. State Fleet Management offices also agree that fees can be reduced on that program and on the surcharge they apply to gas purchases. Additionally, when the contract for supplying and tracking gas purchases is due in two years, the state should aggressively pursue a more favorable contract for providing that service.

Recommendation Four
State Fleet Management's vehicle acquisition bid process should be revised to ensure the lowest price – including rebates – is available throughout the entire year.

Background
Currently vehicle bids are issued in the summer. The successful bidder must adhere to that price throughout the year. However, the summer is the worst time to issue a bid because the manufacturer's incentives are the lowest at the beginning of the model year. Incentives change frequently, sometimes monthly.

Rationale
It is very simple to change the bid structure to require that the successful bidder pass on to the state all the highest rebate or manufacturer's fleet incentives when the state orders the vehicle. This will ensure that the state gets the advantage of the lowest price throughout the year. The state purchased over 2000 vehicles last year. The state bid is always awarded at the beginning of the model year when the rebates are the lowest. Rebates on most domestic vehicles change by as much as $3000 over the course of a model year. It is conservative to assume a rebate savings of $1000 per year from adding this to the bid contracts.

Authority for change	First Year Savings
Within the Agency	$2,000,000

Savings (three years)
$6,000,000

Recommendation Five
The state bid structure should be modified to provide for two bid prices: one for payment within five days of delivery and one for payment within thirty days of delivery.

"Most car dealers will not bid on the state vehicle contract because the Board holds their money...Two car dealers have told me that this is why they do not do business with the State."

Agency Director email to committee

Background
Currently, the state bid calls for payment within thirty days of delivery. However, a dealer is required to pay off his floor plan source within five days of delivery or that dealer will be "out of trust." Moreover, floor plan interest charges are significant especially if allowed to run for the full thirty days allowed for payment.

Rationale
A selling dealer can notify the purchasing agency of the delivery date up to two weeks prior to delivery. The state saves money because the dealer can offer a lower price because he will not incur large floor plan interest charges. Moreover, the state will attract more dealers to bid and get the benefit of increased competition.

As the average floor plan cost is $200 per vehicle, a dealer, knowing that he can be paid in a timely manner, can lower his bid by thirty days of floor plan expense. Estimating that this will only occur with half of the vehicles purchased equals an annual savings of $200,000.

Authority for change	First Year Savings
Within the Agency	$200,000

Savings (three years)
$600,000

Recommendation Six
The Commercial Vehicle Repair Program surcharge of 16% should be lowered to a maximum of 13% with a maximum cap of $75.

Background

State Fleet Management, through the Commercial Vehicle Repair Program, charges a 16% fee on every repair order with a maximum charge of $75. Because of the $75 cap, the average mark-up is around 13%. Agencies are not required to use the Commercial Vehicle Repair Program. State Fleet Maintenance management suggests that one reason some agencies do not use the Commercial Vehicle Repair Program is the 16% surcharge. As State Fleet Maintenance will end the current fiscal year with a $1.2 million cash balance, it seems to be overcharging for this service.

Rationale

Until legislation is enacted requiring all agencies to maintain their vehicles through the Commercial Vehicle Repair Program, agencies are free to repair vehicles internally and/or use any outside vendor they choose. As stated before, vehicle maintenance distracts from an agency's core mission. Moreover, State Fleet Maintenance has negotiated excellent rates with reputable vendors who are required to maintain high standards of repair and integrity.

It should be State Fleet Maintenance's intention to break even at the end of each year and not to run a surplus. Lowering the surcharge to 13% and reviewing that percentage annually for future reductions will encourage more agencies to use this valuable service.

Authority for change	First Year Savings
Within the Agency	$75,000

Savings (three years)
$225,000

Recommendation Seven

The state should consolidate all non-Corrections maintenance facilities throughout the state, limit repairs at remaining facilities to specialty and heavy duty repairs, and maintain all other light duty vehicles through the Commercial Vehicle Repair Program.

Background

There are 80 state-owned vehicle repair facilities throughout South Carolina. Most facilities employ a manager and a various number of technicians ranging from .7 (Clemson Simpson Station) to 9.85 (Department of Corrections). The average number of technicians per shop appears to be less than three. *(please see appendix #5)*

State Fleet Management administers the Commercial Vehicle Repair Program. This program allows state agencies to maintain and manage their vehicles with economy and minimal effort. State Fleet Management has negotiated with 647 repair facilities throughout South Carolina to offer routine maintenance and heavy repairs at prices ten to twenty percent lower than national fleet account pricing. The Commercial Vehicle Repair Program staff:

- Maintains data and Service History through the South Carolina Equipment Information System.
- Directs the agency where to take a vehicle for repair, including repairs that are covered by warranty.
- Reviews each repair facility invoice for legitimacy and adherence to agreed upon pricing.
- Processes each invoice for payment.

State Fleet Management maintains approximately 5000 vehicles including the 2500 they lease to other agencies and all 1615 vehicles owned by the Department of Public Safety. State Fleet Management charges a 16% fee to administer the program with a cap of $75. State Fleet Management estimates that there are an additional 5329 light duty vehicles owned by various agencies that could be maintained through Commercial Vehicle Repair Program.

In 2005, the Board authorized a thorough analysis of state fleet operations at a cost of approximately $400,000. The Mercury Report, as it is known, recommended, among other items, that state repair facilities in and around Columbia be consolidated and run by State Fleet Management.

Rationale

The mission of a state agency is to provide whatever vital services it is commissioned to provide. Administering fleet vehicles distracts from an agency's core mission.

The inefficiencies of administering 80 separate repair facilities, some as close as .7 of a mile from each other is staggering. Training is one example. Today's vehicles have computers which are more powerful and perform more complicated tasks than the computers aboard our first manned missions to the moon. Equipment is another example. What is up to date today becomes obsolete or worn out in short order in a modern shop. Unfortunately, it is very unlikely that an agency's vehicle repair shop can adequately and economically keep up with today's standards for repair. While State Fleet Management laudably administers a repair facility certification program, it does not provide training, equipment, or management.

All State Highway Patrol vehicles are maintained through Commercial Vehicle Repair Program and it is certainly more dependent on its vehicles than any other agency. It is hard to imagine a better blending of efficient centralized control of the maintenance of the state's fleet and outsourcing to the private sector than the Commercial Vehicle Repair Program administered through State Fleet Management.

As it will take time to close down a number of state run service stations, no year-one savings were assumed. A very conservative 10% a year savings of the state's total $30 million vehicle maintenance cost was assumed for years two and three.

Authority for change
Individual Agencies and/or the Legislature

Savings (three years)
$6,240,000

Recommendation Eight
While studying and preparing legislation to limit in-house state agency vehicle repairs to specialty and heavy duty vehicles and equipment, state agencies should immediately consolidate seven repair facilities located in Columbia to no more than three.

Background
The following agencies maintain repair facilities in close proximity:

- The Department of Corrections (four techs) and the State Law Enforcement Division (one tech) should be consolidated at the Department of Corrections.
- The Department of Health and Environmental Control (four techs) and the Department of Mental Health (four techs) are less than one mile apart and should consolidate or close both facilities and join the Commercial Vehicle Repair Program.
- State Fleet Management (four techs), the University of South Carolina (two techs) and Educational TV (one tech) should consolidate into one facility run by State Fleet Management.

Each facility employs a manager and incurs facility and equipment expenses. *(please see appendix #5 for more details)* The average state salary is $30,000 per year.

Rationale
All of the rationale contained in the previous State Fleet Maintenance Facilities recommendation is applicable here. Consolidating these facilities could result in a minimum savings of $360,000 annually.

Authority for change	First Year Savings
Within the Agency	$360,000

Savings (three years)
$1,080,000

Recommendation Nine
The current South Carolina Equipment Management Information System (SCEMIS) should be replaced. The savings from a new system should be used to reduce the State Fleet Maintenance's gas surcharge to agencies from .06 to .05 per gallon.

Background
South Carolina Equipment Management Information System is the information system State Fleet Management uses to track all data regarding the 2500 vehicles State Fleet Maintenance leases to other agencies and all of the vehicles State Fleet Maintenance maintains under Commercial Vehicle Repair Program. The system is very old green screen technology, limited in cross-functionality and very expensive to maintain annually with approximately $150,000 per year in maintenance costs.

Rationale
A new system can be purchased for approximately $800,000 but will cost only about $40,000 per year to maintain. Additionally, a new system will give State Fleet Maintenance greater ability to manage the State Fleet thus allowing for more informed decision aimed at efficiency and cost savings. There is currently $1.2 million in excess State Fleet Maintenance funds that will more than cover the cost of the new computer system.

Authority for change	First Year Savings
Within the Agency	$110,000

Savings (three years)
$330,000

Recommendation Ten
State Fleet Maintenance should pay all Commercial Vehicle Repair Program vendors through a credit card rather than process each invoice and pay by check.

Background
Currently each Commercial Vehicle Repair Program vendor submits an invoice for payment to State Fleet Maintenance. State Fleet Maintenance manually processes each invoice and sends them internally for further processing and payment. State Fleet Maintenance pays about $120,000 per year for vendor payment.

Rationale
If allowed to use a credit card account for payment, State Fleet Maintenance will save $120,000 per year. However, according to the Comptroller General's office, a credit card account cannot be used because the current state accounting system, STAR, is not capable of capturing the Federal Employer Identification number critical for payment. When the state converts to the new enterprise computer system, State Fleet Maintenance should begin paying by credit card. As this system is not yet deployed, no savings were assumed for the next two years.

Authority for change
Within the Agency

Savings (three years)
$120,000

Introduction

"The property management business is extremely competitive. With charges of over $11 per square foot, I would expect to have no management contracts."

Executive with a Columbia Property Management Company

The state of South Carolina owns over 8000 buildings and hundreds of thousands of acres of property around the state. At the direction of the five-person Budget and Control Board, the General Services Division is in the final stages of building an impressive inventory of the state's real estate holdings.

The process of managing and maintaining this massive amount of real property provides the state with challenges and some opportunities. The approval process for the hundreds of millions of dollars of annual capital improvements is badly in need of a prioritized ranking process.

General Services needs to use its new database to more aggressively identify underutilized assets owned by the state and should make better use of private sector realtors in marketing and selling them. Finally, while agencies think of their monthly payments to General Services as rent, it is different from a lease situation with a private property owner, as the state already owns the buildings debt-free. Therefore, agencies are just paying for property management services at a very expensive rate.

Facilities Management Services needs to work to lower its costs for managing state buildings. This should begin with the establishment of expense tracking methodologies more consistent with office building management standards which allows them to spread all of their costs into comparable charges per square foot.

While their Accountability Report claims to compare favorably with private sector benchmarks by showing management costs of $5.36 per square foot, their numbers do not account for their full costs while the private sector figures include all overhead costs and other charges like property taxes and private insurance that do not apply to state agencies. *(please see appendix #6)* If Facilities Management really is managing state offices at $5.36 per square foot, that would certainly lead to other questions since they are charging agencies $11.29 per square foot - plus an aggregate $2.5 million in surplus energy charges – to provide that service. *(please see appendix #7)*

Facilities Management is certainly charging substantially more than the comparable government sector cost of $6.70 per square foot. Common-sense changes to the way we provide custodial services can make up part of that differential by saving approximately $1 million per year. General Services, which has a substantial cash balance of $9 million coupled with an additional $25 million for capital projects, needs to figure out how to more accurately compare all of their management costs with industry standards to pinpoint other areas for savings. They should also consider looking to the private sector to provide some of their management functions at a lower cost to agencies.

Recommendation Eleven
All requests for capital improvement projects over $1 million should be ranked and prioritized as an integral part of the Budget and Control Board's approval process. The Budget and Control Board should request that the Commission on Higher Education annually prioritize all of the higher education projects in the Comprehensive Permanent Improvement Plan. The Budget and Control Board should develop a comprehensive ranking system for all other capital improvement projects, regardless of source of funds.

Background

The State of South Carolina owns and occupies over 8,000 buildings. The cost of operating and maintaining such a large inventory is one of the State's largest financial obligations. State law currently gives the Budget and Control Board final review authority on agency requests to acquire or construct new property or renovate existing ones. Not surprisingly, requests related to construction or renovation projects dominate every Board meeting agenda. Since 2000, the Board has considered and approved capital projects totaling $3.4 billion.

Rationale

Each year the Board's capital budgeting unit prepares a Comprehensive Permanent Improvement Plan. The Comprehensive Permanent Improvement Plan is developed based on each agency's determination of the construction or renovation projects the agency wants to pursue over the next two fiscal years. The Comprehensive Permanent Improvement Plan is essentially each agency's wish list of capital projects. It represents a bottom up approach to capital project planning. The myopic priorities of each agency should not drive how the State does its capital improvement planning. Ideally, the Board would use its final review authority to rank all the requests in the Comprehensive Permanent Improvement Plan and approve projects based solely on the rankings. The relative merit of each project would be weighed against the other projects. Instead, the requests of agencies are not ranked based on relative need. Instead, the Board currently approves projects based primarily on whether the agency has funding for the project.

South Carolina's 33 public colleges and universities do the bulk of the state's capital projects. Of the $3.4 billion in capital projects approved by the Board since 2000, eighty percent ($2.7 billion) were for state supported colleges and universities. The Board approved these projects without any relative scoring system.

South Carolina law requires colleges and universities to submit their capital improvement plans to the Commission on Higher Education. The Commission on Higher Education has a ranking system for higher education projects that are funded with appropriations from the general fund or the capital reserve fund. This ranking system includes a consideration of whether the proposed project adds critical capacity and functionality to address defined statewide needs. The Commission on Higher Education, however, does not currently use this ranking system for higher education projects funded by a college or university with funds that do not come from the general fund or the capital reserve fund. Extending this ranking system to all higher education projects, regardless of source of funds, would provide helpful criteria for an improved decision-making process.

Authority for Change
Within the Agency

Recommendation Twelve
General Services should provide janitorial services for the buildings it manages at night rather than during the day. These savings should be passed on to agencies in the form of reduced rents.

"Cleaning at night is more efficient – twice the area can be cleaned without distractions to the cleaners or the employees."

Executive from a large S.C. property management company

Background
The Facilities Management Office of the General Services Division currently provides daytime custodial service five days a week for most of the buildings they manage. The Facilities Management Office reports that it would be more efficient to clean offices at night when they are not occupied. However, the Facilities Office has not made the switch because agencies have historically been against night time cleaning due to security concerns.

Rationale
Most government as well as private sector offices, receive janitorial services at night. State agencies that lease property from the private sector – including the many divisions within the Budget and Control Board with offices in the Capitol Center Building – receive standard nightly cleaning service with no reported problems. Officials at Parks, Recreation and Tourism reported that they would actually prefer night time janitorial service as it would be much less disruptive to their daily operation. Additionally the president of a large South Carolina-based cleaning contractor adds that, "day cleaning in administrative areas is generally unproductive, a safety hazard and an inconvenience to the office staff."

The Facilities Management Office reports that providing night time janitorial service for 80% of their buildings would save $700,000 annually. The state could save an additional hundreds of thousands of dollars by cleaning offices two to three nights a week rather than five. Several tenants of the Brown Building – Parks, Recreation and Tourism, the Department of Natural Resources and the Department of Motor Vehicles – have all agreed to switch from daily janitorial service to service three nights a week. Bathrooms will still be cleaned daily.

After a short pilot with these agencies, the Budget and Control Board should bring this same level of more economical service to most, if not all, of the buildings it manages. Because the majority of the janitorial services are provided via contract labor, General Services should make this change without any reduction in force of state employees. Savings should be passed on to the agencies in the form of a reduction in the rent paid to General Services.

Authority for Change	First Year Savings
Within the Agency	$1,000,000

Savings (three years)
$3,000,000

Recommendation Thirteen
The Budget and Control Board and specifically the General Services Division should more actively work to identify and liquidate underutilized real estate assets of the state.

Background
Per the direction of the five-person Budget and Control Board, the Real Property Services Department has developed software to inventory the state's real estate holdings. This very thorough database is set to be fully operational within a few months.

Rationale
While some may question the cost and expense of developing this software rather than purchasing it, the final result looks to be impressive and very thorough. The employees who developed it should be commended for their good work.

The previously uncataloged information about the state's real estate assets will be an invaluable planning tool in the coming years. A crucial next step is to figure out how best to use the information.

While the state does have a list of surplus property for sale, there appears to be other vastly underutilized or surplus properties that are not currently being marketed. Recent examples include the Department of Mental Health's valuable but nearly vacant Bull Street Campus and the State Ports Authority's similarly valuable but underutilized facility in Port Royal. Both properties are currently moving towards being sold but at the suggestion of Governor Sanford rather than the officials charged with overseeing the state's real estate holdings.

A current example of a nearly dormant state asset is 240 acre State Park Health Complex on Farrow Road in Columbia, which includes dozens of buildings, many of which are vacant and dilapidated. Last year's budget included $470,000 to demolish twenty-two buildings on the campus. The Department of Mental Health occupied the Farmer Building, one of the large office buildings on the complex, but vacated it eight years ago.

The only occupants seem to be some small divisions of the Department of Health and Environmental Control mostly using old residences on the complex as offices. The large complex is badly underutilized and should be sold by the state so that the property can be put to better use and returned to the local tax roles. *(please see appendix #8)*

General Services is in the final stages of assembling an impressive and much needed inventory of all of the state's real estate assets. As the primary overseer of those assets, they should become more proactive in identifying and leading the effort to liquidate all of the ones that are poorly used. While the fiscal impact could be significant, it is difficult to assess the state's real estate holdings.

Authority for Change
Within the Agency

Recommendation Fourteen
General Services should make better use of private real estate agents and auctioneers in disposing of surplus real estate.

Background

The Real Property Services Department has millions of dollars worth of surplus real estate that it has been trying to sell for a year or longer. In fact, there is one piece of surplus property that they have been trying to sell for eighteen years. State law requires property to be sold for at least its appraised value. The Budget and Control Board used to publish that appraised value, which made it very unlikely that a purchaser would offer a price above the appraisal. However, late last year General Services wisely stopped publishing the appraised value which should lead to higher market-based prices for some property sales in the future.

Officials at the Budget and Control Board report plenty of leads from real estate agents when the state is looking to lease property, as the private sector landlords are paying commissions to the real estate agents if a deal is signed. However, the Department reports very little interest from the real estate community when they are attempting to sell surplus property. Obviously, this is because there is no financial incentive for a realtor to make a deal happen. Partially as a result, millions of dollars of property sit unsold and off the property tax rolls of local governments.

Rationale

The SC Department of Transportation had similar difficulties and recently went through an "RFP" process in order to hire two real estate brokerages to list and market their surplus property. Within two years they sold approximately $5 million of previously dormant property – some at higher than appraised value – and cut their inventory of surplus real estate by half.

A Department of Transportation official reported the experiment was a success because local real estate agents "provided information on local markets we didn't know" and "brought a clientele to the table once they had an incentive to do so." They are considering offering "Broker protection" to real estate agents who bring buyers to the table as long as the net proceeds to the Department are the highest option and above appraised value. The Budget and Control Board Property Services Department should do so as well.

Authority for Change	First Year Savings
Within the Agency	$1,000,000

Savings (three years)
$3,000,000

Introduction

The Insurance Reserve Fund provides a full variety of insurance products to state agencies and some local governments. While the Insurance Reserve Fund receives no General Funds, it is a large entity with approximately $100 million in annual operating expenses and approximately $378 million cash on hand as of the end of the fiscal year. There seem to be opportunities to save agencies, and thus taxpayers, significant money by overhauling outdated procedures and adopting best practices that other similar sized entities have embraced in recent years. This would first and foremost include an RFP for handling the state's property reinsurance brokerage, as it has not been competitively bid in nearly two decades. Additional concepts that the Insurance Reserve Fund should employ would include the following:

- Paying a competitively selected broker by a pre-negotiated fee rather than an unknown percentage- based commission
- Increasing currently low deductibles to realize lower premiums for property and automotive insurance
- Enabling stronger insurance placement guidelines
- Consider more competitive sourcing of internal administration services

The Insurance Reserve Fund may also want to consider a medium term goal of following other states in withdrawing from offering insurance to non-state government entities as they now have a myriad of pooled options that were not available to them when the Insurance Reserve Fund was created.

Finally, the Insurance Reserve Fund's year end cash balances have been steadily increasing in recent years from $256 million at the end of FY 2004 to a high of $378 million as of the end of FY 2007. *(please see appendix #3)* Although this brings us closer to the Insurance Reserve Fund's targeted ratio of loss reserves to fund equity, it certainly seems to be unusually high given the fund's historic annual needs. A full professional review of contemporary best practices coupled with updated actuarial studies and cross checked against peer risks could be very worthwhile. Even a ten percent reduction in the fund's reserve would free up almost $38 million for our state's OPEB or other needs.

Recommendation Fifteen

The Insurance Reserve Fund should, through an open competitive process, select a retail broker to place its excess property reinsurance without the use of a wholesale market intermediary broker. The selected broker should be compensated by a flat fee rather than an unknown commission based on a percentage of the placement.

"The IRF property program is a significant placement. I am unaware of any other public entity that places a program of this size without some form of competitive process."

South Carolina Insurance Executive

Background

The Insurance Reserve Fund has long maintained an excess policy to protect the internal property fund from the adverse financial impact of large losses such as hurricane wind damage. This policy has been exclusively placed with the same Columbia-based insurance agency for the past twenty-five years and has not even been competitively bid in nineteen years. The five person Budget and Control Board has invoked its exemption to the Procurement Code on four separate occasions – most recently in 1997 – to continue giving the state's business to the same agency. It does not appear that the procurement has been brought to the five person Budget and Control Board since 2001.

The current occurrence limit for the layered program is $400 million with a separate $150 million terrorism policy. The Insurance Reserve Fund reinsurance policy is based upon a $10 million deductible for the first occurrence and a $1 million deductible for each subsequent event over an annual period. The total insurable values exceed $25 billion and the annual reinsurance premium for 2006-2007 was $20.8 million. It is peculiar that the current year premium remained at last year's level in light of the reduction in most reinsurance costs seen industry-wide over the past year.

Rationale

The decision of the Insurance Reserve Fund to work with one portal to the insurance underwriting market is a sound one. However, the process can be significantly improved and economies can be achieved through competition. It seems highly unusual to spend over $20 million a year in public funds without some form of an open competitive process over the past two decades.

A retail broker selection review should be conducted prior to next and subsequent years' renewals to assure that the Insurance Reserve Fund is represented by a firm which can access most underwriting markets directly, which has significant experience working with governments and with placements in international underwriting markets. Given the significant amount of the policy, it would be more advantageous for the state to follow current best practices by contracting with a broker for a pre-negotiated flat fee rather than the current undisclosed commission based on a percentage of such a large contract.

A commission arrangement essentially takes the control over the broker's compensation away from the state and gives it to the underwriting market. Many other states, including those with similar large windstorm exposures such as Florida, Alabama and Mississippi, have enjoyed substantial savings by evolving to a pre-negotiated flat fee arrangement with the brokers they select. Given the significant size of South Carolina's annual reinsurance purchase, the Insurance Reserve Fund should follow this best practices model as well to save five percent or more annually.

Additionally, the state's long-time retail broker accesses the market through a wholesale market intermediary broker. This intermediary step adds significant transaction costs to the process and conservative estimates project annual savings of an additional five percent. These savings could be passed along to state agencies and other Insurance Reserve Fund customers through reduced premium assessments.

