

BUDGET AND CONTROL BOARD

GEAR RECOMMENDATION ONE

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

FACTUAL ANALYSIS

The Budget and Control Board’s vision statement was developed with a great deal of thought and input from many Board employees. The primary objective was to communicate the fact that Board employees strive to enable their customers, both internally and externally, to do their jobs more efficiently and effectively. The Board’s work primarily involves services to other agencies, thus our focus is to help “make government better” so that these entities may better serve the citizens of South Carolina.

Over the years, a three hour orientation has been provided for every existing employee as well as every new hire of the Board as to how we aspire to accomplish this vision with a sound focus on customer service, return on investment (“bang for the buck”), employee well-being and measuring and improving performance.

ACTION TAKEN

There is no meaningful reason identified to change the vision statement. The current vision statement continues to set the direction and performance expectations of our agency when employees are properly trained in the vision and mission of the agency.

BOARD ADMINISTRATION

GEAR 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.

FACTUAL ANALYSIS

The GEAR Committee states that the fee paid by the Budget and Control Board's divisions and offices for central administration "increased dramatically earlier this decade, likely as a way to counteract mid-year budget cuts."

Fee for central administration "increased dramatically."

This statement is incorrect. Funding for the Board's central administration is composed of two parts: (1) state appropriations and (2) a fee charged to the Board's revenue operations. The GEAR Committee's analysis focused exclusively on the fee, ignoring the state appropriation. Although it is true the fee increased, the implication that the total cost of the Board's central administration increase is untrue. The overall budget actually decreased by more than \$675,000 from FY 2000-2001 to FY 2007-2008, despite legislated cost of living increases and rising costs of supplies and materials. During this same period, central support functions reduced staffing by more than 30 FTEs, which represents a 36.5% decrease.

Fee increased "likely as a way to counteract mid year cuts."

In 2000-2001 central administration was 79% funded with state appropriations and 21% funded from fees paid by the Board's revenue operations. This ratio was almost the exact reverse of the agency's actual funding structure, which is about 12% state funded and 88% other funds. Now the ratio is 38% state and 62% revenue.

The funding mix for central administration was changed to accurately account for costs for services and operations.

Reduce fee to create an agency "culture focused on reducing cost of government support services."

The facts demonstrate that the Board has been a leader in reducing the cost of government support services. Overall, the number of full-time Board employees has declined by 125 workers since 2001 which is comparable to eliminating an agency the size of the Department of Commerce. The Board's General Fund budget is lower today than it was in 2001.

The GEAR Committee recommends a minimum reduction of 5% in the fee charged for central administration during FY 2007-2008, in part, as a symbolic measure. Central administration already sets a positive example by reducing the amount actually collected and retained from fees for central support functions. Over the last five fiscal years, the Board's central administration has implemented 7 fee refunds totaling \$1,296,254 and the Board anticipates another refund in FY 2007-2008 equal to or exceeding the amount recommended by GEAR. As explained above, Board administration has decreased its administrative costs.

ACTION TAKEN

The Board is monitoring its FY 2007-2008 expenditures and budget, as it does each fiscal year, and is planning a mid to late-year refund equal to or greater than recommended by GEAR. In addition, the Board is committed to a lean central administration and further reductions in the future, if sustainable. This commitment is evidenced by the reduction in central administration's budget since FY 2000-2001.

BUSINESS DEVELOPMENT OFFICE

GEAR RECOMMENDATION THREE

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

FACTUAL ANALYSIS

If state and local government entities are to save money they need to know of savings available to them by using General Services' programs.

- Frequently, state and local agencies send mail through the U.S. Postal Service (USPS) when the same items can arrive just as fast for much less using Agency Mail.
- Agency Mail rates for delivery to public buildings saved its clients some \$4,344,326 during FY07, when compared to USPS rates for the same service. The Business Development Office advertises this program and also helped revamp mail routes that resulted in cost avoidance of \$50,000/year. Agency mail does not receive appropriated dollars and its use is purely voluntary.
- Use of the State Fleet fuel card program affords government purchasers fuel prices that average \$.11/gallon lower than retail prices. The Office's efforts brought in new users who bought over \$2.3 million in fuel over the past two years, at prices that generated an estimated \$117,000 in savings to taxpayers.
- The Business Development Office also publicizes savings available to agencies and local governments through the use of the Fleet Commercial Vendor Repair program, the Print Shop, and Surplus Property disposal. All of these are voluntary services that are only used by agencies if our services are determined to offer best value and best price.