The IRF is currently managing a separate builder's risk program which they should consider rolling into the property program to avoid possible coverage gaps and remove additional costs. Finally, a properly-procured broker will help the state in assessing best practices from the private sector and other governments to examine whether the state's current deductible structure is too low. The state of Texas, for example, has benefited from lower insurance rates by increasing their deductible to a $25 million aggregate deductible.

Given the significant growing funds that the Insurance Reserve Fund carries forward annually, it may be prudent to set aside a special management reserve fund so that the state can be more aggressive with the working deductible layer of the state's reinsurance in order to get significantly better purchasing leverage.

Authority for Change	First Year Savings
Within the Agency	$2,080,000

Savings (three years)
$6,240,000

Recommendation Sixteen
The automobile reinsurance program should be restructured from a "pass through" fully insured program to a self-funded mechanism with excess insurance for large losses. The Insurance Reserve Fund should select a qualified broker to solicit quotes from qualified carriers and compensate the chosen broker on a flat-fee basis.

Background
The Insurance Reserve Fund has procured automobile insurance for South Carolina agencies and, on an optional basis, South Carolina local governments for many years. The staff controls the coverage form and bids a reinsurance contract which assumes all the risk for the Insurance Reserve Fund. This is referred to as a "fully insured/pass through" program for which the state is currently paying $13 million a year.

Rationale
The past six years of loss data for the fleet shows an average annual incurred loss of $11 million with an average of $8.7 million actually paid out – yet the state is paying a $13 million annual premium. Best practices from other entities with large fleets, the spread of risk associated with so many vehicles, and the discrepancies between the premium versus the loss history all suggest that the Insurance Reserve Fund should create a plan that is largely self-funded with significant retentions. The state should continue to contract with a third party administrator to handle claims management and excess reinsurance coverage for large losses which exceed the internal loss limit which could either be per occurrence, based upon a total upper level retention or a combination of the two.

Additionally, the Insurance Reserve Fund considers their current procurement process to be on a "bid" basis. However, when the decision is made to "bid" the business, it is more of a race to the market as the Insurance

Reserve Fund does not select a broker nor do they assign certain markets to certain brokers. Instead they create a "free for all" mentality which allows brokers to approach and lock down any market they can. The result is that when brokers know that the business is going to be "bid," they routinely start approaching markets before the actual release of the RFP. By the time the RFP is released, all viable markets have been contacted.

The lack of sophistication of this approach causes quality insurance brokers and carriers to avoid participating in the process. Perhaps as a result, the automobile program is currently written on "B-rated" paper with a local carrier when "A-rated" carriers are available. Rather than a "race to the market" approach, the Insurance Reserve Fund should follow best practices by issuing an RFP to select a qualified broker and then have the selected broker solicit quotes from all qualified carriers. As with property reinsurance, given the size of the policy, the broker that places this coverage should be compensated via a flat fee rather than a percentage of the placement.

The Insurance Reserve Fund can transition from trading dollars with an insurance carrier to controlling both the claim adjudication process and the cash flow of contributions into and claims payment outflow from the automobile fund. Savings, which would be achieved from the premium/funding spend, operating cash flows, and administrative efficiencies, should be passed on to the Insurance Reserve Fund clients through reduced premiums.

Authority for Change	First Year Savings
Within the Agency	$950,000

Savings (three years)
$2,850,000

Introduction

"The main issue is timing and bulky paperwork necessary to issue simple procurements. It takes months from the time a requisition is submitted to the time a contract is issued by the Materials Management Office...MMO is not very customer-oriented."

A Procurement Customer responding to the GEAR survey

The Procurement Office of the Budget and Control Board is comprised of the Materials Management Office and the State Engineer's Office. These two areas are responsible for the approval and oversight of statewide procurements for goods and services. At one time, the procurement of information technology goods and services was a responsibility of the state Procurement Office, but that function was moved to the Budget and Control Board's Central Information Office's (CIO) Information Technology Management Office in 2002.

Over the last several years, the Procurement Office has implemented changes designed to more effectively serve its customers. For example, several law changes initiated by the division such as increasing agency authorization for small purchases from $1,500 to $2,500, raising blanket procurement authorizations to $50,000, and increasing the protest dollar level to $50,000 have allowed agencies to complete procurements more quickly. In addition, the Procurement Office has taken advantage of technology by developing an on-line requisitioning option as well as offering on-line procurement reporting for agency quarterly reports. The Procurement Office's customers recognize its efforts for improvement as noted in comments received in the GEAR Committee's survey. Customers who responded to the survey gave the Procurement Office an overall customer satisfaction rating of six out of a possible ten.

However, while improvements have been made, there are still opportunities to make changes that will enhance customer satisfaction. Customers still have concerns about the length of time to complete procurements, consistency in procurements, and the time-consuming paper processes involved in completing procurements. Improvements in these areas will certainly benefit state agencies; but more importantly, these changes will ultimately benefit those served by agencies - the citizens of South Carolina. The following recommendations are designed to improve the timeliness, the consistency, and the complexity of the state's procurement process.

Recommendation Seventeen
The General Assembly should eliminate the two provisos requiring legislative approval before restructuring the Budget and Control Board, reducing the workforce or privatizing any of its functions.

Background
Last year the General Assembly passed two new provisos numbers 63.3 and 63.44, which require General Assembly approval for operational decisions within the Budget and Control Board. No other agencies have these requirements even though the Budget and Control Board is the only major agency in state government with direct legislative representation over its operating board.

Rationale
It is a basic tenant of good management and good government to focus an organization's efforts on its key core competencies. In order to maintain an efficient and effective operation government needs all available tools at its disposal. None are more important than the ability to use outside vendors to provide quality non-core services when available at reasonable prices. The Budget and Control Board does not make its own computers or run its own hospitals, for example, because it can better contract to buy those goods and services.

The Board has privatized many functions that it used to provide with great success. Recent examples include outsourcing the creation and maintenance of the state's portal to a private company specializing in portals for state government. The results have been so significant in terms of improved on-line services for our citizens that South Carolina jumped from 43rd to 17th in a recent ranking of state's e-government services. The Budget and Control Board recently closed its Office Supply Division as the emergence of office supply stores such as Office Depot and Staples had rendered it obsolete. And similar examples abound throughout the Budget and Control Board, be they State Fleet Management's Commercial Vehicle Repair Program which contracts with thousands of private garages, at General Services which contracts for equipment repairs and tree trimmers, at the Retirement Systems which uses outside actuaries, and at the State Health Plan which has saved tens of millions in recent years through contracting with partners for disease prevention, smoking cessation and evidence-based medicine amongst other areas.

It is impractical to ask any agency – and especially <u>only</u> one agency – to receive legislative approval before entering into individual properly procured contracts. Legislative oversight beyond the two members who sit on the Budget and Control Board actually threatens the validity of our procurement system. A group of legislators would now have the ability to prevent a contract from being signed with a vendor selected through the legislatively-written procurement process if they had reason to prefer another vendor. Mixing politics with management is never a recipe for good administration.

Most fiscal conservatives and champions of good governance encourage the use of the private sector to provide appropriate goods and services. It is for that reason, for example, that the state of Florida recently created the Council for Efficient Government as a response to the growing trend of outsourcing government services. Further, Virginia enacted the Commonwealth Competition Council more than a dozen years ago to help the state identify ways to provide better and less costly services; especially in areas where services or products can best be provided by the private sector. It is odd, at best, that the South Carolina Legislature has taken the opposite tact by discouraging privatization of government services, likely costing the taxpayers of our state incalculable millions of dollars in the process.

Authority for Change
The General Assembly

Recommendation Eighteen

Expand the concept of agency certification levels beyond dollar amounts and focus on existing purchasing within state agencies. Allow agencies to make larger purchases without direct oversight. Focus the role of the Procurement Office on the processing of statewide term contracts used by all agencies, training and certification of procurement officers in both state and local governments, and consultation and technical assistance to agencies with complex procurements.

"It takes months from the time a requisition is submitted to the time a contract is issued by Materials Management Office."

Procurement customer

Background

Current rules allow for state agencies to obtain procurement certifications at certain dollar limits and allow the Budget and Control Board to grant additional procurement authority. However, only thirty agencies have requested and been granted higher certification levels by the Board. As a result, the State Procurement Office spends much of its time completing procurements for agencies and has little time to focus on statewide term contracts that will provide cost savings for the state. Agency frustrations continue to build as the average time to complete procurements has risen dramatically. Procurement delays in turn around times increase the costs to agencies and ultimately to the public they serve. For example, delays in posting solicitations and awarding bids may force agencies to purchase the items using emergency procurement or sole source procedures that can as much as double their costs.

Rationale

State employees' most common complaint about the Procurement Office was related to their lengthy turn around time for purchases. One customer for example, wrote that "there is no accountability within Materials Management Office requiring procurements be processed in a set number of days. There should be a required schedule for turn around."

The data backs up customer concerns. The average time to process invitations for bids has more than doubled from 30 days in fiscal year 1997 to 68 days in fiscal year 2006, an increase of 127%. The time to process requests for proposals has increased from 67 days to 124 days, a change of 85% for the same time period. While some of the increase in turn around time is due to a loss of staff, most of the cause lies with the lack of procurement delegation to the agencies.

Although much has been done to give agencies larger certification levels, a dollar level limit is not necessarily the answer. In fact, ten states (Alaska, Arizona, Colorado, Hawaii, Missouri, New Hampshire, North Dakota, Oregon, Utah, and Washington) have unlimited dollar amount procurement delegation authority. Consideration should also be given to the types of products or services being procured, so that certification for different types of products and services can be targeted to individual buyers' expertise in agencies. There is expertise in agency procurement divisions, and if used correctly, the agencies' procurement staff can do much of the purchasing currently being handled by the Procurement Division. The Procurement Office has the authority to grant agencies higher certification levels, but they have not seen many agencies take advantage of this opportunity. An emphasis on agency procurement staff expertise, along with professional procurement training, certification, and strenuous compliance reviews will help agencies use procurement personnel more effectively. Delegating more procurement authority to agencies will allow the Procurement Office to refocus its limited resources on those areas with the greatest potential to achieve statewide savings.

An employee of the Procurement Office who responded to the GEAR survey wrote that, "the role of the State Procurement Division should be adjusted. The State Procurement Office would no longer process procurements for individual agencies. Agencies would need certification to complete their own procurement regardless of dollar value. The highly skilled and experienced SPO procurement officers would reallocate some of the time currently spent for specific agencies to this effort, thus spending more time where they can make the largest impact."

Resources should be refocused on statewide term contracts, thus aggregating the spending of all agencies into a single procurement. While difficult to quantify, there would be significant savings in the reduced turn around time to process procurements. Decentralizing the purchasing activity to the agencies will allow them to more quickly process procurements and better serve their customers and allow the Procurement Office to focus on large procurements and statewide term contracts that will produce statewide dollar savings.

Authority for Change
Within the Agency (higher dollar certification) The General Assembly (threshold and specific expertise)

Recommendation Nineteen
Review the bid protest process and determine solutions to make the protests less time-consuming and disruptive to agency operations. Create a hierarchy of protests so that not all are handled in the same manner and allow agencies to continue with the award of the contract for protests at certain levels. Assess a filing fee for protests that will be refunded if the protests are upheld.

Background

Stakeholders of the Procurement Office have consistently complained about the time it takes to resolve a protest. One customer interviewed indicated that a protest caused a two month delay in the award of a contract. Contract delays often increase agencies' expenses. For example, the South Carolina Department of Motor Vehicles was forced to make an emergency procurement for license plate decals and registration forms when a vendor's protest stretched the contract award date from August until November, causing the agency to pay twice the contract price. While a protest mechanism is necessary to give all parties an impartial hearing when issues occur, that process should be based on the validity of the protest.

Rationale

Even though protests for the state are few in number, resolving protests takes a significant amount of time. A protest usually requires the attention of three employees of the Procurement Office; the chief procurement officer, legal counsel, and two staff members from the agency affected by the action. The Procurement Office estimates they spent a total of approximately 2800 hours in FY 2006 in resolving procurement protests. However, this estimate does not even include the days that agencies must wait until the Procurement Office can begin work on the protests or schedule any necessary hearings.

In addition to protests being resource intensive, many appear to be made with little merit. During fiscal year 2006, Procurement Services received 45 protests of purchases for supplies and services. Of the 45 protests, 25 needed no decision as 14 were withdrawn, eight were settled before the hearing, and three were cancelled by agencies. Yet, these 25 protests used resources that were taken away from other procurement activities. In the 20 protests that resulted in decisions, eleven were denied, seven were dismissed and only two protests were granted. All of these protests received equal consideration and consumed a large part of the 2800 hours that procurement staff spent on protests even though only eight of the protests were settled and only two of them were granted as a result of hearings.

Creating a hierarchy of protests would allow for a quick analysis of the validity of protests further consideration and time need only be given to the few that initially seem to have merit. Assessing a protest fee will encourage vendors to protest only when there is sufficient cause.

A significant reduction in the time spent on protests will allow procurement resources to be reallocated to other activities such as statewide term contracts, training, certification, and audits. Based on the statistics from FY 2006, approximately 1600 hours, or the equivalent of one full-time position, can be saved through this proposal. In addition, agencies will save months of delays in their operations by being allowed to proceed with contract awards which will minimize the need for expensive stop-gap procurements.

Authority for Change	First Year Savings
Within the Agency (Create protest fees) The General Assembly (Create protest thresholds)	$150,000

Savings (three years)
$450,000

Recommendation Twenty
The Procurement Office should (and has agreed to) reduce its 1% administrative fee to .75% of total purchases. Procurement officials should review this fee annually to insure that it is only for cost recovery and should instruct vendors to show this fee as a separate line on all agency invoices so that it is made more transparent to the agencies ultimately paying it.

Background

Section 11-35-4860 allows the Procurement Division to assess administrative fees to recover costs for the administration of state term contracts only. This administrative fee has historically been 1% of the total purchase for many years and, although unbeknown to most agencies, is paid by the agencies to the vendors as part of the price for the goods. The vendor then remits this fee to the Procurement Office, which reportedly generated approximately $2,000,000 in revenue in FY 2006 via this fee.

Rationale

State term contracts allow agencies to aggregate spending and thus reduce overall costs to the state. The Procurement Office does incur costs in the administration and management of those contracts, and the administrative fee offsets those costs. However, the basis for the fee needs to be calculated annually to ensure that the fee is set to only match costs, not exceed them. The administrative costs are passed from the vendor to the agencies, and a higher fee only creates more costs for the state as a whole. In addition, vendors should show this fee as a separate line on the agencies' invoices so that agencies are aware of the total fees paid to the Procurement Office for this service.

With the help of the GEAR Committee, the Procurement Office recently analyzed this fee and agreed to reduce it to .75% of the total purchase amounts for state term contracts in order to better match it with costs. Administrative fees should be visible to agencies so that they can track how much is spent for Board services.

Authority for Change	First Year Savings
Within the Agency	$500,000

Savings (three years)
$1,500,000

Recommendation Twenty-One
Expand and improve the procurement system statewide to allow agencies access to common templates to prepare procurement packages, to allow agencies to report procurement activities, and to make historical information about vendors, products, services, and purchase planning available statewide.

Background
The Procurement Office makes the Uniform State Provisions and Clauses available electronically to all agencies to be used in bid document preparation. State procurement uses the APS system to build bid documents using these standard provisions and clauses. However, state agencies cannot access the APS system, and as a result, they must use their own systems to build documents that may not be consistent with state procurement's documents. Also, the Procurement Office makes individual agency procurement information available to the public through links from their procurement website to agency websites. However, there is no common system used by the Procurement Office and state and local agencies to record purchases.

Rationale
An integrated procurement system was a recommendation of the Governor's Commission on Management, Accountability, and Performance in 2003. A common system will allow information to be consistent, easily transferred, and easily accessed. Currently, the state's solution to an integrated system is the SCEIS project which uses SAP software. This system has a module that can be used to allow agencies and state procurement to create bid documents, to track and report agency solicitations, and to process other purchasing transactions. However, there is widespread concern among state agencies and other stakeholders that the procurement module designed in the SCEIS project may not be able to meet all of the needs of the state. There is also concern that the module has not been fully tested to produce a successful implementation.

Careful consideration should be given to the functionality of this system so that both state procurement's as well as agencies' needs are met by SCEIS. Many agencies are not aware of the full functionality of the procurement module of SCEIS and are not aware of the individual agency requirements to implement this system. Implementation and rollout should not occur until the Procurement Division and agencies have had adequate time to review, test, and provide input concerning the procurement functionality of the SCEIS system.

While an integrated procurement system is needed by the state, SCEIS may not be the most favorable solution for procurement. The state should pursue the best system that can be designed, tested, and implemented to meet the needs of the Procurement Office as well as those of state agencies.

There will be savings from the implementation of a properly working system as paper transactions in the procurement process will be eliminated, consistency will be gained by all entities using the same system, more information will be available to the public in an electronic format and the state will save hours in administering procurement activities. Although beyond the scope of this study to quantify, these are significant cost savings to be realized but only if the system is carefully designed, tested and implemented. Otherwise, the state will pay millions of dollars for a system that is not usable.

Authority for Change
Within the Agency

Recommendation Twenty-Two
The State Engineer along with the agencies and other stakeholders should conduct a comprehensive review of all of its statutes, policies, and processes.

"We must pay engineers to do the actual work and then submit those plans to pretend engineers who have no liability and cannot even stamp drawings.

State Agency Director to Committee

Background

There are many approval processes required for State Engineer transactions. Agencies usually find these processes to be cumbersome, time-consuming and labor intensive. Most importantly, the myriad of approvals are costly. One agency estimates that the approval of one of their projects took approximately one year from start to finish. The lengthy approval significantly increased the costs of the project as the prices of building materials skyrocketed during that year's time frame.

Some of the cause for lengthy approval times lies with the laws that govern construction contracts. Much of the cause is due to policies and processes that need to be streamlined and updated using technology that is available.

Rationale

The State Engineer is planning to conduct meetings with its agency customers and other stakeholders. That process should be formalized. An official study group should be named and should be comprised of agencies as well as other State Engineer customers and stakeholder. A charter outlining the purpose of the group as well as a report delivery date should be indicated. Much can be done to address agency certification and delegation of construction procurements. Technology can eliminate the manual approval processes and there are legislative changes that could reduce the time-consuming approval process.

Authority for Change
Within the Agency

Recommendation Twenty-Three
Consolidate all statewide procurement functions of the Board under the Procurement Office. Move Information Technology Management Office back from the CIO to the Procurement Office.

Background
The Information Technology Management Office is responsible for statewide information technology procurements. In 2002, the Information Technology Management Office was moved from the Procurement Office to the CIO Division in order to set standards and control technology purchases.

Rationale
Consolidating procurement under one division minimizes the duplication of procurement activities and provides consistency in the administrative and reporting functions of procurement. In May 2007, the Legislative Audit Council in their limited-scope review of state purchasing overseen by the Budget and Control Board cited the inconsistencies in the reporting and review methods of a bifurcated system and wrote "the Materials Management Office and the Information Technology Office of the State Budget and Control Board should ensure that procurement information is determined and recorded in an accurate and consistent manner."

Other states have also seen the benefit in housing their technology procurement function with the their central purchasing function. In a recent procurement survey, 29 of the 41 states responding reported that the central purchasing office in the state was responsible for procurement of information technology goods and services.

The Procurement Office should be responsible for setting procurement policies, processes, and reporting. Procurement policy should be applied consistently, regardless of the type of item being purchased. Dividing the procurement function only creates duplication in the administrative process. In addition, agencies have to adjust processes according the procurement function with which they are interacting. The rationale for moving the Information Technology Management Office to the CIO was to allow the CIO to set standards for the types of information technology purchases agencies can make. It is good practice to allow the CIO to set standards, but once those standards are set, procurement policy and processes should be consistent. This consistency can only be achieved by bringing all procurement functions together. While this move should produce some administrative savings, the biggest gains will be in the consistency of procurement policies and processes.

Authority for Change
Within the Agency

Introduction

> *"The CIO's office is bloated, cumbersome, and caught up in a level of bureaucracy that seems incapable of delivering services in a simple, cost effective or timely manner. "*
>
> *State Employee response to GEAR survey*

The Committee examined the State CIO's role in planning, procurement and delivery of information technology (IT) services. Over the past fifteen or twenty years a great deal of the authority for the management of information technology has been concentrated in the Office of the Chief Information Officer within the Budget and Control Board. This has been done in a piecemeal manner with the net result being an organization that has too much authority over the operating arms of state government and is able to charge them for services without having to explain or justify the charges and to act arbitrarily and sometimes capriciously simply by hiding behind a tangled web of legislation. The state now faces a situation whereby an organization that has no direct responsibility, authority or accountability for the actual delivery of government services to the citizens of South Carolina has a virtual stranglehold on one of the principal means that the state has to improve the delivery of services to its citizens and lower the cost of government.

The committee also found that the internal workings of the cost reimbursement system are so secret that the details seem to be known only to a chosen few in the CIO organization. One former state CIO for South Carolina said that even he had a difficult time getting full access to the underlying data used in charges for services and further stated that he felt operating agencies were overcharged by at least $4 million per year, but that it could be much higher than that. GEAR committee team members were refused access to the underlying data by the CIO. The Office of the State CIO is viewed with mistrust and a lack of credibility by almost every agency CIO interviewed. They believe their agencies are being significantly overcharged and several examples were uncovered that lend credibility to their assertions. These observations are not new and, in fact, fully mirror the observations of the Governor's Commission on Management, Accountability and Performance Commission, which wrote in 2003 that,

> *"Agencies distrust the office of the CIO and current fee-for-service model of acquiring mandated products and services. Agency personnel believe they can often procure the same products and services directly from the vendor at a lower rate."*

It further seems likely that some IT procurement decisions are too often influenced by their impact on the State CIO's ability to generate revenue rather than on the merits of the technology or services for the agency end users.

Relationships between the state CIO and the CIO's of most of their largest customer agencies are dysfunctional at best. The working environment lacks the trust, cooperation and collaboration required for successful operations in such a complex and interactive environment. In our survey, customers rated the state CIO a three on a scale of one (lowest) to ten (highest) based on over forty CIO-related responses. It is also noteworthy that surveys about the CIO's office comprised over one-third of the total survey volume. Most of this customer dissatisfaction seems to stem from the following conditions:

- a cost reimbursement system that is secret and viewed as unfair;

- the arbitrary manner used by the CIO when dealing with many agencies;
- the inability of large agency CIO's to influence information technology decisions that directly impact their agency's operational objectives;
- the quality of service provided by the CIO;
- and finally the perception that a major criteria for decision-making in the CIO office is the maintenance of high reimbursement funding levels for telecommunications and the data center in order to be able to retain a large CIO staff - with little regard for the cost savings that could be achieved by outsourcing all or part of those services.

Historically there has been inadequate oversight of the operations of the state CIO by anyone or any organization with the appropriate knowledge and experience. While the CIO maintains a plethora of committees on very specific subjects, there is no technology council or grouping of agency CIO's to help guide the totality of the state's IT enterprise. This has allowed the state to lag behind in such areas as use of the internet for telephony and in keeping some operations in-house when it would probably be more cost effective to either outsource them or just move them to an agency.

The South Carolina Enterprise Information System (SCEIS) Project, lead by the CIO, provides an example of leadership concerns, the cloak of hidden dollars, and the importance of an independent oversight. The SCEIS project is a very complex, high risk and expensive project (current estimate is $62M) that will replace multiple agency based financial, human resource and budgeting systems. It has been underway since the year 2001, and six years later the state is still at least four months away from going live with the current software at any agency. (The Department of Mental Health piloted the original software but will have to be retrained on the later version, which will amount to a new implementation.)

This new system is necessary and should be supported. However, at the present time there are significant questions to be answered, as is the case on technology projects of this size and scope, the oversight of the project can be improved. The state does not have a separate quality assurance and risk analysis vendor reporting directly to the SCEIS Executive Oversight Committee (EOC) that can provide the EOC with an independent unbiased view on the status of the project. In addition, as the new systems come on line, agencies will be standing down their old systems. Since the operation of the new system will be centrally funded there will be no need for the current funding to operate and maintain these older systems. The amount of these funds has not been properly identified nor are there any apparent plans at this time to recover those substantial savings within the agency budgets.

Finally, leadership is the ability to get people and organizations with diverse interests and responsibilities to coalesce around reasonable solutions. The world of technology today is so complex and is changing so rapidly that collaboration and cooperation are essential if the overall IT organization is to succeed. The modern "enterprise" CIO role is changing from being the actual provider of services – as is the case in South Carolina – to being the "honest broker," managing the contracts of multiple vendors with primary attention on the broader, more important issues of planning, architecture, standards and policies. This new role allows the CIO to focus on the future, on meeting state government priorities and on insuring that IT support is cost effective. The biggest benefit of this changing role is in freeing the CIO from "defending turf" and maintaining an "empire". The best practices concept of an "honest IT broker" is desperately needed in the state's CIO office as it will lead to better services at significantly lower cost for the state. The current CIO leadership does not appear to be able to lead the agency IT organizations in the state and in desperate need of a new direction.

Recommendation Twenty-Four
There needs to be a comprehensive review of all the statutes that deal with information technology as it relates to state government.

Background

Over the past fifteen or twenty years a great deal of the authority for the management of information technology has been concentrated in the office of the Chief Information Officer within the Budget and Control Board. This has been done in a piecemeal and uncoordinated way that has resulted in an organization that has a great deal of authority to force its will on the operating arms of state government, charge them for services without having to explain or justify the charges and to act arbitrarily and capriciously simply by hiding behind a tangled web of legislation.

Rationale

Unfortunately, the state now faces a situation whereby an organization that has no direct responsibility, authority or accountability for the actual delivery of government services to the citizens of South Carolina has a virtual stranglehold on one of the principal means that the state has to improve the delivery of services to its citizens and lower the cost of government. The time has come to perform a comprehensive review of how the state manages information technology to insure that the citizens of South Carolina are being properly served by the way the government uses information technology to provide both services and information.

Authority for Change
The Legislature

Recommendation Twenty-Five
All financial information included in the reimbursement system should be made available to anyone with a legitimate interest in access to the information. In addition, a detailed audit of the past five year's activities in the CIO reimbursement system and the CIO operations should be conducted with the goal of reducing changes to agencies to reflect their actual costs.

"I have no idea how CIO determines their pricing. In government, a division should not be operating with an unclear statement of where money is coming in and where it is going."

Customer of the CIO's office

Background

At the present time there is a shroud of secrecy over how charges are calculated, the actual amounts and specific categories of costs, expenses and charges that are included, specific overhead amounts that are included and the actual amounts over and above the true variable cost. At the present time only the CIO has the capacity to determine whether charges are legitimate and whether or not it is cost effective for the state to perform functions in-house or by contract. The state should be interested in insuring that it is getting the best value at the lowest cost and that should be totally verifiable by both users and providers.

Rationale

> *"Providing cost based services will also significantly increase customer confidence and trust, while reducing the appearance of conflict of interest..."*
>
> *Customer of the CIO's Office*

Good government is an open and transparent government. There is no legitimate reason to restrict access to any of the financial information in the reimbursement system behind a curtain of secrecy. In fact, to restrict access arouses suspicion and brings into question the legitimacy of the entire process. In the modern world of technology the rate of change is accelerating, new products and methods are coming into the market at an ever increasing pace and competition on both price and service levels has never been greater. Today virtually everywhere, except South Carolina state government, the agency IT buyer has the advantage. The state and the operating agencies should be required to jointly determine if it is more cost effective to procure goods and services from the CIO or from private contractors.

There is some self-reported data from the CIO's office that provides an aggregate picture of the delta between revenues anticipated for telecommunications and data center services and the CIO's apparent cost for providing them. In their FY 2007 activity-based budget report, the CIO's office shows a total of $49.6 million in revenue for telecomm and data services. However, in an attempt to show that they stack up well against industry benchmarks, the CIO's office has also provided information from a consultant they hired which reports that the agency only spent $16.7 million for telecomm and data services. *(please see appendix #9 for the complete numbers)*

The result is a significant $33.3 million gap between the CIO's office anticipated receipts and what they say they will spend for what seem to be the same services. All or part of this gap appears to be primarily in charges to CIO Customers and pays for other functions within the office or helps explain the huge cash balances that that CIO's office carries forward annually. A detailed analysis of all the underlying numbers by an independent agency is required to determine just how much of this gap is real and how much can be explained by other differences.

While more details are certainly needed, these aggregate numbers might help explain why the CIO's office doesn't want to reveal details about their cost reimbursement and pricing decisions and also why agencies believe they are continuously being overcharged. There is little doubt that the CIO's office is making a substantial profit on state agencies given its annual carry-forwards of over $20 million for the past two years. *(please see appendix #10)*

Opening up the CIO's reimbursement system and reducing telecommunications charges to actual costs should save state agencies millions and perhaps tens of millions of dollars annually. The $4 million annual savings assumption below is likely low, but the underlying numbers to make a more definitive estimate have simply not been made available at this time to individuals outside the CIO's office.

Authority for Change	First Year Savings
Within the Agency	$4,000,000

Savings (three years)
$12,000,000

Recommendation Twenty-Six
Create a CIO Council chaired by the state CIO made up of CIO's from the twenty largest state agency customers and ten CIO's from small to medium size agencies with missions that are significantly impacted by technology to work cooperatively with the State CIO in the broad areas of IT planning, procurement and operations.

"It is essential to have key CIO stakeholders actively involved in the process of setting service rates and fees, as well as monitoring the level and quality of services it provides to state agencies. This stakeholder group should also be actively involved in setting strategic direction for new technologies and services at the CIO."

Customer of the CIO's Office

Background

At the present time many of the large operating agencies CIO's view the CIO organization with mistrust and suspicion. Most agencies as well as the State CIO say they are willing to cooperate but both view cooperation as a one-way street. There have been several instances in the past year where collaborative processes began but when there was difficulty achieving consensus the CIO just reverted to using his authority rather than working through the issues to get a reasonable consensus. While the CIO maintains a host of committees on very specific subjects and issues, there is no technology council or grouping of agency CIO's to help guide the totality of the State's IT enterprise. The net result of the current situation is that there is a lot of interaction at the "micro" level but there is very little at the overall planning and policy "macro" level. No one person or organization has all the answers – particularly in the area of technology.

Rationale

The state needs to have some way of insuring that the operating agency CIO's are included in the large over-arching decisions in the area of information technology planning, procurement and operations. The current situation whereby agency mid-level experts are involved in the "what to buy decisions" while the larger and more important decisions about how the state will deploy new technologies, how new technologies will be managed, etc. are handled by the State CIO and his staff is unacceptable. The agencies that have the direct responsibility and accountability to provide citizens, businesses and other governmental agencies with the services that government provides must have a significant say in how technology is used to deliver those services in the most cost-effective way.

Authority for Change
Within the Agency

Recommendation Twenty-Seven
Create an Information Technology Board (ITB) consisting of eight private sector CIO's and eight state agency heads to provide advice and council on IT matters to the Governor, the Budget and Control Board and to the CIO.

Background

The universe of Information Technology (IT) is changing dramatically. What was an excellent solution five years ago could easily be outdated and overpriced today. In the private sector the number of vendors in the marketplace is rapidly expanding, service levels get better and better and prices keep going down.

Rationale

Many states have found that one way to stay on top of this changing marketplace is to create a board made up of private sector CIO's and state agency heads with the role of providing advice and counsel on IT matters to the state's senior executives. The state of Maryland's Information Technology Board would be a good model to use in creating such a board.

Authority for Change
Within the Board

Recommendation Twenty-Eight
Procure an independent quality assurance and risk management vendor reporting directly to the South Carolina Enterprise Information System (SCEIS) Executive Oversight Committee (EOC).

"Critically review the cost and performance of the entire SAP project. Why are we so far behind? Someone should impartially discover how much has it really cost and what is the true cost prediction for full implementation. This project will cost tens of millions and nobody seems to be closely over sighting the CIO's implementation."

Customer of the CIO's Office

Background

Most large implementation projects hire qualified vendors who are not involved in the implementation to provide quality assurance and risk management support on the project. The implementer on the state SCEIS project is the State CIO and his project team reports to the SCEIS Executive Oversight Committee.

Rationale

The SCEIS Executive Oversight Committee needs to have an independent contractor reporting directly to the Executive Oversight Committee to provide a "second opinion" on the project. This contractor should be required to provide, as a minimum, quarterly reports on project status, funding, issues, problems and recommendations. Funding for this contract should come from the SCEIS reserve account. Until this vendor is in place and has completed its initial report the Executive Oversight Committee should closely monitor the progress being made toward achieving the November 5, 2007 go live for Wave 1a of the SCEIS project. If there are any additional delays in the preparations for the implementation of Wave 1a the EOC should suspend implementation until the quality assurance and risk management report has been reviewed and acted upon by the Executive Oversight Committee.

Authority for Change
Within the Agency

Recommendation Twenty-Nine
The funds loaned to the SCEIS project by the CIO should not be returned to the CIO but should be transferred to the SCEIS project contingency reserve account as they become available.

Background
The State CIO office has loaned the SCEIS project approximately $2.7 million. These funds are to be repaid to the CIO over the next two years.

Rationale
Since the CIO did not, apparently, have an immediate need for these funds, consideration should be given to allowing those funds to be put into the project contingency reserve account to cover future costs which almost certainly will arise during the implementation of this complex project.

Authority for Change
Within the Agency

Recommendation Thirty
Identify the operating funds now being used to pay for the operations of the current financial, human resources and budgeting systems and develop a plan to return those funds to the state treasury as the new SCEIS applications come on line and the old applications are no longer needed.

Background
There are approximately 170 applications currently in place in state agencies that are scheduled to be replaced by the SCEIS. Funding for the operation of SCEIS will be provided by direct appropriation to the state CIO office for the support of that system. A conservative estimate of the funding required to support these old applications is $20 million.

Rationale
Once SCEIS comes on line all of these old systems will be turned off and almost all of the functions will be assumed by the State CIO. It seems prudent to identify these funds and earmark them for return to the state treasury as SCEIS application come on line.

Authority for Change
General Assembly

Savings (three years)
$20,000,000 estimated

Recommendation Thirty-One
The current internet telephony procurement should be cancelled and the procurement should be restarted as a joint process with the CIO and the most impacted operating agencies. This procurement should be done by the board's procurement agency and not by the CIO's office.

> *"Please release state, county and local government from the chokehold that the CIO has placed on communication circuits. Ask yourselves why the rest of the world seems to be able to make Voice Over IP work, but the Legislature is the only branch of Government using it. Are you surprised that they are exempt from CIO control?"*
>
> *Customer of the CIO's Office*

Background
The state has been working on internet telephony procurement for over a year. Initially it was an agency and State CIO joint procurement but it has evolved into a procurement controlled by the State CIO. At the present time there are many state agencies that are very upset that they have been excluded from the procurement decision making process as well as the fact that there are three individuals from other states, selected by the CIO, that are involved in the selection process.

> *"Self-preservation seems to be the dominant reason behind the decisions at the CIO for a hosted VoIP solution. The state CIO currently provides billed traditional telephone service to most state agencies where their business model relies on telephone service adds, deletes and changes as a source of revenue. Enabling agencies to purchase and deploy VoIP would negatively impact the State CIO's telephone service revenue."*
>
> *State Agency CIO*

Rationale
While this is a very "thorny" and difficult area it needs to be thrashed out by the users and the State CIO. It is just one more example of when the coordination and cooperation gets difficult there is a resort to shutting out the agencies. There is great potential for cost saving and better service in this area but only if the new system is not burdened with significant overhead charges and bogged down by excessive administrative requirements.

Authority for Change	**First Year Savings**
Within the Board	$500,000

Savings (three years)
$2,500,000

Recommendation Thirty-Two
The Department of Health and Environmental Control (DHEC) processing costs for the IBM database management system DB2 should be reduced to the costs proposed to DHEC by IBM.

"The impression of Higher Ed and state agencies is that the state CIO is more concerned about how they are going to continue their revenue stream at their expense when more efficient means are available."

State Agency CIO

Background

DHEC is paying approximately $1.7 million per year to the state data center for DB2 processing. IBM has proposed to DHEC that for $1 million in one time costs they could get the same services for $79,000 per year. DHEC is the largest user of DB2 with approximate 95% of the effort. The State CIO is in the process of securing a consultant to "look into" this matter and make a recommendation to the CIO.

Rationale

Consideration should be given to allow DHEC, as the largest DB2 user, to work directly with the vendor and to allow other state agencies that use the current DB2 to either continue with their current arrangements or to use the new DHEC arrangements if that is more cost effective. This is a case where almost the entire requirement belongs to one large agency that could do for themselves what the State CIO does for them, but at significant cost savings to the agency. In addition, the other DB2 users could go through DHEC and IBM directly and probably save themselves significant money. As the State CIO said several months ago, "this is a no-brainer." However if it happens, the state Data Center would have to cut their costs significantly or pass the revenue loss on to the users of other systems. The savings shown are only for DHEC but other agencies that pay the CIO office for DB2 services should be able to achieve significant savings as well.

Authority for Change	First Year Savings
Within the Board	$600,000

Savings (three years)
$4,000,000

Recommendation Thirty-Three
Develop an IT strategic planning process that includes all state agencies. The plan should have a five year time horizon and include full life-cycle IT costs. All procurements should be required to be consistent with the long range plan.

Background

The state spends hundreds of million of dollars on IT each year. In April 2005 the CIO Office and major agencies joined together to develop an IT Strategic Plan. Based on direct input from Agency operational and IT managers, it provided a good foundation for a cooperative approach to planning. Per the Policy for the Development of Agency

Strategic IT Plans, each agency was to submit an Agency IT Strategic Plan to the Office of CIO by July 2006. It was not apparent that any input from agencies had been submitted and no follow-up or update to the April 2005 document has occurred.

In February 2006 the CIO Office drafted its own Division Strategic Plan with virtually no input from major customer agencies. The IT planning process needs to be a "bottom up" process that starts at the agency level, using broad high level guidance from the CIO, and then rolls up to a statewide plan. This plan should look at least five years into the future, be consistent with statewide systems architecture, policies, standards, etc. and should be used as the basis for IT procurement decisions. In addition the plan should estimate full lifecycle costs for major initiatives and should be updated at least every two years.

Rationale

Without a broad based strategic IT plan for the state much of what the state will do in this expensive and extremely complex area is potentially uncoordinated, expensive and duplicative. If the state is to use technology to help control costs and at the same time increase efficiency it will have to be done in a more coordinated way than it is being done today.

Authority for Change
Within the Board

Recommendation Thirty-Four

Project Management Training should be done by the technical colleges. In addition, the threshold for requiring a project manager needs to be raised to at least $200,000 not including the cost of hardware in the project costs.

"The CIO should reduce "red tape," particularly in the areas of project management, telecommunications contracts and procurements. Our university spends an estimated $50,000 to $100,000 more per year due to inflexible practices at CIO."

Customer of CIO's Office

Background

There is a state requirement that all projects over $50,000 must have a state certified project manager. Currently the State CIO has a contract with a vendor to provide project management training that costs $2200 per trainee that meets all state requirements but is not certified by the Project Management Institute. Several of the state technical colleges provide project management training that is certified by the Project Management Institute for $600 per trainee, but do not include all state requirements. This training is targeted at preparing the student to take the Project Management Professional examination.

Rationale

The state technical college system CIO estimated that the state requirements could be added for around $200 per trainee bringing the total cost to approximately $800 per trainee versus the current cost of $2200 per trainee. This change would also create additional training opportunities for the approximately forty trainees a year as the state program is limited. Adding the necessary state procurement piece to the technical college program will provide additional training opportunities for state employees at a lower cost and will allow state project mangers to obtain PMI certification. The current requirement to have a Project Manager for any project over $50,000 is overly restrictive and not cost effective. Using a certified Project Manager on a small project is overkill and expensive. In addition to increasing the dollar amount, the threshold also needs to be changed to exclude hardware costs.

Authority for Change	First Year Savings
Within the Board	$56,000

Savings (three years)
$168,000

Recommendation Thirty-Five
Department of Social Services CIO should be an employee of DSS and not a part of the CIO staff.

Background
The State CIO has a Virtual CIO program in place whereby agencies that cannot afford or do not need a full time CIO can use this program to pool their resources and get the services of a qualified professional.

Rationale
The Virtual CIO program can work well for smaller less complex agencies but it should not be used for large agencies that should have their own CIO with no direct ties to the State CIO. At the present time the Department of Social Services CIO is in fact a State CIO employee on loan to DSS. DSS should have an independent CIO not beholden to the State CIO. Decisions on outsourcing, new technology, telecommunications and other such subjects need to be made with the best interests of the primary agency in mind rather than the CIO's office.

Authority for Change
Within the Board

Recommendation Thirty-Six
Finally, two major changes need to be made to the State CIO organization. First, there needs to be a new attitude adopted throughout the organization. Second, the State CIO organization needs to be split into two separate entities, one of which needs to be a cabinet level state CIO.

"The CIO's office has lost its way. They seem to concentrate on acquiring control, not providing cost effective, efficient service."

Customer of the CIO's Office

Background

The world of technology today is so complex and is changing so rapidly that the CIO has to be able to focus on the totality of the enterprise and not on day to day operations. The new role of the "enterprise" CIO is quickly emerging as an "honest broker" managing the statewide IT architecture, standards, policies, contracts, etc, rather than being the actual provider of services. This role allows the CIO to focus on the future, on meeting state government priorities and on insuring that IT support is cost effective. The biggest benefit to the state of this changing role is in freeing the CIO from "defending turf" and maintaining an "empire". The best practices concept of an "honest IT broker" is desperately needed in the state's CIO office as it will lead to better services at significantly lower cost for the state.

> *"CIO operation needs to be separate from the Budget and Control Board. I 100% support CIO reporting to the Governor in the Administration Division as a cabinet level position. Information technology permeates every function in the state and it is vital to the state's success.*
>
> *Customer of the CIO's Office*

Rationale

Leadership is the ability to get people and organizations with diverse interests and responsibilities to coalesce around reasonable solutions. Good leaders do not drive organizations, they lead them. The State CIO organization has to be a dynamic organization with a leader and executive staff that is able to function in a collaborative, cooperative and open environment. The CIO must be willing to share power and decision-making, compromise where required and maintain the CIO organization in a completely transparent and open manner. In order to do this the CIO office needs to be split into two separate organizations with one of those being a state data center under the Budget and Control Board that is a service provider of telecommunications, computing services and printing and is funded by its customers using a fully transparent reimbursement methodology; the other organization should be a generally funded State CIO Cabinet level agency reporting directly to the Governor with responsibility for all of the remaining functions currently performed by the State CIO organization.

Authority for Change
Within the Agency (new direction) The General Assembly (cabinet level CIO)

Recommendation Thirty-Seven
The Office of Local Government should revive the State Infrastructure Loan Fund to make use of the $17 million in the fund.

Background

The Office of Local Government seems to do an admirable job administering their federally funded Clean Water and Drinking Water revolving fund programs as well as the much smaller Rural Development Grant Program. The thoroughness of their loan and grant monitoring programs, which were cited by the U.S. Inspector General as a Best Practices model in 2000, should serve as a model for the often criticized Competitive Grants Program within the Budget and Control Board. The office also runs a State Infrastructure Loan Fund (SIRF) which was created with state funds in 1997 to serve smaller communities unable to qualify for the federally funded programs. However, few have been granted in recent years.

When the state budget became tight in the early 2000's the Office of Local Government's state match was cut from $5 million to approximately $1 million annually. Rather than leave $20 million in federal funds unmatched, officials received approval from the federal government to use state funds in the SIRF to pull down the federal monies. As a result, they have not been making loans from the SIRF. The state's full $5 million match was restored in the FY 2008 budget.

Rationale

While the Office of Local Government has wisely used its funds to maximize federal funding coming to the state, it has unfortunately done so at the expense of the SIRF program. The SIRF fund now contains nearly $17 million which the office was setting aside to guarantee sufficient match through FY 2010. However, state offices shouldn't hold monies to use in future years. Especially now that the General Assembly has restored their full federal match, the Office of Local Government should reopen the SIRF loan program to put the $17 million to work for its appropriated purpose.

Authority for Change
Within the Agency

Recommendation Thirty-Eight

Unless the program can be eliminated, the Budget and Control Board's Competitive Grants Program needs a major overhaul. The agency should follow the best practices of other well-run grants programs by establishing a set of criteria for awarding projects, increasing auditing and oversight for recipients, keeping exclusive grant-making authority away from any one individual, limiting recipients to one grant and requiring a demonstration of need, long-term job creation and a positive economic impact.

Background

In the Fiscal Year 2005-2006 Appropriations Act, the Grants Committee of the Budget and Control Board was created for the first time through Proviso 63.42. The Proviso established a five member committee, staffed by the Budget and Control Board, which reviewed applications for projects funded either through the Department of Commerce, the Department of Parks, Recreation and Tourism, the Department of Health and Environmental Control, and the Budget and Control Board.

The initial mandate allowed the Committee to establish criteria so that the staff of the Budget and Control Board could award projects for $100,000 or less. All grants over $100,000 had to be approved at a public meeting. To date, more than $30 million has been distributed to various entities around the state – approximately $11 million of which was awarded solely by the former Executive Director of the Budget and Control Board. In total, three different application periods allowed for more than 2,200 applications at more than $350 million in requests.

Proviso 63.37 in the Fiscal Year 2007-2008 Appropriations Act made modifications to the program. In an attempt to set some priorities, the General Assembly has now asked for priorities on DHEC consent decrees, ability to match funds, and local festivals. The grants have also now been limited to counties and municipalities. The new proviso does not give grant making authority to the staff, but does not require the Committee to directly approve all grants either. Finally, the General Assembly included language to implement oversight of the program.

Rationale

In the process of distributing awards, cases have arisen that lead to questions about whether or not the program has historically been managed fairly and transparently. To date, project priority has been unclear, at best, and super-legislative at worst. When establishing a process for grants below $100,000, the Committee gave very little in the way of guidance to pick projects. As a result, those that were funded were either done in a complete vacuum or at the direction of legislators – akin to the old, offline budget pass-throughs that were sent at the direction of legislators.

On numerous occasions, applicants have submitted requests in the hundreds of thousands and instead receive grants for less than $100,000. Given the limited resources the Budget and Control Board staff has dedicated to this program, it seems likely that grants were awarded just to award them in certain circumstances. However, a $250,000 need may not be helped at all if it only receives a fraction of its budget. There has been little follow-up to insure that the funds are even spent for their intended purpose. Clear auditing procedures need to be established. Again, limited staff resources make follow up on the thousands of pages of documentation difficult. The original legislative mandate did not include any auditing language at all – leaving $30 million worth of grants suspect in nature.

Currently, there are grant programs at all four of the agencies, such as the Tourism Partnership Fund at PRT, the Community Development Block Grant at Commerce or the Office of Local Government at the Budget and Control

Board. All of those programs rely on scoring systems on a competitive basis that should be emulated for this program.

Some groups have been turned down by the primary agencies overseeing their needs for legitimate reasons but then have requested and been given funding from the Competitive Grants program, fulfilling the classic "adage about one hand not knowing what the other is doing." A points system should be developed in concert with PRT, Commerce, and DHEC and the Office of Local Government to ensure that grant recipients meet the core functions of those agencies. Those criteria should include the following:

- In order for the grants to be most fairly awarded, the program needs complete accountability. Since the creation of this program, there have been no standards or explanation for awarding grants. Moreover, there needs to be a check and balance in the system to ensure that applications are awarded based on merit.

- The grants should be temporary in nature. A policy of repeat awards should be prohibited to prevent problems. For example, Clinton Junior College received two separate grants of $100,000 and $50,000, both awarded directly by the Executive Director, therefore, not requiring a vote by the Committee. If an entity is to be funded annually, then it should be a part of the regular budget process.

- To date, the funding comes from four different agencies, but only the Budget and Control Board staff have been engaged in any type of work on the program. Finance and audit staff from DHEC, Commerce, and PRT needs to be leveraged to make use of their industry knowledge and help with oversight of the program and for recommendations of grants awarded.

Authority for change
Competitive Grants Committee/General Assembly

Recommendation Thirty-Nine
Given the high cost of energy and significant carry-forward cash balances, the Energy Office should increase their loan production to put more funds to work in reducing energy costs for government entities in South Carolina.

Background

The South Carolina State Energy Office provides a broad range of resources designed to help citizens, businesses and public entities save energy – and money – through greater efficiency, better information and enhanced environmental quality. One of the primary ways to achieve that goal in state government is through the ConserFund which is a low-cost revolving loan program for energy-efficiency improvements in state agencies, public colleges or universities, school districts, local governments and private nonprofit organizations.

Rationale

From fiscal year 2002 to 2004, the Energy Office made approximately $7.6 million in loans. However, their loan output has dropped dramatically since then as they have only loaned around $2 million over the past three fiscal years. *(please see appendix #11 for details)* This past year they made only one loan for $450,000. This drop in production is not due to a lack of funds, as the Energy Office has had approximately $5 million that it is carrying forward in the Energy Conservation Loan Fund.

Given the sharp increases in both energy prices and awareness about conservation over this time period, this dramatic reduction in loan activity seems very odd and raises questions about the overall effectiveness of the office. The Energy Office should work to put these funds to work for energy conservation in government agencies.

Authority for Change
Within the Agency

Introduction

The Board of Economic Advisors (BEA), which is advised by the state's Chief Economist and his staff within the BEA, is responsible for providing the General Assembly and the Governor with revenue forecasts for budgeting purposes.

Comparing our revenue projections from the past five years with the eleven other states in the Southeast reveals that South Carolina has been the least accurate in our revenue projections. In terms of average percent difference between the original revenue estimate and actual collections between 2002 and 2006, South Carolina ranked 11th out of 12 on the sales tax, 10th out of 11 on the personal income tax and had by far the worst accuracy on the corporate income tax, with an average error of over 50 percent per year. *(please see appendix #12 for the full data)*

In fact, on both the personal income tax and the corporate income tax, South Carolina had about twice as much error in its tax collection estimations as the average state. When looking at the overall combination of all three major taxes, South Carolina had by far the most inaccurate revenue estimates with an average error of 10.8% versus the Southeastern average of 5.8%. In short, the revenue projections in South Carolina have been nearly twice as bad as the average state in the Southeast.

The following recommendations are made in order to improve upon the accuracy of our revenue projections in the future.

Recommendation Forty
The Chief Economist and the Board of Economic Advisors should use dynamic scoring for proposals with significant fiscal impacts.

Background
The Chief Economists and the Board of Economic Advisors (BEA) currently uses a static scoring system, which does not take into account macroeconomic responses to proposed changes in tax policies. A dynamic scoring system would require the following:

> *Revenue estimators--or experts designated for this purpose--would consider whether a change in policy would be likely to affect the economy, the level of compensation, prices, employment, and gross domestic product (GDP). If one or more of these variables are likely to be affected, estimates would be calculated for the amount of revenue feedback or loss.*

Rationale
Dynamic models include predicted changes in economic activity that would result from an adjustment of the tax code. Since static analysis assumes that GDP will not change as a result of tax adjustments, static scoring tends to overestimate both the cost of tax reductions and the revenue from tax increases; tax cuts, to an extent, encourage economic activity and thus raise revenue, just as tax increases discourage economic activity and can reduce revenues from the "static" estimate. Dynamic scoring would provide a more accurate estimate in the fiscal impact process.

The increased accuracy achieved through dynamic scoring is causing its use to increase. A 2003 survey found that ten states, including neighboring Georgia, were using dynamic revenue analysis. A similar survey the following year found the number had increased to sixteen. The federal government has also been incorporating dynamic aspects in their models.

As Harvard economics Professor Martin Feldstein has said in support of dynamic scoring, "The first step that must be taken to improve the revenue estimates associated with a proposed tax change is to drop the convention that the revenue effect is conditional on an unchanged GDP".

Authority for change
Within the Agency

Recommendation Forty-One
The Chief Economist and the BEA should use a national economic forecasting service to gain an additional perspective on economic performance.

Background
The BEA does not currently purchase any proprietary forecasting services for the national or state economic forecast. The state previously purchased economic forecasts from DRIWEFA (now Global Insight), but the decision was made to stop during budget cuts in the early 1990s. There are a variety of national forecast providers that could provide similar data.

Rationale
Given our poor record of projecting revenue and the hundreds of millions of dollars that are at stake, it seems prudent to look to a national forecasting service not subject to political influences to help improve our accuracy. In fact, many states use a proprietary national forecast in formulating their revenue estimates as a national perspective is helpful to understanding changes within each state. For example, the state of Wisconsin spent about $34,000 in 2004 on national data which certainly seems to be a reasonable investment to improve the accuracy of revenue estimates.

The National Association of State Budget Officers' writes in their "Criteria for a Good Revenue Forecasting Process" that a critical component is that the revenue estimating agency has the "data...required to generate a good estimate." Assistance from a credible national forecasting service should certainly be a piece of that that necessary data.

Authority for change
Within the Agency or The General Assembly

Recommendation Forty-Two
The Board of Economic Advisors should have access to Department of Revenue records when preparing fiscal impact statements.

Background
Currently, the BEA cannot legally access Department of Revenue records for use in preparing fiscal impact statements.

Rationale
Allowing the BEA access to Department of Revenue records would increase the accuracy of fiscal impact statements. The federal Joint Committee on Taxation has access to Internal Revenue Service records, and such access only makes sense because the fiscal impact of proposals frequently hinge on how many people and businesses would be affected by them for example, have tax liabilities sufficient to use a given credit. This can be best determined by an examination of Department of Revenue records.

Authority for change
The General Assembly

Recommendation Forty-Three
The Board of Economic Advisors should be required to eliminate political or extraneous considerations from the revenue estimating process. The Chief Economist should also produce an annual report to assess the BEA's relative performance on revenue estimation from the previous year.

Background

The BEA has often taken on the role of policymakers rather than revenue estimators. One of the most egregious examples was a blatantly optimistic estimate given to prevent mid-year budget cuts immediately before a previous governor's election. In recent years, the BEA seems to have deliberately "low-balled" estimates by hundreds of millions of dollars in order to avoid any potential for mid-year budget cuts.

Rationale

While trying to protect the state from mid-year cuts is a laudable goal, interjecting deliberate errors into the revenue estimating process has given us the poorest track record in the Southeast and perhaps the United States. In years of rising surpluses, lowball estimates often deny the governor (his Executive Budget) and the House Ways and Means Committee (if not the entire House) the opportunity to fairly weigh in on the allocation of hundreds of millions of new dollars. They also interject cynicism into the budget process as the BEA often steps in to resolve the annual budget Conference Committee negotiations by "finding" the exact amount of money that was separating the two bodies.

The production of a short annual report comparing the BEA's estimates from the prior fiscal year with other states should interject some needed discipline and accountability into the process.

Authority for change
Within the Agency/The General Assembly

Recommendation Forty-Four
The Budget and Control Board should fill the vacant position of the State Auditor as well as the many vacant positions in that office. The division should become more active in suggesting ways to improve cost-effective customer service within the Budget and Control Board and at other agencies.

Background

The State Auditor serves as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and to provide audit coverage of those entities. However, the State Auditor's position has been vacant for over a year. There were interviews in the summer of 2006 for the position but no one was hired. Additionally, over 25% of the positions in the agency are also vacant.

Rationale

This position has been vacant for too long. A new auditor with a more complete staff could look both within the Budget and Control Board and other agencies to examine ways to operate a more efficient and effective government. At full strength, the office could provide many of the benefits that the Inspector General's office provides to the federal government. A good State Auditor may have already discovered and improved some of the recommendations in this report and could be helpful in implementing and monitoring them in future years.

The Office of Human Resources should repost the position and should consider hiring a head hunter to help provide suitable candidates for the position.

Authority for change
Within the Agency

Recommendation Forty-Five

The Budget and Control Board should operate as a "break-even" agency rather than a profit center of state government. Other than exceptions approved by the Executive Director, all carry-forward monies (including "other funds") over five percent of a division's FY 2007 annual expenditures should lapse to the General Fund.

Background

Budget Proviso 72.30 allows an agency to carry-forward up to ten percent of unspent general funds. However, an agency's "other funds" are not impacted by this proviso. As most of the Budget and Control Board's budget comes from these "other funds" (mostly fees charged to agencies) this ten percent cap on carry-forward funds has little impact on this agency. Partially, as a result, the Budget and Control Board carried forward $680 million after FY 2005, $863 million after FY 2006 and had over $1.15 billion total cash on hand at the end of FY 2007. *(please see appendix #3)* Even when excluding trust and reserve accounts, the Budget and Control Board increased its carry-forward by 15% over the past two years and continues to retain around 40% of its annual expenditures, far more than the 10% standard of Proviso 72.30.

	Amount	Percentage of annual spending
2005 year end	$63.9 million	37%
2006 year end	$73.6 million	41%
2007 year end	$81.9 million	38%

Rationale

As discussed earlier, the Budget and Control Board should exist solely to serve other divisions of South Carolina Government. As such, it should be a "break-even" agency that only charges agencies enough to recover expenses. Given the enormous and growing cash reserves that the Budget and Control Board carries forward year after year, agencies are clearly being overcharged for some of the services they receive.

Obviously some programs and divisions do need larger carry forwards. Examples include loan funds (such as those run by the Office of Local Government and the Energy Office), Insurance Funds (such as the Employee Insurance and Insurance Reserve Fund) and Capital Project Funds. As these types of accounts will be addressed separately in this report, they are not part of this analysis. Many divisions of the Budget and Control Board have carried forward too much cash with the thought to save it for future needs or for when "times are tight." However, that function - essentially the function to appropriate funds for other purposes – does not belong to agency employees but is within the joint purview of the General Assembly and Governor.

In an ideal world, all administrative funds for the Budget and Control Board would be appropriated General Fund dollars and any charges to agencies would be just enough to recover the variable cost of providing the service without mark-up. Until that time, all divisions within the Budget and Control Board should strive to reduce their charges to agencies. Some specific cost reductions and associated savings are detailed in other sections of this report.

In order to reduce the current accumulation of cash, the Executive Director of the Budget and Control Board should task the Internal Audit Division with examining all FY 2007 year end funds from every division in order to recommend what funds – if any – need to be carried forward.

Unless the Director of the Budget and Control Board makes exceptions based on the auditor's input, all funds over five percent of a division's budget should be "lapsed" to the General Fund. Proviso 72.3 allows for a maximum of ten percent carry-forward but this is a maximum amount – not a minimum threshold. A five percent carry-forward should be sufficient in most cases. The Budget and Control Board should apply this methodology to funds from its much greater fee-based revenue as well as its General Funds.

Based upon preliminary FY 2007 yearend reports, the estimate for the total funds that could potentially be lapsed are approximately $42 million. *(please see Appendix #16)* Recognizing that there will certainly be legitimate exemptions to this recommendation, our report only assumes a conservative 25% of these funds will be deemed surplus. However, the fact that the Office of the CIO continually carries a cash balance over $20 million – indicates that the $10.5 million in estimated savings could be much larger.

Authority for Change
Within the Agency/The General Assembly

One-time Transfer
$10,500,000

Recommendation Forty-Six
The monies in several largely inactive funds housed within the Budget and Control Board should be recommended for reallocation for other uses of the state.

Background

The following five accounts within the Budget and Control Board have not had significant activity in a year or longer.

CCF Ward vs. State	$3435
Baldridge Training	$20,511
Brandenburg	$25,354
Funded Debt Sinking Fund	$38,750
Civil Contingent Fund	$406,644

Rationale

After accounting for any known outstanding liabilities, the Budget and Control Board should recommend these funds be lapsed to either the General or other appropriate fund so that they may be re-appropriated by the General Assembly. In order to clean up the state's books, all but the Civil Contingent Fund should be closed.

Authority for Change
Within the Agency

One-time Transfer
$494,694

Recommendation Forty-Seven
The Human Resources function should operate in a centralized, matrix organization in order to provide better efficiency and minimize redundancy.

Background

The current structure of the state Human Resources function is, at best, ambiguous. The Office of Human Resources is over some aspects of state HR issues but not responsible or accountable for others. This fact produces the biggest opportunity for redundancy of processes and fertilizes inefficiency. While the Office of Human Resources has the best opportunity to centralize processes and reduce waste, each agency Human Resource office has the accountability to produce results. When no centralized approach is offered, decentralized (agency specific) processes are initiated.

Rationale

Using a Center of Expertise model for the Office of Human Resources would provide a structure where the agency Human Resource professionals still report directly to the agency director, but also have dotted line accountability to the Office of Human Resources. The results would be as follows:

- The Office of Human Resources should be responsible for all activities that help to eliminate transactional work in the agency. They could also serve as the functional group that decided outsourcing opportunities around transactional issue management (payroll, benefit administration, etc.).
- The Office of Human Resources should be the central repository for training and development initiatives
- The Office of Human Resources should be the central source of statewide policy. Procedures are then left up to the agency to develop and maintain (preferably with input from the Office of Human Resources).
- The Office of Human Resources should be budgeted so that each agency, regardless of size, is afforded the services that are centrally provided. Currently, smaller agencies that pay for services go without the services because of their cost.

Authority for Change
Within the Agency

Recommendation Forty-Eight
Implement a temporary to hire solution for high turnover job classifications.

Background
The ability to attract and retain a productive workforce is becoming more difficult each year for both public and private sector employers. For example, in 2004 the Department of Corrections had a 65% turnover rate of correctional officers within two years of employment. Each of these hires represents a $3500 investment. Other state agencies have had similar issues in the last five years.

Rationale
By implementing a "temp to hire" situation, a lot of the upfront recruitment and selection costs are borne by the temporary agency. Over seven hundred correction officers left the Department of Corrections employment in 2003 alone. That represents $2.6 million dollars in human capital investment with no return on that investment.

Through hiring a "temp to hire" contractor, the training could be done while the potential employee was a temporary worker as well as the department having the opportunity to check out the work ethics and job fit of the potential employee. In addition, the time of training and indoctrination would not count towards state health care or retirement. Many private sector companies have begun utilizing such contractors in recent years.

As an example, one Fortune 500 company in South Carolina uses an outsourcing arrangement for their entire new hire process. This includes recruitment, orientation, training, background checks, and drug screening. The temporary agency employee is completely trained and put on the job when all hiring criteria are met. The employee works in a temporary capacity for up to six months. In that time period, the employee decides if they are interested in the company long term and the company gets the opportunity to observe the work habits of the employee. If both parties are satisfied, an employment offer from the company is made. This process significantly reduces the amount of work for the Human Resources department personnel and offers a better option for the on-boarding process.

A "temp to hire" program would result in a significant savings to state agencies. For example, if corrections were able to cut their turnover in half, they would save approximately $1.3 million a year. While this would result in significant savings for other agencies, there would be minimal impact on the Budget and Control Board finances.

Authority for Change
Within the Agency

Recommendation Forty-Nine
Employees in the top two levels of management under the Director of the Budget and Control Board and at all state agencies should serve at the will of the agency director.

"I need more flexibility in handling staff positions. I could run my Division with 20% less employees and we'd still do our job just as well if I could just keep the right 80%."

Manager within the Budget and Control Board

Background

Only seven of the 1232 employees under the Director of the Budget and Control Board are currently "at will." These positions are the Chief of Staff, General Counsel, Retirement Systems Director, Insurance and Grants Director, Director of General Services, Chief Information Officer, and Director of Procurement.

Other employees of the Budget and Control Board are "protected" with grievance rights which makes it very difficult to hold them accountable for results. Approximately four years ago, at the request of the Governor, the Legislature passed Proviso 72.64 as a "pilot project" to make the second tier of employees "at will" within cabinet agencies and the offices of constitutional officers. The General Assembly inexplicably removed this proviso in the recently passed FY 2008 budget.

Rationale

South Carolina is an "employment at will" state, meaning that virtually all employees of private sector companies work in an "at will" arrangement. There seems to be a disconnect, however, in that these same rules apply to such a small fraction of state government employees.

The "two down at will" pilot project proved to be a huge success amongst the cabinet agencies where it was implemented. In spite of concerns from some critics that the rule change would lead to massive firings, the reality, according to the Office of Human Resources, is that there were only three employees terminated out of 572 employees who lost grievance rights as a result of this classification change. These numbers equate to dismissing a miniscule one tenth of a percent of employees annually over the four year period.

So why expand this "pilot" project if it hasn't significantly impacted the number of employees being dismissed? The biggest benefit, according to agency heads, is reflected in the 569 employees who have not been let go as they have had a greater incentive to do good work and their supervisors can better hold them accountable for results. Labor, License and Regulations Director, Adrienne Youmans, reports that "the good employees at my agency were not threatened or bothered at all by the proviso and/or increased accountability."

Another cabinet member, Judge Bill Byars, at the Department of Juvenile Justice says that even though he had not used the proviso to "terminate an employee," he is "supportive of it as it allows me to hold more high ranking employees more accountable for results at our agency."

Officials within the Budget and Control Board, cabinet agencies and all agencies of the state government should be given the ability to hold their top employees accountable. While there are enormous financial implications that come with increased accountability, they are impossible to quantify.

Authority for Change
The General Assembly

Recommendation Fifty
The Executive Institute should move back under the Budget and Control Board's Office of Human Resources in order to better coordinate with the Office of Human Resources and reduce their administrative costs.

Background
The Executive Institute is a training process put in place to help train and educate state employees on agency responsibilities and leadership skills.

Rationale
The Executive Institute was created as a training function under the Office of Human Resources with the purpose of offering an annual curriculum tailored for public sector leaders and designed to meet evolving needs of governmental leaders in South Carolina. Programs are built around both academic perspective and practitioner experience. Approximately forty state employees participate in the full program every year and overall give the program high ratings. Reportedly due to personnel issues, the Executive Institute became a stand alone division within the Budget and Control Board with a budget of approximately $400,000.

The Executive Institute certainly performs a valuable function for state government. However, as a stand-alone division with four employees, it is costing approximately $10,000 per graduate of the program. As a comparison, the Charleston Metro Chamber of Commerce runs a leadership program, Leadership Charleston, at the cost of $1000 per graduate. The Riley Institute's Diversity Leadership Academy at Furman University runs their leadership program for $3000 per graduate.

Moving the program back to the Office of Human Resources should allow the Executive Institute to cut their administrative and other expenses in half, allowing the program to continue its good work but graduate students at a more reasonable cost.

It makes good tactical business sense to have a training and leadership facility such as the Executive Institute within the Office of Human Resources. In addition to making sure the process maintains the same integrity and quality, combining the process with the Office of Human Resources training group helps to save duplication of effort and budget.

Authority for Change	First Year Savings
Within the Agency	$200,000

Savings (three years)
$600,000

Recommendation Fifty-One
The Office of Human Resources should discontinue Tempo – the state run temporary employment agency.

Background

The state is currently in the business of managing a temporary employment service of approximately 80 employees. This service was set up to help agencies find the necessary people talent to manage in case of short term absence or as a "work-around" until the replacement employee was recruited and selected.

Some agencies have used the Tempo service to acquire the necessary people resources to fill open job positions. However, the administrative costs of managing such an endeavor do not have a positive return on investment, especially given the small size of the temporary workforce.

Rationale

While there may have been at one point, there is certainly no lack of private temporary employee services in our state. Many agencies and even other divisions within the Budget and Control Board use outside temporary staffing agencies because they are less expensive.

A statewide contract for temporary staffing services would yield the necessary employees without additional overhead costs for the state. Additionally, the Tempo program is also run out of a valuable 9533 square foot building which cost the state approximately two million dollars in 2000 to purchase and extensively renovate for the Executive Institute.

The Executive Institute left the facility a few years ago so the building currently only serves as office space for ten Office of Human Resources employees. As a typical office building of that size would house two or three times the number of office employees, the facility is vastly underutilized. Closing down the Tempo program would also allow the building to be sold with the proceeds going to the state.

Authority for Change	First Year Savings
Within the Agency	$2,200,000 (includes sale of building)

Savings (three years)
$2,600,000

Introduction

The State Health Plan oversees the health care insurance offered to approximately 350,000 eligible state and local employees, retirees and their families. Taxpayers fund about 70% of the premiums with the remaining 30% being paid by the recipients. The State Health Plan was in very poor condition as recently as FY 2003 when it ended its fourth straight year with either a deficit or near zero cash balance.

After several years of double-digit increases in employee premiums, Governor Sanford, the officials at the State Health Plan and the Budget and Control Board worked together to put the program back on sound financial footing. The results have been outstanding and officials at the State Health Plan should be commended for their efforts to lower costs and increase effectiveness for their customers. After experiencing double-digit growth in costs in the early part of the decade, the State Health Plan spending has moderated to about 4% growth over the past three years due to a variety of factors including the following recent initiatives:

- The implementation of a disease prevention programs for chronic illnesses, such as asthma and diabetes
- The introduction of a smoking-cessation program
- An evidence-based medicine initiative
- An improved coordination of benefits program with Medicare.
- Encouraging the use of less expensive generic prescriptions which have jumped to 50% of prescriptions from 35%
- Offers less expensive mail-order prescriptions which now makes up 10% of prescriptions
- Being an early adopter of the Health Savings Accounts coupled with high deductible insurance

Largely as a result of these initiatives, plan participants have not had to bear a premium increase in three years. And rather than a negative cash balance, the State Health Plan ended FY 2007 more than fully funded with $344 million in the bank. While the current financial picture for the Plan looks very good, a major challenge is presented for the long term with the upcoming requirement to report Other Post Employment Benefits (OPEB) obligations. New rules issued by the Governmental Accounting Standards Board (GASB) require governmental entities to measure and report in its financial statements the present value of health insurance, for present and future retirees.

Rather than pre-funding retiree health insurance, the state has operated on a "pay as you go" basis. The actuarial valuation completed last February indicated that the State's OPEB Actuarial Accrued Liability, as of June 30, 2006, was just over $10 billion which equals to an annual need of $536.4 million. This fiscal year the General Assembly only allocated $63 million to a not-yet created OPEB trust fund. There is concern that credit rating agencies will ultimately look unfavorably on government entities that do not adequately address its unfunded OPEB liabilities in a timely manner.

Recommendation Fifty-two
Establish a trust to allow for advance funding of the state's other Post-Employment Benefits (OPEB) expenses. Use State Health Plan funds over 140% of the plan's liability to help fund this trust.

Background
New accounting standards require South Carolina to measure and report in the present value health insurance for present and future retirees. The most recent actuarial valuation puts the unfunded cost for retiree health insurance at just over $10 billion or $536.4 million annually.

Rationale
As previously mentioned, officials at the State Health Plan have been very proactive in working with the Governor's Office and the five person Budget and Control Board to dramatically improve the fiscal health of the program. The result has been below market rate increases and a cash balance of $344 million at the end of FY 2007 compared with a negative $15 million balance just three years earlier.

State Health Plan officials readily admit they do not need funds over 140% of their liability and it appears there will likely be more than $135.8 million in surplus funds that health plan officials offered last year. It seems logical to use the surplus health care funds for current employees' health care to pay down the tremendous unfunded debt for retiree care. This recommendation is contained in H3789 which has passed the House and is currently in the Senate Finance Committee.

Authority for change
The General Assembly

One-time Transfer
$135,750,000 (or more)

Recommendation Fifty-Three
Change the eligibility requirements for state and local employee retiree insurance to require twenty-five years of service for a full taxpayer subsidy and fifteen for a half subsidy.

Background
The State currently provides subsidized health insurance to most retirees of agencies and school districts who retire with ten years of service. As mentioned earlier, the total unfunded cost of that 70% insurance subsidy will cost taxpayers over $10 billion.

Rationale
A significant number of retirees with State-funded insurance have worked for the State or a school district for a period of less time than would be considered for a full career. Nearly 36% of these retirees have less than 25 years' service and almost 12% have less than fifteen years' service. Providing subsidized insurance to non-career employees as retirees has had a substantial impact on the State's OPEB $10 billion liability.
The OPEB Study Committee in its report earlier this year recommended changes in retiree insurance eligibility that were only applied only to future hires. While this change would not impact the current OPEB number, the effect

on future OPEB expenses would be substantial. Pre-Medicare retirees in some states such as Florida and Virginia can remain in their state's health plans but only receive a flat amount (up to $150 depending on years of service) in subsidies for their health insurance. Other states such as North Carolina have recently increased the years of service necessary for an employee to receive subsidized health insurance.

Actuaries for the State Health Plan estimate this change would save the state over $3.5 billion over the next 50 years, which averages over $70 million annually. H3789 has passed the House and is currently in the Senate Finance Committee where it was amended with this proposal.

Authority for change	First Year Savings
The General Assembly	$71,400,000 annually

Savings (three years)
$214,200,000

Recommendation Fifty-Four
For certain therapeutic classes of prescription drugs, move participants from non-preferred drugs to clinically equivalent generic or preferred drugs.

Background

For 2006, pharmacy costs were just over $300 million and accounted for approximately 30% of the total State Health Plan expenditures. Currently, there are eight therapeutic classes that represent nearly 24% of Plan cost and 21% of claims utilization. Some examples include ulcer drugs and high cholesterol drugs. Many of these drugs have appropriate generic or preferred brand alternatives.

Rationale

As the state discovered through its 2003 creation of a Preferred Drug List, moving certain preferred drugs to equally effective lower priced drugs can lead to significant savings for the state. A logical continuation of that process would involve adding these classes of drugs to the equation. When a prescription is presented at the pharmacy and is not on the preferred drug list, the pharmacist requests a change to a generic or preferred drug from the physician. The physician can change the prescription or request a coverage review for the non-preferred drug. If the participant receives coverage approval, the higher copayment is applied, as is currently the case. If coverage is denied or the doctor does not request coverage approval, the participant pays 100% of the drug cost.

This program would work in a way similar to other Step Therapy Prior Authorization programs common in the industry. The State's Pharmacy Benefits Manager estimates physicians make recommended changes 75% of the time. Plan savings associated with moving these eight classes of drugs is estimated $16.4 million a year.

Authority for Change	First Year Savings
Within the Agency	$16,400,000

Savings (three years)
$49,200,000

Recommendation Fifty-Five
Implement a plan that encourages State Health Plan members to fill routine maintenance drugs through mail order pharmacies to save money for both parties.

Background

It is less expensive to fill prescriptions via mail order than in a retail setting. As a result, both the State Health Plan and plan participants realize greater discounts for prescription drugs when they are purchased through mail order. In 2006, the effective discount for mail order was 7% better than for retail prescriptions.

Rationale

According to the state's Pharmacy Benefits Manager, our state health plan's use of mail order for maintenance drugs continues to run below peer averages. In order to make up the differential, we could follow the lead of other state's plans in more actively encouraging the use of mail order pharmacies for maintenance prescriptions.

While there is no requirement to purchase maintenance drugs through mail order, members do realize a savings in their co-payments. For a ninety day prescription filled at retail, a participant pays a co-payment of $30 for generic, $75 for a preferred brand or $120 for a non-preferred brand. The same prescription filled through mail service would drop co-payments to $25 for generic, $62 for a preferred brand or $100 for a non-preferred brand.

Once a member presents a refill at a retail pharmacy for a maintenance drug, that member could receive a letter from the State's Pharmacy Benefits Manager, educating the member on the benefits of using mail service delivery, including Plan and co-payment savings and the repercussions of not doing so. If a member continues to use retail pharmacy, rather than mail service, the member would pay 50% of the cost of a drug on all subsequent refills.

Currently, 75% of the volumes for maintenance prescriptions are filled at the retail level. Moving 25% of that business to mail order would save $9 million dollars a year, with $4.1 million in annual savings for the members and $4.9 million in annual savings for the State Health Plan.

Authority for Change	First Year Savings
The Five Member Budget and Control Board	$4,900,000

Savings (three years)
$14,700,000

Recommendation Fifty-Six
Establish a network management approach along with a $1000 per participant maximum for chiropractic.

Background

The State Health Plan currently offers unlimited chiropractic services without any medical or utilization management specifics for that benefit. Partially as a result, chiropractic is now the leading professional specialty in terms of claims payout costing over $23 million last year. The trend for chiropractic services is also higher than that of other professional specialties. From 2004 to 2006, growth in chiropractic expense per person has increased by an average annual rate of 16.8%, compared with 5.8% a year for the overall plan.

Rationale

The majority of private plans and many other state plans place an annual maximum, often as low at $500, on an individual's chiropractic coverage. The cost of not having an annual cap nor any management system is a costly one for the state. Only about 8% of the plans participants receive chiropractic care, which is about the norm for other insurance plans. However, the average cost per patient in the State Health Plan was $875 in 2006 – about 75% higher than reported national norms of $500 per patient.

The majority of the participant's usage is below the national average as over half receive less than $300 a year in chiropractic services. However, about 25% of the plans participants had expenses over $1000 a year, 126 patients (out of 350,000) spent over $10,000 last year, fourteen patients exceeded $20,000 last year and three patients cost the state health plan over $30,000 each last year.

Chiropractic services can be valuable when medically appropriate as they can preclude more invasive and expensive types of care. The reality is that a small fraction of individuals are using an inordinate amount of chiropractic services that taxpayers and other plan participants are paying for. A quality initiative providing clinically appropriate condition and severity specific guidelines to measure patient outcomes and provider performance would reduce total chiropractic expenditure materially without changing any level of benefit. Providers who were found to be outside established service parameters and refused to adjust practice patterns after education would risk losing their continued participation in the State's provider network.

Officials at the State Health Plan estimate that a $1000 cap would save the system $13 million annually. As an alternative, the Budget and Control Board could choose to only adopt a network management approach that would save approximately $4.7 million a year.

Authority for Change	First Year Savings
The Five Member Budget and Control Board	$13,000,000

Savings (three years)
$39,000,000

Introduction

Changes made to the eligibility rules for our Retirement System earlier this decade combined with generational forces have put the solvency of the entire system at risk. If dramatic changes are not made soon, it may become difficult if not impossible to grant cost-of-living increases to retirees next year. In the medium to long-term, either employee's contributions will have to be increased or the system will end up being a huge drain on our state's General Fund, sucking hundreds of millions or even billions of dollars from other functions of state government.

Because they are in different divisions, the challenges facing the Retirement System and the State Health plan are rarely discussed together. The reality is that they are inexorably intertwined as they both deal with caring for our state's same growing population of government retirees. As the baby boomer generation retires over these next two decades, we are faced with unprecedented fiscal challenges. In addition to the $10 billion in future unfunded health care costs for our retirees, our Retirement System faces an additional $10 billion in unfunded obligations that are recognized and acknowledged.

And neither of those liabilities includes the costs of ad-hoc cost of living increases (COLAs) that have historically been given above the legislatively mandated one percent, which are expected to add another $7 billion in costs in today's dollars. The total potential tab adds up to approximately $27 billion divided amongst 4.2 million citizens of South Carolina. Put another way, that is over $14,000 in costs for every taxpayer in our state.

If we keep our current system as is, the state will have to dedicate approximately $800 million of new funds annually just to keep pace with our unfunded health care and COLA needs. And that number will continue to rapidly grow unless we make changes sooner rather than later.

The unfunded obligations of the Retirement System are expected to increase almost eight fold over the next 35 years. Assuming any increase in our state's assumed rate of return within the next few years would be irresponsible given our performance history. As a result, there seems to be no responsible way to continue funding COLA's above one percent without making immediate dramatic changes to the Retirement system.

We cannot afford more political expediency at the expense of making the difficult decisions. The following recommendations are proposed to begin addressing the critical and mounting problems that face our retirement system:

1) Discontinue Applying Unused Annual Leave and Sick Leave to retirement benefit or length of service
2) Use average of five most highly-compensated years of service to determine average final compensation (ARC)
3) Return to 30 year length of service requirement for normal retirement
4) Closely look at limiting inclusion to our state's defined benefit retirement plan to current employees and only offering a defined contribution plan in the future.

The benefits from the above recommendation include reducing the cost of providing retirement benefits and health care benefits of state and local government employees, improving the funded status of the Retirement System and reducing the Retirement System's unfunded liability.

Recommendation Fifty-Seven
The South Carolina Retirement system should discontinue applying an individual's unused annual leave to increase retirement compensation and should discontinue applying unused sick leave at the time of retirement to creditable service for determining length of service.

Background
The South Carolina Retirement System provides for retirement benefits based on an employee's three most highly paid years of employment. The value of an individual's unused annual leave is currently added to the last year's salary to increase the retirement distribution. Unused sick leave is currently added to an individual's creditable service to determine length of service.

Rationale
Practice among state-sponsored plans varies. For example, in North Carolina, vacation leave may not be used as creditable service for retirement purposes. Unused sick leave may be used to increase creditable service, but cannot be used to meet the minimum qualifications for a vested deferred benefit or the Survivor's Alternate Benefit.

For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Authority for change	First Year Savings
General Assembly	$6,000,000

Savings (three years)
$18,000,000

Recommendation Fifty-Eight
Change the retirement funding formula to be based on an average of the five most highly paid years of employment versus the three most highly paid years of employment.

Background
The South Carolina Retirement System provides for retirement benefits based on an employee's three most highly paid years of employment.

Rationale
Nationally there are thirty other state-sponsored retirement plans that base their average final compensation (AFC) on the five most highly paid years of employment. For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Based on a 4% increase in salary, use of a five year average final compensation for the SCRS results in approximately a 3.75% reduction in future benefits. The impact above does not consider the attractiveness to new hires of the optional DC plan if significant changes to the DB benefit formulas are undertaken.

Authority for Change	First Year Savings
General Assembly	$8,000,000

Savings (three years)
$26,000,000

Recommendation Fifty-Nine
Change the retirement eligibility for new employees back to 30 years.

Background

The South Carolina Retirement System currently provides for full retirement benefits for employees after 28 years of service. Despite ever-increasing life-spans and national trends towards working longer and retiring later, in 2000 the General Assembly reduced the number of work years required to qualify for state retirement from 30 years to 28 years. This change caused an immediate, seven year, $650 million increase to the unfunded liability of our state's retirement system.

Rationale

Clearly one of the biggest factors in pushing our retirement system towards its unstable $10 billion in unfunded accrued actuarial liability was the reduction in the number of years required for retirement from 30 years to 28. The result is that South Carolina's retirement plan generally provides for earlier retirement than most states in the country including our neighbors of Georgia, Florida, North Carolina and Tennessee which all require 30 years of service.

According to a report issued by the SC Chamber in 2000, our move to a 28 year retirement made South Carolina's retirement program more generous than 90% of the nation's major government pension systems.

While generosity is often seen as a virtue, it is not such a good thing when you make such promises with others' money. Unfortunately the taxpayer's are now saddled with a potential growing $27 billion in unfunded costs for retiree's pensions and health care.

In order to address this very serious fiscal problem, we need to at least attempt to stop the bleeding by moving back to a 30 year retirement. For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Actuaries calculate that the first year impact of this change would provide a $4.3 million decrease on the retirement system's unfunded liability and $16.4 million decrease on the annual unfunded liability of OPEB. The ultimate savings would be much more dramatic, as more new members come into the system.

Authority for change	First Year Savings
General Assembly	$20,700,000

Savings (three years)
$62,000,000

Recommendation Sixty
A study should be conducted for a plan that limits participation in our state's Defined Benefits System to current employees and only offer a Defined Contribution System for new employees.

Background

The State Retirement System currently offers both a traditional defined benefits plan and an optional plan which is a defined contribution plan. The defined benefits plan guarantees a one percent cost of living increase for participants as of last year. The plan is currently under-funded by approximately $10 billion dollars, which is near its 30 year liability limit.

Rationale

The impending retirement of the baby-boom generation and longer life expectancies have caused most private sector retirement plans to switch to more economically-stable defined contribution plans. In fact, only 17% of workers in the private sector still have a traditional defined benefits plan.

In spite of the widely-held view that government jobs need higher benefits to make up for lower pay, USA Today recently reported that "most government workers are actually paid more than private employees in similar jobs, and the wage gap is growing. A typical full-time state or local government worker made $78,853 in wages and benefits in the third quarter of 2006, $25,771 more than a typical private-sector worker, the Bureau of Labor Statistics reports. The difference was $7,604 in 2000."

The federal government foresaw the coming fiscal crisis and reacted by closing its traditional defined benefit plan to new employees in 1984 when it offered its first defined contribution plan. The state of Alaska recently adopted a mandatory defined contribution plan for all new state employees as a way to stop the bleeding on its retirement systems $6 billion unfunded liability.

The primary reasons for moving to a defined contribution plan is a need to reduce cost and future funding liabilities, a desire to reduce the golden handcuffs that make it difficult for a worker to change jobs, and a desire to allow greater fund accumulation for shorter service workers.

The fiscal impact to the state will depend on the contribution rates of the defined contribution plan that the state decides to offer. Unlike our current defined contribution, the liabilities will be fixed so that taxpayers will only be forced to pick up the tab for one $20 - $27 billion shortfall rather many more of them in the future.

Authority for Change
General Assembly

Recommendation Sixty-One
The General Assembly should create a Cabinet level Department of Administration to oversee the administrative functions of the agency. The Five Member Budget and Control Board should continue to exist to handle the majority of its current functions.

Background
Despite numerous studies calling for change, South Carolina remains the only state in the country with a quasi-legislative/executive board to oversee the support functions of our state. While they may go by different names, each of the other forty-nine states in the country have agencies that provide their administrative support service under the sole authority of the governor.

Rationale
In their 1991 report, "SC State Government for the 21st Century" Chairmen David Wilkins and Nick Theodore wrote the following on behalf of the forty plus South Carolinians who spent the summer extensively studying the structure of our state government:

> *"The Commission found that the other functions that it had defined as clearly executive tasks also fall within the Budget and Control Board's responsibility. Day-to-day oversight of these functions has been delegated to the Executive Director of the Board, reinforcing the Commission's finding that these tasks are too immediate and crucial to be overseen by a Board that meets only twice a month."*

Unfortunately, their recommendation to create a Department of Administration was not enacted. It's now sixteen years later and the executive tasks of the Budget and Control Board have increased. Yet the tasks that were too immediate and crucial to be overseen by a Board that only met twice a month then only meets once a month now – except this month as the Budget and Control Board doesn't meet in July.

If the administrative functions of the Budget and Control Board were in a cabinet agency, the Governor likely would have created a GEAR Committee in February of 2003 rather than in February of 2007. And our state may have implemented many of the 61 suggestions in this report three years ago and have already saved the taxpayers of South Carolina much of the associated hundreds of million dollars rather than just now thinking about it.

Authority for change
The General Assembly

Appendix

GEAR Committee Biographies

Marcia Adams
Marcia is Executive Director of the Department of Motor Vehicles. She was appointed in 2003 to head the agency's 1,200 employees. Previously, she served with the Department of Public Safety, the Governor's Office, and the Department of Parks, Recreation, and Tourism.

Lewis Creel
Lewis is the Director of Human Resources and Public Affairs for Alcoa - Mt. Holly. He has been with Alcoa for 28 years in a variety of production, quality, and human resources jobs. Lewis Chaired the 2005 Workers' Compensation Reform taskforce. Twice nominated for "Who's Who" in Human Resource management, Lewis also won the 2004 H.R. Professional of the Year award from the S.C. Chamber of Commerce and Society of Human Resource Professionals.

JT Gandolfo
JT is the President and owner of Dodgeland of Columbia and JD ByRider. Dodgeland is a Five Star dealership and the largest in sales volume in the Carolinas. JT headed the DMV Task force in 2002 credited with setting the ground work for transforming the DMV into a model agency.

Rick Kelly
Rick has 30 years of experience in central state government in South Carolina including twenty years at the Budget and Control Board in management positions at General Services, Operations and ultimately Executive Director. Since 2001 he has served as Vice President and CFO for the University of South Carolina.

Mike Langrehr
Mike, former CIO for the State of Maryland, has over sixteen years of State government executive level experience in Information Technology, Financial Information Systems and Higher Education. In addition to serving as Maryland's first CIO, Mike also served as Director of Maryland's Statewide Financial Information Systems, held a variety of Higher Ed positions, and spent 21 years in the U.S. Army, where he held a number of positions including Chief of Budget for Army Logistics.

Burnie Maybank
Burnie is a Member of Nexsen Pruet. He returned to the firm's Columbia office in 2006 after serving as Director of the South Carolina Department of Revenue from 2003 through 2005 and also held that position under Governor David Beasley from 1995 to 1999.

Stephen Osborne
Stephen is currently the Senior Vice President for Business Affairs at the College of Charleston. Prior to moving to the College, he was the Chief of Staff for the SC Budget and Control Board from 2002-2006. He has also been the Director of the Division of Budget and Analysis and the State H.R. Director for the Board. He has been named SC Public Administrator of the Year.

Chad Walldorf (Chairman)
Chad is a businessman who served for two years as a Deputy Chief of Staff for Budget and Cabinet Affairs under Governor Mark Sanford. In 1992, he co-founded a Mt. Pleasant based restaurant which has grown to over 1000 employees in nineteen locations in the Southeast. In 2004, he and his partners were named Ernst and Young's "Entrepreneurs of the Year" from the Carolinas.

- Budget and Control Board -

Headcount by Division/Office/Type

May 2007

	Perm	Temp	Grant	Time Limited	Total
Executive Director Division					
Office of Executive Director	5	3	0	0	8
Office of General Counsel	5	0	0	0	5
Division Totals	10	3	0	0	13
General Services Division					
General Services Division	231	10	0	25	266
Division Totals	231	10	0	25	266
Budget & Analysis Division					
Office of State Budget	23	1	0	0	24
Office of Research and Statistics	50	7	1	21	79
Office of Human Resources	33	1	0	0	34
Board of Economics Advisors	4	0	0	0	4
Confederate Relic Room	8	1	0	0	9
Division Totals	118	10	1	21	150
Retirement Systems					
Retirement Systems	183	9	0	0	192
Division Totals	183	9	0	0	192
Insurance & Grants Svcs Division					
Division Director/ Ins & Grants	22	0	0	0	22
Employee Insurance Programs	78	3	0	0	81
Office of Insurance Reserve Fund	41	1	0	0	42
Office of Local Government	9	0	0	0	9
Energy Office	15	2	0	0	17
Division Totals	165	6	0	0	171
Procurement Services Division					
Division Director / Procurement Svcs	1	0	0	0	1
Office of Material Management	40	1	0	0	41
Division Totals	41	1	0	0	42
State CIO Division					
Office of State CIO	303	26	0	11	340
Division Totals	303	26	0	11	340
Agency Support					
Agency Support	11	1	0	0	12
Executive Institute	3	1	0	0	4
Office of Internal Operations	35	4	0	0	39
Division Totals	49	6	0	0	55
Internal Audit & Performance Review Division					
I.A. & Performance Review	4	0	0	0	4
Division Totals	4	0	0	0	4
BCB Totals	1104	71	1	57	1233

State of South Carolina

Executive Department

FILED

FEB 26 2007

Mark Hammond
SECRETARY OF STATE 8

Office of the Governor

EXECUTIVE ORDER NO. 2007-06

WHEREAS, the economic health of this State is a top priority for our citizens; and

WHEREAS, as chief executive of the State, I am charged with improving the way our state government does business; and

WHEREAS, it is necessary to determine ways in which the Executive Branch government systems and services can be made more productive, more efficient and less costly, while providing an emphasis on customer satisfaction and productivity; and

WHEREAS, other states and the federal government have successfully undertaken similar efforts and identified sound management practices while enhancing accountability and performance, thereby serving the best interests of their citizens.

NOW, THEREFORE, I do hereby establish the Government Efficiency and Accountability Review Committee (the "Committee").

1. The Committee shall analyze the systems and services within and provided by the South Carolina State Budget and Control Board in an effort to propose changes which will reduce costs, increase accountability, improve services, consolidate similar functions, return functions to the private sector and help South Carolina become more competitive in a world economy.

2. The Committee shall be comprised of nine members. Five shall be appointed by the Governor, one of whom shall serve as Chair. The State Treasurer, the State Comptroller General, the Senate Finance Chairman and the Chairman of the House of Representatives Ways and Means

Committee, as members of the Budget and Control Board, may each appoint one member. In making said appointments, members of the Budget and Control Board should give consideration to persons with expertise in areas particular to the functions of the Budget and Control Board, such as Information Technology, Procurement Services, Fleet Management, Retirement and Pension Services, Budget and Finance, Insurance and Grant Services, and Real Estate.

3. The Committee shall be authorized in the furtherance of its mission to hold public hearings, conduct site visits of the Budget and Control Board, and take such other actions as it deems necessary and advisable.

4. The Committee will release its final report by June 15, 2007.

5. The Governor's Office and the Office of the Executive Director of the Budget and Control Board, shall provide staff support as necessary to assist the Committee in carrying out the directives of this Executive Order.

This Order shall take effect immediately.

GIVEN UNDER MY HAND AND THE GREAT SEAL OF THE STATE OF SOUTH CAROLINA, THIS 26th DAY OF FEBRUARY, 2007

MARK SANFORD
Governor

ATTEST:

MARK HAMMOND
Secretary Of State

Report 10c

Ending Cash Balance as a Percentage of Yearly Expenditures by Type of Fund
Fiscal Year 2007 as of July 6, 2007

	Budgeted Funds[1]			Other Funds[2]			Total Funds		
Office/Special Item	YTD FY2007 Expenditures/ Transfers[3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers[3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers[3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs
Executive Director	777,724.38	163,182.79	20.98%	-	-	NA	777,724.38	163,182.79	20.98%
Office of General Counsel	796,939.57	267,252.99	33.53%	-	-	NA	796,939.57	267,252.99	33.53%
Agency Support	426,284.72	108,411.63	25.43%	-	-	NA	426,284.72	108,411.63	25.43%
Office of Internal Operations	3,246,271.11	708,894.84	21.84%	-	-	NA	3,246,271.11	708,894.84	21.84%
Agency-wide Initiatives	597,242.43	277,337.30	46.44%	-	-	NA	597,242.43	277,337.30	46.44%
Executive Institute	368,218.31	46,398.66	12.60%	-	-	NA	368,218.31	46,398.66	12.60%
Internal Audit	408,202.25	197,195.99	48.31%	-	-	NA	408,202.25	197,195.99	48.31%
Budget Office	2,369,825.30	675,422.70	28.50%	-	-	NA	2,369,825.30	675,422.70	28.50%
Office of Research & Statistics	6,934,823.02	2,204,497.11	31.79%	27,352.68	867.88	3.17%	6,962,175.70	2,205,364.99	31.68%
Board of Economic Advisors	383,679.19	56,040.81	14.61%	-	-	NA	383,679.19	56,040.81	14.61%
Office of Human Resources	4,896,494.56	1,001,215.84	20.45%	-	-	NA	4,896,494.56	1,001,215.84	20.45%
Confederate Relic Room	1,032,235.86	52,109.17	5.05%	426,442.72	39,269.73	9.21%	1,458,678.58	91,378.90	6.26%
Office of General Services [4]	66,782,689.76	19,476,800.60	29.16%	18,879,140.55	2,930,498.01	15.52%	85,661,830.31	22,407,298.61	26.16%
Materials Management Office	3,686,049.34	1,693,330.16	45.94%	-	-	NA	3,686,049.34	1,693,330.16	45.94%
Insurance Res Fund Admin/Trust	4,889,729.06	455,059.93	9.31%	89,506,366.31	377,474,247.96	421.73%	94,396,095.37	377,929,307.89	400.37%
Employee Insurance Program	9,846,504.00	49,471.29	0.50%	1,399,935,630.25	482,699,619.58	34.48%	1,409,782,134.25	482,749,090.87	34.24%
Office of Local Government	7,676,627.34	18,469,925.46	240.60%	47,543,466.73	162,322,091.16	341.42%	55,220,094.07	180,792,016.62	327.40%
State Energy Office	2,042,214.81	2,334,718.89	114.32%	1,205,685.96	5,262,780.24	436.50%	3,247,900.77	7,597,499.13	233.92%
Office of the CIO	55,204,336.19	20,138,088.31	36.48%	7,311,204.36	855,040.46	11.69%	62,515,540.55	20,993,128.77	33.58%
Retirement Systems[5]	16,672,489.65	576,846.45	3.46%	-	95,941.84	NA	16,672,489.65	672,788.29	4.04%

Report 10c

Ending Cash Balance as a Percentage of Yearly Expenditures by Type of Fund
Fiscal Year 2007 as of July 6, 2007

Office/Special Item	Budgeted Funds [1] YTD FY2007 Expenditures/ Transfers [3]	Budgeted Funds [1] Cash Balance as of 07/06/2007	Budgeted Funds [1] Cash Balance as a % of Expenditures/Trfs	Other Funds [2] YTD FY2007 Expenditures/ Transfers [3]	Other Funds [2] Cash Balance as of 07/06/2007	Other Funds [2] Cash Balance as a % of Expenditures/Trfs	Total Funds YTD FY2007 Expenditures/ Transfers [3]	Total Funds Cash Balance as of 07/06/2007	Total Funds Cash Balance as a % of Expenditures/Trfs
Special Items:									
Civil Contingent	-	406,644.00	NA	-	3,435.24	NA	-	410,079.24	NA
Base Closure	135,858.00	930,170.90	684.66%	-	112,252.93	NA	135,858.00	1,042,423.83	767.29%
Brandenburg	-	25,354.00	NA	-	-	NA	-	25,354.00	NA
Veterans Cemetery	-	-	NA	266,027.00	-	0.00%	266,027.00	-	0.00%
Baldridge Training	-	-	NA	535.57	20,511.31	3829.81%	535.57	20,511.31	3829.81%
Fund to Save the Hunley	-	-	NA	79,353.27	19,691.29	24.81%	79,353.27	19,691.29	24.81%
Friends of the African-American Monument	-	-	NA	-	24,599.57	NA	-	24,599.57	NA
SCEIS Agency Set-aside	-	-	NA	778,546.50	778,546.50	100.00%	778,546.50	778,546.50	100.00%
Southern Maritime	4,980.00	2,279.00	45.76%	6,016,916.30	545,349.16	9.06%	6,021,896.30	547,628.16	9.09%
Community Development Block Grant	72,144.00	-	0.00%	-	-	NA	72,144.00	-	0.00%
CG/Treasurer Data Processing	966,881.00	-	0.00%	-	-	NA	966,881.00	-	0.00%
Mapping	80,903.31	208,312.69	257.48%	241,692.00	8,308.00	3.44%	322,595.31	216,620.69	67.15%
BEA Member Allowance	25,999.84	0.16	0.00%	-	-	NA	25,999.84	0.16	0.00%
Capital Complex Rent	1,260,720.00	-	0.00%	-	-	NA	1,260,720.00	-	0.00%
Mansion & Grounds	218,291.47	210,560.31	96.46%	-	-	NA	218,291.47	210,560.31	96.46%
State House Maintenance & Operations	991,355.21	182,332.98	18.39%	-	-	NA	991,355.21	182,332.98	18.39%
Competitive Grants	-	-	NA	14,493,620.00	15,676,737.00	108.16%	14,493,620.00	15,676,737.00	108.16%
Morris Island Lighthouse	-	-	NA	500,000.00	-	0.00%	500,000.00	-	0.00%
Accountability Strategy	-	-	NA	-	70,000.00	NA	-	70,000.00	NA
Enforced Collections - Operating Expenses	-	-	NA	61,658.15	774,731.75	1256.50%	61,658.15	774,731.75	1256.50%
Mfg Alliance " Made In SC"	-	-	NA	500,000.00	-	0.00%	500,000.00	-	0.00%
EEDA Marketing & Communications	-	-	NA	471,595.98	528,404.02	112.05%	471,595.98	528,404.02	112.05%
SC National Heritage Corridor	-	-	NA	250,000.00	-	0.00%	250,000.00	-	0.00%
Facilities Management-Other Operating	-	-	NA	35,000.00	-	0.00%	35,000.00	-	0.00%
SE Regional Settlement	-	-	NA	395,000.00	-	0.00%	395,000.00	-	0.00%
Weldon Auditorium	-	-	NA	500,000.00	-	0.00%	500,000.00	-	0.00%
Success Center Building	-	-	NA	100,000.00	-	0.00%	100,000.00	-	0.00%
City Of Georgetown-Business Revital	-	-	NA	23,460.00	-	0.00%	23,460.00	-	0.00%
Georgetown Marina	-	-	NA	1,000,000.00	-	0.00%	1,000,000.00	-	0.00%
City Of Columbia-Streetscape	-	-	NA	1,000,000.00	-	0.00%	1,000,000.00	-	0.00%
Columbia Black Expo	-	-	NA	200,000.00	-	0.00%	200,000.00	-	0.00%

Report 10c

Ending Cash Balance as a Percentage of Yearly Expenditures by Type of Fund
Fiscal Year 2007 as of July 6, 2007

	Budgeted Funds [1]			Other Funds [2]			Total Funds		
Office/Special Item	YTD FY2007 Expenditures/ Transfers [3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers [3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers [3]	Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs
Camden First Community Dev	-	-	NA	150,000.00	-	0.00%	150,000.00	-	0.00%
Lexington County Water & Sewer	-	-	NA	250,000.00	-	0.00%	250,000.00	-	0.00%
East Camden Sewer System	-	-	NA	250,000.00	-	0.00%	250,000.00	-	0.00%
Police Substation Screaming Eagle Road	-	-	NA	100,000.00	-	0.00%	100,000.00	-	0.00%
Drummond Center Erskine College Program	-	-	NA	700,000.00	-	0.00%	700,000.00	-	0.00%
Marion County Senior Center	-	-	NA	250,000.00	-	0.00%	250,000.00	-	0.00%
Old Springfield High School Renovations	-	-	NA	75,000.00	-	0.00%	75,000.00	-	0.00%
Lake City Senior Center	-	-	NA	200,000.00	-	0.00%	200,000.00	-	0.00%
Hartsville Drainage Project	-	-	NA	200,000.00	-	0.00%	200,000.00	-	0.00%
Tobacco Arbitration Settlement	-	-	NA	130,439.52	1,069,560.48	819.97%	130,439.52	1,069,560.48	819.97%
Central Carolina Allied Health Center	-	-	NA	2,000,000.00	-	0.00%	2,000,000.00	-	0.00%
Conway Maint Shop Renovations	-	-	NA	1,000,000.00	-	0.00%	1,000,000.00	-	0.00%
Anderson Cty Hlth Dept Roof Replacement	-	-	NA	3,500,000.00	-	0.00%	3,500,000.00	-	0.00%
Edgefield Building Renovations	-	-	NA	300,000.00	-	0.00%	300,000.00	-	0.00%
Dorchester Interfaith Outreach Ministry	-	-	NA	250,000.00	-	0.00%	250,000.00	-	0.00%
Supplemental - Operating Expenses	-	-	NA	885,534.76	413,438.24	46.69%	885,534.76	413,438.24	46.69%
RFP & Study Of Statewide Assessments	-	-	NA	847,527.47	152,472.53	17.99%	847,527.47	152,472.53	17.99%
Capital Projects >$100,000	-	-	NA	10,888,697.81	22,498,174.95	206.62%	10,888,697.81	22,498,174.95	206.62%
K-12 School Technology	20,416,569.46	10,945,328.38	53.61%	-	-	NA	20,416,569.46	10,945,328.38	53.61%
Gambling Disorders	-	-	NA	44,749.35	57,965.55	129.58%	44,749.35	57,965.55	129.58%
Total	213,212,283.34	81,863,183.34	38.40%	1,613,770,643.24	1,074,434,553.38	66.58%	1,826,982,926.58	1,156,297,736.72	63.29%

Footnotes:

(1) "Budgeted Funds" are those funds that are or were subject to budgeting in Part IA of the state's annual general appropriations act as ordinary expenses of state government. The column includes: (a) state base appropriations and any unspent portion thereof available for expenditure in succeeding fiscal years and (b) revenue and allocations subject to authorization in Part IA, including portions held for future budgeting.

(2) "Other Funds" includes funds that are not subject to budgeting in Part IA of the annual general appropriation act, including unbudgeted funds, supplemental appropriations, Capital Reserve Fund appropriations, enforced collections, lottery proceeds and capital projects in excess of $100,000. Unbudgeted funds primarily consist of (a) trust funds and (b) revolving funds that finance and generate payments to sustain a cycle of operations, such as inventories for resale, reimbursable accounts and loan

(3) Expenditures include operating transfers between offices and special items.

(4) Budgeted Funds include projects less than $100,000 managed by Office of General Services. FY2007 Expenses as of 7/06/07 totaled $2,719,002.99 with an ending cash balance of $2,963,019.74.

(5) Pension Trust funds are not included in this report.

Note: FY 2007 cash balances are as of July 6,2007. Transactions for FY 2007 may be processed through July 17, 2007.

CASH BALANCE BY CG SUBFUND
FISCAL YEAR 2004 - 2007 as of 7/06/07

Report 11

Subfund	SubFund Title	FY2004	FY2005	FY2006	FY2007[3] as of 7/06/2007
Budgeted Funds[1]					
1001	State Appropriations - Base Appropriations	807,697	1,075,408	2,388,628	4,923,681
3035	Operating Revenue - Multiple Offices	13,857,881	14,524,187	20,086,334	16,610,227
3067	General Services Revenue (excluding State Fleet)	4,691,229	4,724,163	3,779,521	3,213,356
3081	Depreciation Reserve (CIO and General Services)	7,154,332	4,984,348	11,343,197	6,692,861
3093	HomeLand Security	-	-	-	-
3098	Donations (Confederate Relic Room & State Energy Office)	23,195	24,446	23,987	37,846
3124	Rent-State Owned Real Property (Office of General Services)	134,432	70,000	34,150	1,264,436
3130	Statewide Performance Audit	10,707	-	-	-
3140	Office Supply Administration (Office of General Services)	42,436	27,857	-	-
3149	Maintenance Repair Renovations-Non-Capital Projects (General Services)	1,917,031	2,859,299	3,371,968	2,983,020
3184	Earned Funds (Office of Research and Statistics)	322,036	339,577	540,022	638,782
3185	Health System & Planning (Office of Research & Statistics)	1,240,765	1,241,370	1,083,415	1,231,321
3197	Motor Pool (Office of General Services)	3,334,319	2,510,187	4,729,810	4,174,022
3210	Merit System Operations (Office of Human Resources)	-	-	-	-
3212	Training Sessions Fees (Office of Human Resources)	82,756	95,905	291,574	411,620
3227	Zero-Plus Commissions (Office of CIO)	332,159	344,493	97,921	186,523
3329	K - 12 Tech: Public Ed E-Rate Discounts (Office of CIO)	3,429,329	4,243,673	4,058,981	10,510,421
3331	Misc General Operations (Employee Insurance Program & Ins. Res. Fund)	-	-	-	-
3417	Operations (Multiple Offices)	1,919,304	2,107,095	2,042,465	2,951,520
3482	Rural Infrastructure Bank Trust (Office of Local Government)	-	-	-	1,647,317
3540	Mansion Complex Rentals (Office of General Services)	8,309	60,441	133,383	186,141
3646	State Career Center (Office of Human Resources)	188,987	275,589	287,385	151,235
3761	SC Business Opportunity Bulletin (Materials Mangement)	-	-	-	-
3774	Accum Depreciation - Motor Vehicles (Office of Gen Services - State Fleet)	5,128,752	4,217,392	205,786	2,940,624
3778	Insurance Unit Service (Employee Insurance Program)	-	-	-	-
3847	Loan Fees Drinking Water (Office of Local Government)	-	-	-	-
3849	Loan Closing Fees (Office of Local Government)	-	-	-	-
38F1	Deferred Maint - NonBoard Buildings (Office of General Services)	-	-	2,166,066	1,390,414
3958	Sale of Assets (receipts from sale of surplus equipment of the Board)	18,240	1,886	51,670	313,990
4123	Tobacco Settlements (Senior Drug Program)	-	-	-	-
4144	Insurance Reserve Fund Administration (Office of Insurance Services)	94,997	224,991	279,718	455,060
4151	Loan Fees - State Infrastructure Fund (Office of Local Government)	1,113	1,113	-	-
4190	Federal Surplus Property (Office of General Services Surplus Property Prog)	370,649	350,365	128,741	143,544
4261	Retirement System Admin	611,236	164,880	116,648	575,348
4388	Tobacco Settlements (Senior Drug Program)	-	-	-	-
4695	Second Stage Oil Overcharge (State Energy Office)	-	-	-	-
4704	Exxon Hawkins Settlement (State Energy Office)	1,529,876	750,059	512,286	232,844
4715	Diamond Shamrock (State Energy Office)	724,359	410,531	185,234	184,326
4744	Oil Overcharge-Stripper Well (State Energy Office)	306,518	214,082	419,879	1,843,466
4778	Insurance Unit Service - Admin (Employee Insurance Program)	203,326	69,257	150,459	47,281
4812	AMOCO II Second Stage (State Energy Office)	-	-	-	-
4821	PVE - First State Restitution (State Energy Office)	17,008	17,148	21,883	25,313
4846	Tobacco Settlement for Local Gov't Grants (Office of Local Government)	13,161,112	15,026,699	13,458,545	12,549,653
4847	Loan Fees - Drinking Water (Office of Local Government)	531,145	751,063	789,997	878,340
4849	Loan Fees - Clean Water (Office of Local Government)	2,909,935	3,184,112	3,098,216	3,394,616
4973	Education Improvement Act 1984 (Office of CIO K-12)	-	-	-	60,000
5XXXX	Federal	(739,118)	(928,943)	(1,476,328)	(985,964)
	Total Budgeted Funds	$ 64,366,051	$ 63,962,673	$ 74,401,536	$ 81,863,183
Unbudgeted/Trust & Other One-Time Funds[2]					
1001	State Appropriations - Supplemental Appropriations	2,878,110	1,192,655	3,880,569	6,268,794
3043	Capital Projects - Capital Improvement Bonds (Office of General Services)	(90,606)	-	-	-
3143	Cap Proj-Dept Cap Imp Bd (Office of General Services)	-	-	-	-
3162	Office Supply Inventory Revolving Fund (Office of General Services)	89,585	85,927	320	-
3224	Receiving Account Nuclear Waste Fees - Holding (State Energy Office)	244,256	167,936	242,936	332,936

3393	Capital Projects - Revenue Bonds (Office of General Services)	-	-	-	-
3485	SC Veteran's Monument	-	-	-	3,606
3487	Fund to Save the Hunley	13,513	71,240	9,403	19,691
3489	Telecommunications Revolving (Office of CIO)	89,902	88,583	12,567	140,813
34E4	Increased Enforcement Collections (Includes Competitive Grants)	-	2,661,363	964,610	13,547,484
3518	Redevelopment Authority Passthrough	-	-	-	-
3600	Capital Projects - State Appropriations (Office of General Services)	44,162	246,211	27,169	6,987,311
3603	Capital Projects - Capital Reserve (Office of General Services)	-	-	-	(770)
3634	Capital Reserve Fund (SCEIS & National Guard)	-	-	1,812,861	734,734
3792	Service Repair Agreements (Office of General Services - State Fleet)	1,034,577	1,416,367	1,494,373	554,961
3840	Sale of State Property (Office of General Services Surplus Prop. Program)	132,451	366,818	234,263	996,044
3853	SCEIS Agency Set Aside (Non recurring cost to implement SCEIS at BCB)	-	-	1,557,093	778,547
38F2	Sale of Real Property - Proviso (Office of General Services)	-	-	-	606,855
3907	Capital Projects - Other Funds (Office of General Services)	7,489,452	9,709,830	16,452,590	16,438,079
3978	School Bus Major Medical (Office of Insurance Services)	5,770	5,770	-	-
3981	Gift Shop Revolving Fund (Confederate Relic Room and Military Museum)	17,324	17,431	21,050	31,123
3990	Southern Maritime Collection - Museum Uses	505,506	505,436	505,436	440,661
4153	Funded Debt - Sinking Fund (Office of General Services)	34,557	35,318	36,796	38,498
4154	Ordinary Sinking Fund (Office of General Services)	1,212,077	2,658,762	182,553	255,419
4161	Insurance Reserve Fund Trust (Office of Insurance Services)	255,606,592	277,293,245	293,344,502	377,474,248
4202	Insurance Reserve Fund - State Life & LTD (Employee Insurance Program)	23,543,939	22,771,371	22,595,566	26,885,785
4230	Drinking Water - State Revolving Fund (Office of Local Government)	-	-	-	-
4305	Friends of the African-American History Monument	21,526	22,351	23,296	24,600
4343	SC Infrastructure Loan Fund (Office of Local Government)	10,807,997	12,646,427	14,951,368	16,675,789
4381	Gambling Disorders (Employee Insurance Program - contract w/DAODAS)	816,720	406,541	102,735	57,986
4471	R Mills Bldg-R P Escrow (Office of General Services)	-	-	-	-
4473	Mt Vernon Mill - Escrow (Office of General Services)	-	-	-	-
4572	Federal Water Pollution Control Revolving Loan (Office of Local Government)	-	-	-	-
4680	Employee Insurance Benefits Trust (Employee Insurance Program)	60,807,169	146,919,595	290,310,085	455,813,834
4683	Drinking Water State Revolving Loan Fund (Office of Local Government)	13,773,342	16,529,920	18,355,625	20,556,097
4684	Clean Water State Revolving Loan Fund (Office of Local Government)	123,548,317	115,855,826	109,855,875	124,292,916
47C6	Energy Cons Rev Loan Fund (State Energy Office)	6,499,871	4,578,779	5,827,715	4,929,844
4854	Tuition Prepay PM-Rev Fd	-	-	-	-
41D1	Southern Maritime Note Debt Service	1,967	26	26	-
41D2	Southern Maritime Note Proceeds	-	-	-	-
49F6	State Fleet Lease Acq Fund (Office of General Services)	-	-	8,020,243	226,434
4825	Debt Service - Harden Street (Office of General Services)	158,094	167,718	179,699	192,054
4830	Debt Service - Columbia Mills Bldg (Office of General Services)	106,810	12,916	23,620	18,538
4768	On Dep St Treas Computer Ctr Bonds (Office of General Services)	-	-	-	-
4769	Debt Service - Computer Center (Office of General Services)	3,303	2,256	5,408	10,751
4731	Debt Service - State Bonds (Office of General Services)	434	650	15,853	-
Unbudgeted/Trust & Other One-Time Funds[2] Continued					
4732	Debt Service - IRF Bonds (Office of General Services)	1,309	3,003	4,211	3,087
46A7	Bond Proceeds - Arts Commission (Office of General Services)	37,815	-	-	-
46A9	Debt Service - Art Commission (Office of General Services)	692	1,067	825	18,547
4421	Debt Service - Robert Mills Bldg (Office of General Services)	2,275	2,195	3,937	5,702
4346	St. Treas. R. Mills Bond Proceeds (Office of General Services)	-	-	-	-
5787	Capital Projects - Federal Funds (Office of General Services)	-	-	(181,242)	(926,445)
	Total Unbudgeted/Trust & Other One-Time Funds	$ 509,448,807	$ 616,443,535	$ 788,873,937	$ 1,074,434,553
	Total End of Year Cash Balance	$ 573,814,858	$ 680,406,208	$ 863,275,473	$ 1,156,297,737

(1) "Budgeted Funds" are those funds that are or were subject to budgeting in Part IA of the state's annual general appropriations act as ordinary expenses of state government. The column includes: (a) state base

(2) Includes expenditures and ending cash balances from Unbudgeted/Trust Funds and Other One-time accounts such as Supplemental and Capital Reserve funds.

(3) FY 2007 cash balances are as of July 6,2007. Transactions for FY 2007 may be processed through July 17, 2007.

Boardwide Allocation
By Fiscal Year

Fiscal Year

	FY 97-98	FY 98-99[1]	FY 99-00	FY 00-01	FY 01-02[2]	FY 02-03[3]	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Base Allocation	878,967	978,967	1,073,490	1,088,983	2,200,352	3,121,501	3,247,010	3,391,789	3,312,252	3,374,073
Less:										
Rebate	0	0	0	0	0	(99,980)	(150,000)	(166,732)	(159,542)	(220,000)
Refund	0	0	0	0	0	0	0	0	(200,000)	(300,000)
New Available Revenue	**878,967**	**978,967**	**1,073,490**	**1,088,983**	**2,200,352**	**3,021,521**	**3,097,010**	**3,225,057**	**2,952,710**	**2,854,073**

(1) Retirement System added as a new program with financial and human resource functions within Internal Operations.

(2) In fiscal year 2001-02, the methodology for Internal Operations was changed from allocating expenditures 50% state and 50% revenue to 30% state and 70% revenue. This formula more accurately represents the Board's funding sources.

(3) In fiscal year 2002-03, the Office of Executive Director began the transition of allocating expenditures to 80% state and 20% revenue from 100% state.

FY 2006-07 Allocation of Revenue Costs
For Boardwide Operations by Office

Recipients of Funds

Source of Funds	Agency Support	Executive Director	Internal Operations	2007 Refund	Revised Int. Ops.	Agency-wide Initiatives	Internal Audit	Total
Research & Statistics	6,485	8,286	47,218	(6,894)	40,324	497	7,319	62,911
CIO	98,792	126,217	565,027	(82,495)	482,532	7,567	111,500	826,608
General Services	87,949	112,363	674,823	(98,526)	576,297	6,736	99,261	882,606
Materials Management	1,384	1,768	13,070	(1,908)	11,162	106	1,561	15,981
State Energy Office	5,524	7,057	51,335	(7,495)	43,840	423	6,234	63,078
General Counsel	3,459	4,419	16,989	(2,480)	14,509	265	3,904	26,556
Insurance Reserve Fund	20,024	25,583	192,868	(28,159)	164,709	1,534	22,600	234,450
Local Government	1,712	2,187	15,254	(2,227)	13,027	131	1,932	18,989
Human Resources	1,816	2,320	13,601	(1,986)	11,615	139	2,050	17,940
Confederate Relic Room	0	0	2,417	(353)	2,064	0	0	2,064
State Retirement	59,146	75,565	280,026	(40,884)	239,142	4,530	66,753	445,136
Executive Institute	0	0	621	(91)	530	0	0	530
Employee Insurance Prog	29,348	37,495	181,512	(26,501)	155,011	2,248	33,123	257,225
Total	**315,639**	**403,260**	**2,054,761**	**(300,000)**	**1,754,761**	**24,176**	**356,237**	**2,854,073**

MAINTENANCE FACILITY PERSONNEL AND COST INFORMATION

Certification FY07 Quest. 2007 Updated-3-28-07 SHOP AND LOCATION	# OF TECH	# SHOP PERS	TOTAL EQUIP SUPPORT	TOTAL VEHICLES SUPPORT	ACTUAL PARTS COST	PARTS CHGE TO SERVICE ORDERS	LABOR CHARGED TO SERVICE ORDER	ACTUAL LABOR COST	FRINGE BENEFITS 0.27	RECOVER NEEDED Sal + Fringe	OUTSIDE REPAIR COST	ACTUAL COST OF REPAIRS	Actual charges for repair	PROFIT OR (LOSS)	END OF YEAR INVENTORY
CITADEL	1	1.1	97	65	$18,039	$18,039	$58,060	$33,488	$9,042	$42,530	$1,217	$59,786	$75,315	$15,529	$832
CLEMSON AG & BIO ENG DEPT,	0	0.5	42	12	$988	$988	$1,485	$16,222	$4,110	$19,332	$0	$20,320	$2,473	($17,847)	$0
CLEMSON COASTAL RESH	0	0.18	60	10	$3,534	$3,534	$5,988	$5,480	$1,480	$6,959	$6,246	$16,740	$15,768	($971)	$0
CLEMSON EDISTO REC	0	0.75	182	29	$33,791	$33,791	$12,480	$22,833	$6,165	$28,998	$2,910	$65,699	$49,181	($16,518)	$3,911
CLEMSON EXPERIMENTAL FOREST	0	1	112	17	$8,874	$8,874	$9,650	$30,444	$8,220	$38,664	$1,919	$49,457	$20,443	($29,014)	$0
CLEMSON MAIN	3.5	4.95	592	572	$132,858	$132,858	$228,678	$150,698	$40,688	$191,386	$68,710	$392,955	$430,246	$37,292	$7,322
CLEMSON SIMPSON STA.	0.7	1.3	208	48	$40,685	$40,685	$35,033	$39,577	$10,686	$50,263	$12,288	$103,236	$88,006	($15,230)	$0
COASTAL CAROLINA U.	1.8	1.7	389	79	$21,342	$21,342	$79,213	$51,755	$13,974	$65,729	$48,078	$135,146	$148,630	$13,484	$0
CORRECTIONS BROAD RIVER	9.85	12.95	1262	1112	$911,783	$911,783	$623,570	$394,250	$106,447	$500,697	$361,843	$1,774,323	$1,897,196	$122,873	$31,186
DEAF AND BLIND SCHOOL	1.28	2	110	71	$38,146	$38,146	$74,700	$60,888	$16,440	$77,328	$4,612	$120,086	$117,458	($2,628)	$17,000
DHEC	4	5	640	560	$66,561	$66,561	$85,507	$152,220	$41,099	$193,319	$191,812	$451,492	$343,680	($107,813)	$10,155
DOT EQUIP DEPOT*	8.4	24.1	4450	3316	$784,643	$847,415	$639,138	$733,700	$198,099	$931,800	$135,439	$1,851,882	$1,621,991	($229,891)	$196,127
DOT ABBEVILLE	3	5	121	44	$152,030	$164,193	$173,468	$152,220	$41,099	$193,319	$252,642	$597,992	$590,303	($7,689)	$12,154
DOT AIKEN	5	9.33	235	116	$338,914	$366,027	$247,666	$284,043	$76,691	$360,734	$88,275	$787,923	$701,968	($85,955)	$14,969
DOT ALLENDALE	2	4	102	26	$142,644	$154,055	$139,416	$121,776	$32,880	$154,656	$16,368	$313,667	$309,841	($3,826)	$4,215
DOT ANDERSON	3.9	5.8	239	87	$213,929	$231,043	$234,127	$176,575	$47,675	$224,251	$33,829	$472,009	$499,000	$26,991	$16,439
DOT BAMBERG	2.85	4.65	90	38	$168,146	$181,598	$154,772	$141,565	$38,222	$179,787	$7,819	$355,752	$344,169	($11,583)	$21,072
DOT BARNWELL	1.69	3.04	74	25	$90,531	$97,774	$136,475	$92,550	$24,988	$117,538	$5,202	$213,272	$239,452	$26,180	$8,240
DOT BEAUFORT	3.5	6.25	151	60	$147,785	$159,608	$195,679	$190,275	$51,374	$241,649	$22,914	$412,349	$378,201	($34,147)	$7,608
DOT BERKELEY	5.38	8.38	164	67	$233,752	$252,453	$259,849	$255,121	$68,883	$324,003	$70,051	$627,806	$582,352	($45,455)	$6,839
DOT CALHOUN	1.7	3.55	110	30	$160,883	$173,754	$132,962	$108,076	$29,181	$137,257	$4,073	$302,213	$310,788	$8,576	$11,195
DOT CHARLESTON	5	10	465	218	$842,408	$909,798	$211,279	$304,440	$82,199	$386,639	$427,618	$1,656,660	$1,548,693	($107,967)	$2,777
DOT CHEROKEE	2.42	4.8	136	57	$150,558	$162,603	$153,752	$146,131	$39,455	$185,587	$35,593	$371,738	$351,947	($19,791)	$7,025
DOT CHESTER	4.2	6.9	350	150	$254,403	$274,755	$242,619	$210,064	$56,717	$266,781	$27,473	$548,657	$544,848	($3,809)	$15,672
DOT CHESTERFIELD	2.55	4.5	136	57	$170,898	$184,570	$157,044	$136,998	$36,989	$173,987	$27,481	$372,347	$369,076	($3,272)	$16,553
DOT CLARENDON	2	4	123	42	$247,289	$267,072	$103,610	$121,776	$32,880	$154,656	$71,900	$473,844	$442,762	($31,082)	$9,638
DOT COLLETON	4.7	7.5	102	73	$205,079	$221,485	$275,713	$228,330	$61,649	$289,979	$35,835	$530,893	$533,033	$2,140	$2,755
DOT DARLINGTON	3.02	5.02	118	57	$160,103	$172,911	$164,846	$162,829	$41,264	$194,093	$5,302	$359,497	$343,059	($16,439)	$13,468
DOT DILLON	3.3	6.3	112	46	$126,490	$136,609	$176,432	$191,797	$51,785	$243,582	$12,265	$382,338	$326,306	($57,032)	$18,924
DOT DORCHESTER	3.4	6.45	192	65	$180,305	$194,729	$232,035	$196,364	$53,018	$249,382	$18,907	$448,594	$445,672	($2,922)	$1,077
DOT EDGEFEILD	1.0	4.84	112	40	$110,951	$119,827	$117,692	$147,349	$39,784	$187,133	$9,993	$308,077	$247,512	($60,565)	$7,594
DOT FAIRFIELD	2.68	4.54	169	54	$171,923	$185,677	$144,245	$138,216	$37,318	$175,534	$20,026	$367,483	$349,948	($17,535)	$17,611
DOT FLORENCE	7	10	275	130	$342,723	$370,141	$277,713	$304,440	$82,199	$386,639	$24,892	$754,254	$672,746	($81,508)	$60,348
DOT GEORGETOWN	2.94	4.93	111	48	$147,168	$158,940	$186,080	$150,089	$40,524	$190,613	$21,533	$359,313	$366,553	$7,240	$10,549
DOT GREENVILLE	4.79	8.08	385	220	$338,250	$365,310	$323,927	$245,988	$66,417	$312,404	$63,012	$713,666	$752,249	$38,583	$9,427
DOT GREENWOOD	2.91	5.78	246	84	$164,875	$178,011	$182,767	$175,357	$47,347	$222,704	$14,841	$402,371	$375,620	($26,751)	$30,428
DOT HAMPTON	1.6	3.2	98	26	$136,241	$147,140	$114,795	$97,421	$26,304	$123,724	$27,630	$287,795	$289,765	$1,970	$10,226
DOT HORRY	6.93	9.78	197	85	$256,660	$277,192	$279,962	$297,742	$80,390	$378,133	$14,780	$649,572	$571,934	($77,638)	$91,738
DOT JASPER	2.75	4.93	132	40	$145,641	$157,292	$178,114	$150,089	$40,524	$190,613	$21,677	$358,131	$357,283	($848)	$24,070
DOT KERSHAW	3.64	6.49	171	65	$215,710	$232,966	$225,061	$197,582	$53,347	$250,929	$20,159	$486,797	$478,186	($8,611)	$31,343
DOT LANCASTER	2.7	4.4	133	47	$198,398	$214,270	$107,084	$133,954	$36,167	$170,121	$12,791	$381,310	$394,145	$12,834	$2,133
DOT LAURENS	5.48	8.46	179	69	$253,429	$273,703	$267,964	$257,656	$69,640	$327,096	$26,037	$606,563	$567,705	($38,858)	$10,085
DOT LEE	1.76	4.76	140	40	$184,100	$198,828	$89,189	$144,913	$39,127	$184,040	$29,579	$397,719	$317,596	($80,123)	$25,318
DOT LEXINGTON	5.04	8.26	174	78	$323,481	$349,359	$243,564	$251,467	$67,896	$319,364	$117,584	$760,428	$710,507	($49,921)	$11,380
DOT MARION	3	7	133	60	$142,597	$154,005	$236,288	$213,108	$57,539	$270,647	$3,687	$416,931	$393,979	($22,952)	$38,808
DOT MARLBORO	3	5.5	111	43	$182,601	$197,209	$148,989	$167,442	$45,209	$212,651	$25,341	$420,593	$371,538	($49,055)	$12,000
DOT McCORMICK	1.83	3.5	126	36	$93,032	$100,475	$82,007	$106,554	$28,770	$135,324	$4,601	$232,957	$187,083	($45,874)	$18,248
DOT NEWBERRY	3.8	6.8	151	58	$115,864	$125,133	$209,552	$207,019	$55,895	$262,914	$14,806	$393,584	$349,491	($44,093)	$41,720
DOT OCONEE	3.92	6.77	162	61	$142,235	$153,614	$256,974	$206,106	$55,649	$261,754	$13,085	$417,676	$424,273	$6,598	$10,283
DOT ORANGEBURG	4.15	7	217	66	$268,844	$290,352	$272,313	$213,108	$57,539	$270,647	$45,194	$584,686	$607,859	$23,173	$30,979
DOT ORANGEBURG (HOL HILL)	1.6	3.2	80	23	$131,557	$142,082	$117,369	$97,421	$26,304	$123,724	$29,254	$284,535	$288,705	$4,170	$1,716
DOT PICKENS	3.4	4.57	179	77	$118,164	$127,617	$160,079	$139,129	$37,565	$176,694	$3,211	$298,068	$290,907	($7,162)	$27,649
DOT RICHLAND	5.45	9.45	314	98	$548,314	$592,180	$336,709	$287,696	$77,678	$365,374	$175,164	$1,088,852	$1,104,053	$16,201	$49,249
DOT SALUDA	2.67	4.67	127	47	$173,431	$187,306	$163,451	$142,173	$38,387	$180,560	$24,319	$378,311	$375,076	($3,235)	$18,538
DOT SPARTANBURG	4.8	7.8	221	89	$303,984	$328,303	$316,518	$237,463	$64,115	$301,578	$26,489	$632,052	$671,310	$39,259	$12,033
DOT SUMTER	4	7	233	68	$317,074	$342,440	$86,466	$213,108	$57,539	$270,647	$25,483	$613,205	$454,410	($158,795)	$6,155
DOT UNION	2.65	4.55	126	37	$131,850	$142,398	$152,542	$138,520	$37,400	$175,921	$15,175	$322,946	$310,115	($12,831)	$4,786
DOT WILLIAMSBURG	4.45	5.95	163	64	$148,377	$160,247	$172,103	$181,142	$48,908	$230,050	$19,680	$398,107	$352,030	($46,077)	$30,600
DOT ROCK HILL (YORK)	5.63	7.43	182	80	$144,377	$155,927	$220,639	$226,199	$61,074	$287,273	$15,524	$447,173	$392,090	($55,084)	$1,562
ETV	1	2	69	69	$27,230	$27,230	$72,851	$60,888	$16,440	$77,328	$26,393	$130,951	$126,474	($4,477)	$5,023
FORESTRY - COLUMBIA	0.8	1.1	53	31	$6,656	$8,425	$19,424	$33,488	$9,042	$42,530	$2,626	$51,813	$30,474	($21,338)	$1,146
FORESTRY - FLORENCE	1.6	2.15	136	47	$31,995	$53,220	$133,042	$65,455	$17,673	$83,127	$48,089	$163,211	$234,351	$71,141	$684
FORESTRY - KINGSTREE	0.8	1.15	127	45	$7,802	$21,575	$41,124	$35,011	$9,453	$44,463	$15,350	$67,616	$78,049	$10,433	$1,131
FORESTRY - NEWBERRY	0.8	1.05	126	32	$6,679	$23,047	$39,616	$31,966	$8,631	$40,597	$3,164	$50,440	$66,029	$15,589	$9,260
FORESTRY - SANDHILL	0.55	0.85	59	16	$3,417	$22,772	$19,305	$25,877	$6,987	$32,864	$42,244	$78,526	$84,321	$5,795	$0
FORESTRY - SPARTANBURG	0.8	1.05	90	40	$12,660	$16,460	$25,762	$31,966	$8,631	$40,597	$4,448	$57,703	$46,668	($11,035)	$2,079
FORESTRY - TAYLOR	0	0.07	79	99	$600	$600	$4,629	$2,131	$575	$2,706	$3,059	$6,366	$8,289	$1,923	$407

MAINTENANCE FACILITY PERSONNEL AND COST INFORMATION

Certification FY07 Quest. 2007 Updated-3-28-07 SHOP AND LOCATION	# OF TECH	# SHOP PERS	TOTAL EQUIP SUPPORT	TOTAL VEHICLES SUPPORT	ACTUAL PARTS COST	PARTS CHGE TO SERVICE ORDERS	LABOR CHARGED TO SERVICE ORDER	ACTUAL LABOR COST	FRINGE BENEFITS 0.27	RECOVER NEEDED Sal + Finge	OUTSIDE REPAIR COST	ACTUAL COST OF REPAIRS	Actual charges for repair	PROFIT OR (LOSS)	END OF YEAR INVENTORY
FORESTRY - WALTERBORO	2 4	3 2	231	118	$30,515	$55,515	$135,726	$97,421	$26,304	$123,724	$41,753	$195,992	$232,994	$37,002	$7,355
FRANCIS MARION	0 6	0 7	59	26	$3,344	$3,344	$22,818	$21,311	$5,754	$27,065	$7,904	$38,313	$34,066	($4,247)	$94
JOHN DE LE HOWE	0 4	0 5	24	24	$1,067	$1,067	$2,910	$15,222	$4,110	$19,332	$965	$21,365	$4,943	($16,422)	$669
MENTAL HEALTH - FARROW	3 75	3 8	257	188	$69,216	$77,486	$124,774	$115,687	$31,236	$146,923	$26,502	$242,642	$228,762	($13,879)	$0
MENTAL HEALTH - PB H HOSP	0 6	0 7	44	20	$4,753	$4,930	$12,409	$21,311	$5,754	$27,065	$1,061	$32,876	$18,399	($14,480)	$439
NATURL RESOURCES-WLDLF	1	1 25	159	65	$8,222	$8,533	$54,340	$38,055	$10,276	$48,330	$34,577	$91,129	$97,450	$6,321	$1,240
SFM	4	6	868	668	$282,781	$282,781	$261,106	$182,864	$49,319	$231,983	$18,449	$513,213	$542,336	$29,123	$17,469
SLED	1	2	483	483	$132,164	$132,164	$83,256	$60,888	$16,440	$77,328	$89,974	$299,466	$305,394	$5,928	$3,679
USC	2 1	2 98	517	503	$120,043	$120,043	$87,152	$90,723	$24,495	$115,218	$68,668	$303,930	$275,863	($28,066)	$0
TOTALS	223.02	371	18650	11802	$12,804,902	$13,778,040	$12,248,178	$11,299,899	$3,050,973	$14,350,872	$3,300,171	$30,488,948	$29,327,389	($1,128,666)	$1,154,607

PRESENT STATE AVGE SALARY	$30,444
NUMBER OF STATE SHOPS	83
AVERAGE MT COST PER ITEM	$1,460
VEH PRECENT OF TOTAL EQUIP.	90.09%
ESTIMATED VEH REPAIR COST	$18,262,196

ACTUAL
DOT FIGURES $24,921,154

DOT REPORTED REPORTED REPORTED REPORTED REPORTED

178 91 309 19 12575 6553 $10,801,156 $9,893,369 $9,412,980 $2,541,505 $2,165,513 $24,921,154 $842,213

*Note Equip Depot numbers submitted 3,500veh,6,600 other equip;10,100 total Numbers changed to reflect vehicles that are possibly maintained at the depot in FY.

$1,982

FACILITIES MANAGEMENT SECTION
ACCOUNTABILITY INFORMATION
FY 2005-2006

FACILITIES MANAGEMENT					U.S. PRIVATE SECTOR ALL BUILDINGS		GOVERNMENT SECTOR ALL BUILDINGS	
Team	Budget Unit Code	Expenditures	Rentable Square Footage Maintained *	Rentable Cost per Square Foot	Rentable Cost/SF BOMA 2005 U.S. Private Sector (Avg) Adjusted 0.964	Private Sector Expenditures Based on FM Square Footage	Rentable Cost/SF BOMA 2005 U.S. Gov. Sector (Avg) Adjusted 0.964	Gov't Sector Expenditures Based on FM Square Footage
Maintenance	G315	$ 2,906,920.17	2,651,699	$ 1.10	1.49	$3,951,031.51	1.64	$4,348,786.36
Building Systems	G320	$ 941,493.52	2,651,699	$ 0.36				
Envr/Energy	G321	$ 388,651.86	2,538,852	$ 0.15				
Utilities	G316	$ 3,864,357.72	1,867,228	$ 2.07	1.93	$3,603,750.04	1.74	$3,248,976.72
Custodial	G317	$ 3,197,154.90	2,732,190	$ 1.17	1.17	$3,196,662.30	1.46	$3,988,997.40
Administration	G331 & G338	$ 834,312.35	2,913,981	$ 0.29	1.14	$3,321,938.34	0.93	$2,710,002.33
Horticulture	G318	$ 986,159.05	6,015,320	$ 0.16	0.16	$962,451.20	0.20	$1,203,064.00
Total		**$ 13,119,049.57**		**$ 5.29**	**5.89**	**$15,035,833.39**	**5.97**	**$15,499,826.81**
Fixed Expense	G338	$ 173,734.54	2,580,465	$ 0.07	2.95	$7,612,371.75	0.73	$1,883,739.45
Total Including Fixed Expenses		**$ 13,292,784.11**		**$ 5.36**	**8.84**	**$22,648,205.14**	**6.70**	**$17,383,566.26**
					Comparison to Private Sector ROI	FM Saves Over All Private Sector Buildings $9,355,421.03	Comparison to Gov't Sector	FM Saves Over all US Gov't Buildings $4,090,782.15

State House Maintenance	G123	$ 1,078,486.11	157,915	$6.83
Statewide Building Services	G322, G386, G380, G379, G378, G310	$ 2,775,808.55	636,297	$4.36
Construction & Planning	G330	$ 684,597.67		

* Overall square footage has been reduced by taking out certain structures whose characteristics are not those of office buildings.

Because our rental rate was set in 1996-97, General Services determined that $1.52 of that rate represented average energy expenses at that time, and we charge usage over $1.52 per square foot as a surcharge to the tenant.

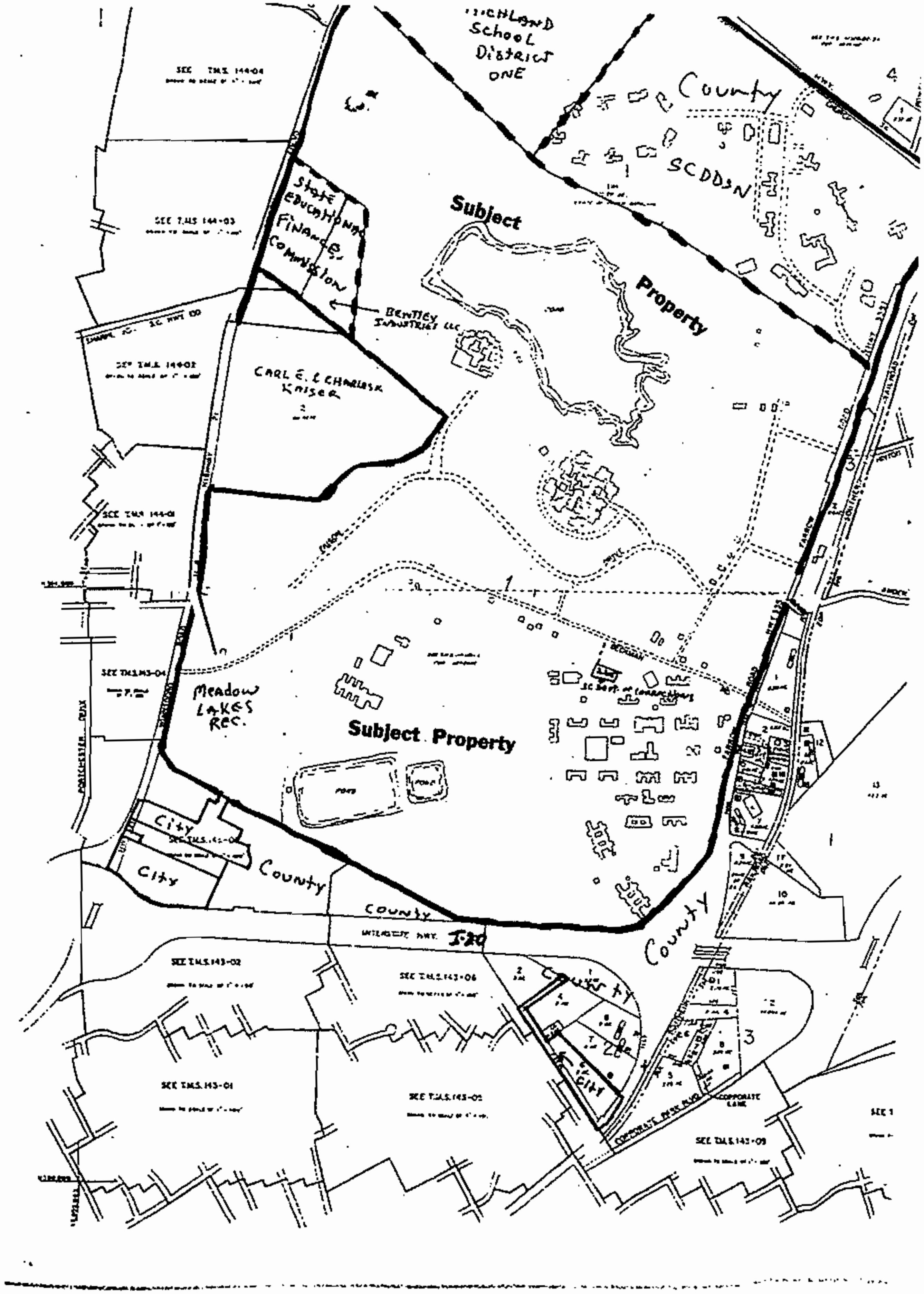
. **How many agencies paid one last year and how much were they?**

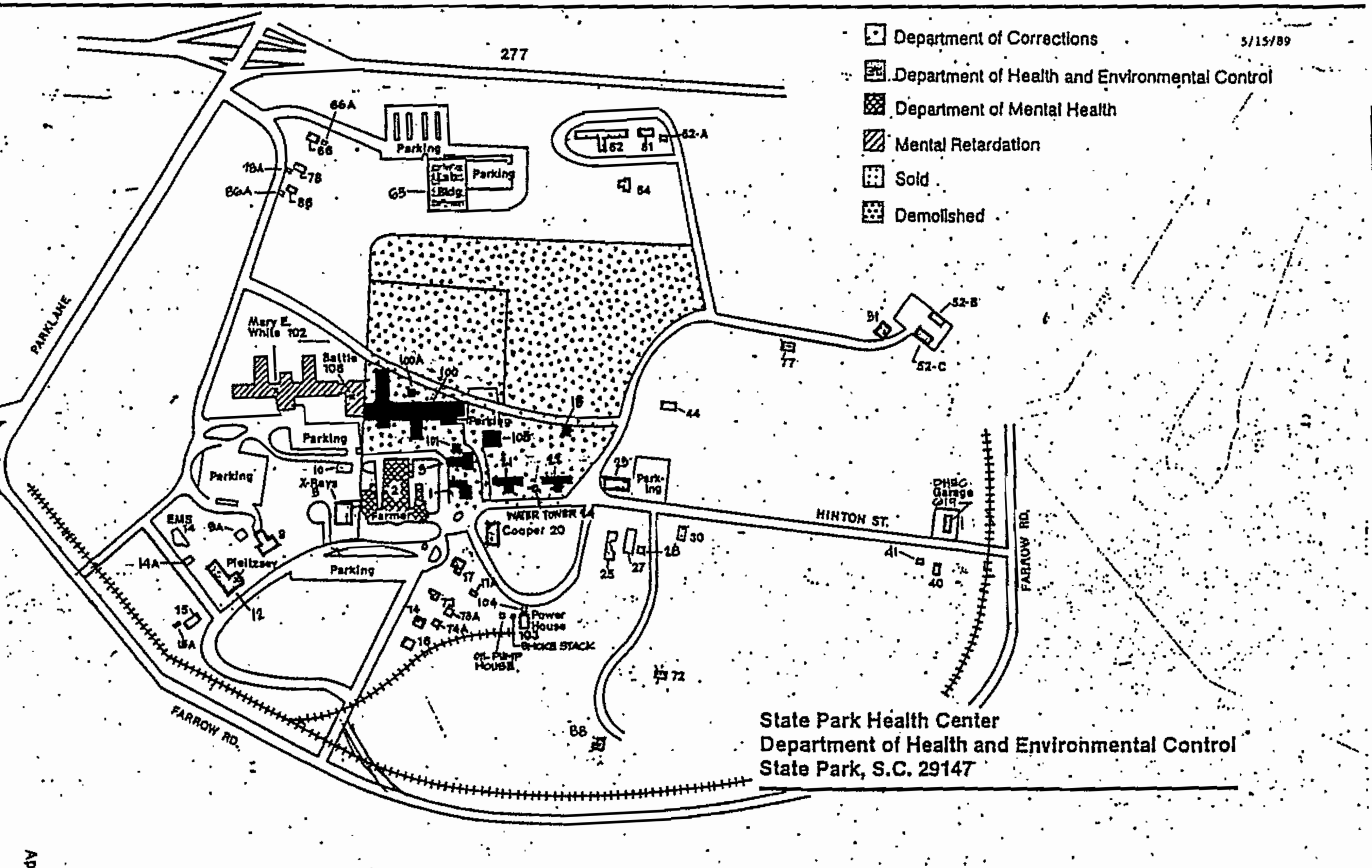
The following agencies incurred energy surcharges as follows:

Energy Surcharge

Building	Agency	FY 2006
Adjutant General	Adj. Gen	$53,538
Agriculture Lab	Agriculture	$178,365
Archives & History	Archives	$185,378
Blatt Building	House of Rep	$13,880
Blatt Building	Legis. Print	$27,521
Brown	PRT	$5,456
Brown	Gov. Office	$2,728
Calhoun	Court Admin.	$12,440
Columbia Mills	Building	$602,126
Columbia Mills	Museum	$0
Columbia Mills	Revenue	$101,209
Columbia Mills	CIO	$4,092
Dennis	DNR	$20,461
Dennis	LIS	$0
Dennis	AT/Gen	$4,299
Dennis	CIO	$2,273
DSS Harden St.	DSS	$26,556
DSS Harden St.	CIO	$2,046
DSS North Towers	DSS	$86,280
DSS North Towers	CIO	$2,046
Five Points	Prob. Par. & Parole	$24,502
Five Points	CIO	$2,046
FM Custodial	FM	$11,299
FM Horticulture Modular		$897
FM Office	FM	$2,055
FM Shop	FM	$4,499
Geology		$4,472
Gressette	Senate	$18,333
Gressette	CIO	$2,046
Gressette-Collins	Retirement	$51,246
Hayne Building (DHEC Lab)	DHEC	$542,917
Hayne Annex	DHEC	$1,138
Kenner Greenhouse	FM	$7,277
Middleton	CIO	$0
Mills/Jarrett		$9,042
Mills/Jarrett	CIO	$2,046
Rutledge	Education	$77,530
Rutledge	CIO	$2,046
Senate Street		$28,143
Sims/Aycock	DHEC	$277,653
Sims/Aycock	CIO	$2,273
Sims/Aycock Annex	DHEC	$5,070
State Library	Library	$45,322
State Training Center		$18,242
Sumter St	CIO	$34,496
Supreme Court	Court Admin	$14,331
Wade Hampton	B&CB	$54,564
Wade Hampton	Comptroller Gen.	$8,185
Wade Hampton	CIO	$2,273
		$2,584,437

Appendix 7


Richland School District One
County
SCDDSN
Subject Property
State Educational Finance Commission
Bentley Industries LLC
Carl E. & Charlesk Kaiser
Meadow Lakes Rec.
Subject Property
SC Dept. of Corrections
City
County
City
County
Interstate Hwy. I-20
County
County
City
SEE T.M.S. 144-04
SEE T.M.S. 144-03
SEE T.M.S. 144-02
SEE T.M.S. 144-01
SEE T.M.S. 143-04
SEE T.M.S. 143-02
SEE T.M.S. 143-06
SEE T.M.S. 143-01
SEE T.M.S. 143-05
SEE T.M.S. 143-09
Corporate Park Blvd.
Corporate Lane


Department of Corrections
Department of Health and Environmental Control
Department of Mental Health
Mental Retardation
Sold
Demolished
5/15/89
277
PARKLANE
FARROW RD.
HINTON ST.
FARROW RD.
Parking
Parking
Parking
Parking
Parking
Park-ing
Mary E. White 102
Battle 108
Farmer
Cooper 20
X-Rays
EMS 14
Pfeltzsey
Power House
SMOKE STACK
OIL PUMP HOUSE
WATER TOWER 64
DHEC Garage
State Park Health Center
Department of Health and Environmental Control
State Park, S.C. 29147

Comparison of CIO's Telecomm & Data Aggregate Revenue vs Costs

Revenues

as provided in the FY 2007 Activity-Based Budget
http://www.budget.sc.gov/webfiles/oo/AAI-Database/F03.pdf (p. 25-29)

Activity	Amount
Network Service – Local Services	$10.2 Million
Network Services – LD, Internet & Network	$12.3 Million
Network Services – Other	$ 9.1 Million
Data Processing Services	$15.7 Million
Data Processing Services – App Dev	$ 2.3 Million
Total	**$ 49.6 million**

Costs

as reported in the FY 2007 Gartner Group Study

Activity	Amount
Voice Network	$2.3 Million
Voice Premise Technology	$5.8 Million
Enterprise Computing Mainframe	$8.2 Million
Total	**$16.3 million**

Difference **$33.3 million**

Summary of Cash Balances - Budgeted Funds Yearly Comparison
FY 2005- 2007 as of July 6, 2007

Office/Special Item	FY2005 Expenditures/ Transfers (2)	Budgeted Funds (1) Cash Balance FYE 2005	Cash Balance as a % of Expenditures/Trfs	FY2006 Expenditures/ Transfers (2)	Budgeted Funds (1) Cash Balance FYE 2006	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers (2)	Budgeted Funds (1) Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs
Executive Director	738,764.40	76,924.96	10.41%	808,160.72	67,092.17	8.30%	777,724.38	163,182.79	20.98%
Office of General Counsel	932,569.51	159,509.96	17.10%	919,842.14	115,667.82	12.57%	796,939.57	267,252.99	33.53%
Agency Support	373,513.04	41,082.28	11.00%	549,335.86	52,495.35	9.56%	426,284.72	108,411.63	25.43%
Office of Internal Operations	3,232,448.62	739,141.73	22.87%	3,186,722.15	844,278.72	26.49%	3,246,271.11	708,894.84	21.84%
Agency-wide Initiatives	564,512.55	654,356.99	115.92%	695,347.75	196,443.58	28.25%	597,242.43	277,337.30	46.44%
Executive Institute	544,102.31	41,421.70	7.61%	399,137.06	41,714.97	10.45%	368,218.31	46,398.66	12.60%
Internal Audit	337,035.81	101,964.20	30.25%	303,795.57	94,604.24	31.14%	408,202.25	197,195.99	48.31%
Budget Office	2,196,252.47	127,346.65	5.80%	2,133,267.38	420,487.00	19.71%	2,369,825.30	675,422.70	28.50%
Office of Research & Statistics	5,937,235.50	1,791,829.61	30.18%	6,158,785.92	1,682,939.51	27.33%	6,934,623.02	2,204,497.11	31.79%
Board of Economic Advisors	414,166.67	10,723.54	2.59%	443,788.09	2,709.00	0.61%	383,679.19	56,040.81	14.61%
Office of Human Resources	5,188,670.09	507,070.95	9.77%	4,786,665.57	853,365.32	17.83%	4,896,494.56	1,001,215.84	20.45%
Confederate Relic Room	720,207.61	38,413.64	5.33%	678,556.24	68,581.03	10.11%	1,032,235.66	52,109.17	5.05%
Office of General Services (3)	52,013,897.30	17,392,327.06	33.44%	57,521,589.92	20,510,867.65	35.66%	66,782,689.76	19,476,800.60	29.16%
Materials Management Office	2,848,308.33	594,907.42	20.89%	3,677,110.47	1,182,309.50	32.15%	3,686,049.34	1,693,330.16	45.94%
Insurance Reserve Fund Admin/Trust	5,124,983.29	225,360.57	4.40%	5,246,112.23	279,718.34	5.33%	4,889,729.06	455,059.93	9.31%
Employee Insurance Program	9,081,409.93	69,257.24	0.76%	9,613,869.13	150,458.73	1.57%	9,846,504.00	49,471.29	0.50%
Office of Local Government	4,415,797.73	18,962,985.91	429.44%	4,744,110.14	17,346,757.59	365.65%	7,676,627.34	18,469,925.46	240.60%
State Energy Office	4,452,477.20	1,419,963.15	31.89%	2,291,273.52	841,841.57	36.74%	2,042,214.61	2,334,716.89	114.32%
Office of the CIO	48,201,886.98	16,493,991.96	34.22%	49,561,366.21	24,012,379.77	48.45%	55,204,336.19	20,138,088.31	36.48%
Retirement Systems	16,975,996.68	164,679.78	0.97%	16,074,496.65	116,648.18	0.73%	16,672,489.85	576,846.45	3.46%
Special Items:									
Civil Contingent	82,159.13	82,839.67	100.83%	-	244,742.00	NA	-	406,644.00	NA
Base Closure	574,716.00	-	0.00%	83,403.10	491,313.00	589.08%	135,858.00	930,170.90	684.66%
Brandenburg	3,304.66	20,499.34	620.32%	3,689.01	28,164.00	763.46%	-	25,354.00	NA
Veterans' Memorial	250,000.00	-	0.00%	-	-	NA	-	-	NA
Southern Maritime	114,695.47	2,200.53	1.92%	116,837.43	2,259.00	1.93%	4,980.00	2,279.00	45.76%
Community Development Block Grant	72,144.00	-	0.00%	72,144.00	-	0.00%	72,144.00	-	0.00%
CG/Treasurer Data Processing	1,204,709.39	-	0.00%	963,428.72	-	0.00%	966,881.00	-	0.00%
Mapping	104,442.91	-	0.00%	89,899.96	-	0.00%	80,903.31	208,312.69	257.48%
BEA Member Allowance	19,999.64	-	0.00%	25,999.84	-	0.00%	25,999.84	0.16	0.00%
Capital Complex Rent	1,260,720.00	-	0.00%	1,260,720.00	-	0.00%	1,260,720.00	-	0.00%
Mansion & Grounds	241,569.00	-	0.00%	241,569.00	-	0.00%	218,291.47	210,560.31	96.46%
State House Maintenance & Operations	851,243.00	-	0.00%	851,243.00	-	0.00%	991,355.21	162,332.98	16.39%
K-12 School Technology	14,663,644.42	4,243,673.48	28.94%	17,444,227.42	4,753,698.03	27.25%	20,416,569.46	10,945,328.38	53.61%
Total	183,737,584.04	63,962,672.70	34.81%	190,946,694.20	74,401,536.27	38.96%	213,212,283.34	81,863,183.34	38.40%

Footnotes:

(1) "Budgeted Funds" are those funds that are or were subject to budgeting in Part IA of the state's annual general appropriations act as ordinary expenses of state government. The column includes: (a) state base appropriations and any unspent portion thereof available for expenditure in succeeding fiscal years and (b) revenue and allocations subject to authorization in Part IA, including portions held for future

(2) Expenditures include operating transfers between offices and special items.

(3) Funds include projects less than $100,000 managed by Office of General Services. FY2005 expenditures totaled $2,623,253.84 with an ending cash balance of $2,859,298.90. FY2006 expenditures totaled $2,729,439.84 with an ending cash balance of $3,371,967.64. FY2007 expenditures as of 7/6/07 totaled $2,719,002.99 with an ending cash balance of $2,983,019.74.

Note: FY 2007 cash balances are as of July 6,2007. Transactions for FY 2007 may be processed through July 17, 2007.

ConserFund Loan Program (as of May 2007)

Loan Approvals in FY 2000					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-201-00	Lexington School District Two	08/25/99	5	4.70%	$126,994.00
4-202-00	Town of Ware Shoals	08/25/99	5	4.70%	$54,642.00
			Total		$181,636.00
Loan Approvals in FY 2002					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-203-02	Pickens County School District	12/21/01	10	1.00%	$500,000.00
4-204-02	Williamsburg Regional Hospital	03/11/02	5	1.00%	$340,000.00
4-205-02	SC Department of Corrections	05/06/02	6	1.00%	$42,500.00
4-206-02	Darlington County School District	05/31/02	10	1.00%	$500,000.00
			Total		$1,382,500.00
Loan Approvals in FY 2003					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-207-02	Darlington County School District	09/13/02	10	1.00%	$233,271.00
4-208-03	SC School for the Deaf and Blind	10/14/02	10	1.00%	$219,675.00
4-209-03	SC School for the Deaf and Blind	11/22/02	10	1.00%	$96,431.00
4-210-03	Division of General Services	12/03/02	4	1.00%	$350,000.00
4-211-03	SC School for the Deaf and Blind	01/02/03	5	1.00%	$49,765.27
4-212-03	Trident Technical College	04/15/03	10	1.00%	$504,208.10
4-214-03	Greenville County Government	05/19/03	8	1.00%	$297,670.00
4-216-03	Clemson University	05/27/03	10	1.00%	$489,534.00
4-217-03	Division of General Services	05/30/03	9	1.00%	$425,600.00
4-218-03	Division of General Services	05/30/03	10	1.00%	$179,975.00
			Total		$2,846,129.37
Loan Approvals in FY 2004					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-219-03	Division of General Services	07/24/03	2	1.00%	$27,302.50
4-221-03	USC-Columbia	02/19/04	8	1.00%	$500,000.00
4-222-03	USC-Columbia	02/19/04	8	1.00%	$500,000.00
4-201-04	Cherokee County School District	09/11/03	10	1.00%	$500,000.00
4-202-04	Cherokee County School District	09/11/03	10	1.00%	$500,000.00
4-203-04	Division of General Services	06/30/04	8	1.00%	$334,475.00
4-204-04	Winthrop University	06/30/04	8	1.00%	$500,000.00
4-205-04	Winthrop University	06/30/04	8	1.00%	$500,000.00
			Total		$3,361,777.50
Loan Approvals in FY 2005					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-208-04	Piedmont Technical College	08/18/04	5	3.00%	$483,280.00
4-201-05	Charles Lea Center	03/24/05	9	3.25%	$146,310.00
			Total		$629,590.00
Loan Approvals in FY 2006					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
4-203-05	Office of the Adjutant General	07/12/05	4	3.25%	$50,694.00
4-201-06	SC School for the Deaf and Blind	09/16/05	10	3.25%	$324,331.00
4-202-06	Winthrop University	04/03/06	6	3.25%	$500,000.00
			Total		$875,025.00
Loan Approvals in FY 2007					
LOAN NO.	**BORROWER**	**CLOSING**	**TERM (YRS)**	**RATE (%)**	**AMOUNT**
			Total		$0.00
			Grand Total		$9,276,657.87

Comparison of Actual Tax Collections vs. Projections

Fiscal Years 2002-2006

State	Sales Tax *Average Percent Difference*	Personal Income Tax *Average Percent Difference*	Corporate Income Tax *Average Percent Difference*	Combined Taxes *Average Percent Difference*
Alabama	3.8%	6.2%	37.8%	7.0%
Arkansas	2.6%	6.2%	24.3%	5.5%
Florida	4.2%	-	19.6%	5.6%
Georgia	3.6%	4.9%	-	5.1%
Kentucky	2.7%	5.0%	35.0%	6.1%
Louisiana	7.9%	2.5%	12.6%	6.2%
Mississippi	1.8%	6.4%	5.8%	3.9%
North Carolina	4.0%	5.3%	22.0%	6.0%
Tennessee	1.8%	19.5%	12.8%	4.1%
Virginia	2.1%	10.4%	29.5%	9.1%
West Virginia	1.8%	5.1%	30.4%	5.8%
Average	3.4%	7.8%	25.5%	5.8%

South Carolina	4.5%	14.2%	50.4%	10.8%

Source: Data from NASBO "Fiscal Survey of States: 2002 - 2006

Potential Funds to Lapse with a Five Percent Carry-forward
Based on FY '07 year end cash on hand

:ash Balances - Total Funds Yearly Comparison

Office	FY2006 Expenditures/ Transfers[2]	Budgeted Funds[1] Cash Balance FYE 2006	Cash Balance as a % of Expenditures/Trfs	YTD FY2007 Expenditures/ Transfers[2]	Budgeted Funds[1] Cash Balance as of 07/06/2007	Cash Balance as a % of Expenditures/Trfs	Potential funds to lapse if only 5% carried fwd
Executive Director	808,160.72	67,092.17	8%	777,724.38	163,182.79	21%	124,296.57
Office of General Counsel	919,642.14	115,667.82	13%	796,939.57	267,252.99	34%	227,406.01
Agency Support	549,335.86	52,495.35	10%	426,284.72	108,411.63	25%	87,097.39
Office of Internal Operations	3,166,722.16	844,276.72	26%	3,246,271.11	708,894.84	22%	546,581.28
Agency-wide Initiatives	695,347.75	196,443.56	28%	597,242.43	277,337.30	46%	247,475.18
Executive Institute	399,137.06	41,714.97	10%	368,218.31	46,398.66	13%	27,987.74
Internal Audit	303,795.57	94,604.24	31%	406,202.25	197,195.99	48%	176,785.88
Budget Office	2,133,267.38	420,487.00	20%	2,369,825.30	675,422.70	29%	556,931.44
Office of Research & Statistics	6,158,785.92	1,662,939.51	27%	6,934,823.02	2,204,497.11	32%	1,857,755.96
Board of Economic Advisors	443,788.09	2,709.00	1%	383,679.19	58,040.61	15%	38,856.65
Office of Human Resources	4,786,665.57	853,365.32	18%	4,896,494.56	1,001,215.84	20%	756,391.11
Confederate Relic Room	678,556.24	66,581.03	10%	1,032,235.88	52,109.17	5%	
Office of General Services[3]	57,521,589.92	20,510,867.85	36%	66,782,689.76	19,476,800.60	29%	16,137,666.11
Materials Management Office	3,677,110.47	1,182,309.50	32%	3,686,049.34	1,693,330.16	46%	1,509,027.69
Insurance Reserve Admin	5,246,112.23	279,716.34	5%	4,889,729.06	455,059.93	9%	210,573.48
Employee Insurance Program	9,613,869.13	150,456.73	2%	9,846,504.00	49,471.29	1%	
Office of Local Government	4,744,110.14	17,346,757.59	366%	7,676,627.34	18,469,925.46	241%	
State Energy Office	2,291,273.52	841,841.57	37%	2,042,214.61	2,334,718.89	114%	2,232,608.15
CIO	49,561,366.21	24,012,379.77	48%	55,204,336.19	20,138,068.31	36%	17,377,871.50
Retirement Systems[4]	16,074,496.65	116,648.16	1%	16,672,489.65	576,846.45	3%	
Total	169,793,532.72	68,881,360.24	41%	189,038,561.05	68,952,200.92	36%	42,113,312.35

25% of Potential Funds to Lapse = $ 10,528,328

(1) "Budgeted Funds" are those funds that are or were subject to budgeting in Part IA of the state's annual general appropriations act as ordinary expenses of state government. The column includes: (a) state base appropriations and any

(2) Expenditures include operating transfers between offices and special items.

(3) Budgeted Funds include projects less than $100,000 managed by Office of General Services. FY2007 Expenses as of 7/06/07 totaled $2,719,002.99 with an ending cash balance of $2,983,019.74.

(4) Pension Trust funds are not included in this report.

Note: FY 2007 cash balances are as of July 6,2007. Transactions for FY 2007 may be processed through July 17, 2007.

No state funds were used to print this report.