ACTION TAKEN

General Services will close the Business Office during FY2008 and transfer its duties to the respective programs. General Services intends to continue to make government entities aware of savings that can be realized from utilization of its programs or which offer savings through economy of scale (combined purchasing power); publicizing these savings opportunities can be accomplished by each team without a dedicated business office. Any savings realized in this program area will be used for deferred maintenance, which is a top funding priority.

STATE FLEET MANAGEMENT

GEAR 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.

FACTUAL ANALYSIS

This issue involves the use of retail incentives as opposed to the discounts the state receives by making bulk purchases through special government buying channels. The Materials Management Office recently sent a questionnaire to vendors who might potentially provide vehicles under statewide term contracts. Feedback from the vendor community was that the price concessions received by the state through "government and local political subdivision pricing" allow the state to receive lower prices than those achieved through the use of rebates or other retail incentives that are used to compete in the market for the general public. The consensus from the survey was also that late summer, at the beginning of a model year, was the best time to bid since the government pricing was set at that time. North Carolina and Georgia are working on their solicitations at this time too.

Also, as a routine part of the vehicle purchase process, the state conducted a specifications meeting attended by both vendors and manufacturers representatives where these issues were further discussed. This discussion revealed other problems associated with attempting to obtain retail rebates and incentives:

- Since the State doesn't purchase in the retail market, rebates are not available.
- Vehicles would have to be purchased from existing dealer stock in order to qualify for retail rebates. Many of these "retail vehicles" would have equipment not ordinarily specified by the state, thereby increasing the price of the unit.
- Even if rebates were used, it is not clear that the state would qualify for all possible rebates offered (many are status dependent – "military" etc.).
- Including language to require dealers to disclose all rebate programs offered by their respective manufacturer would present an additional task to the state in terms of its verification, with associated costs.
- By ordering vehicles at the end of the model year, when the production cycles are nearly ended, all the vehicles needed by the state may not be available.
- The state would lose the price protection it currently enjoys under the present system.

ACTION TAKEN

Based upon the facts and issues presented above, no action is planned in response to this recommendation. There are no projected savings.

STATE FLEET MANAGEMENT

GEAR 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.

FACTUAL ANALYSIS

The state already allows for discounts to be offered for expedited payment. Our standard solicitation format provides offerors the opportunity to offer discount terms as follows:

| DISCOUNT FOR PROMPT PAYMENT See "Discount for Prompt Payment" clause | 10 Calendar Days (%) | 20 Calendar Days (%) | 30 Calendar Days (%) | ____ Calendar Days (%) |
|---|-------------------------|-------------------------|-------------------------|---------------------------|
| | | | | |

Regarding the processing of payments, state law requires “All vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General’s office within thirty working days from the acceptance of the goods or services and proper invoice.” [11-35-45]. This statute is the only payment provision that we can guarantee bidders. Since MMO does not control payment on any delivered vehicles, there are no guarantees that agencies or other governmental entities will pay on an expedited schedule. Consequently, while we accept discount offers, the standard solicitation language indicates that discounts for prompt payment will not be considered when determining award. In order to change this approach, the State would need to guarantee payment within 5 days.

Contract vendors indicate that they are aware that they can offer discount terms, however they generally elect not to do so. The feedback they have provided indicates the following concerns with offering discount payment terms:

- Historically, governmental entities have difficulty receiving, inspecting, and processing payment for vehicles much faster than the time required by state law (30 working days from receipt of a properly prepared invoice).
- Contract vendors are concerned that offering a discount structure will result in increased invoicing problems with governmental entities. They are concerned that a state agency may prepare a voucher to be processed by the Comptroller General that takes the discount, but by the time payment is received by the contractor, the governmental entity will no longer be eligible for the discount. The contractor would then be forced to decide whether to accept the reduced payment or wait even longer for a corrected payment to be processed.

ACTION TAKEN

The state has included the following language to solicit a discount for prompt payment in its statewide term contracts for vehicles:

NOTICE: At least one major customer, State Fleet Management, is confident that they can complete their acceptance process and make prompt payments, via electronic funds transfer (EFT), within 15 calendar days for the majority of vehicles they order. Bidders are encouraged to agree to the following additional prompt payment provision. Bidder may also offer a discount for prompt payment pursuant to the Prompt Payment schedule on Page Two of this Solicitation.

If a using governmental unit and contractor agree in writing to use one of the following prompt payment options, the clause entitled "Discount for Prompt Payment (Jan 2006)" will not apply to payments made pursuant to the following additional prompt payment clause. For other payment terms, see clause entitled "Payment".

PLEASE CHECK ONE OF THE FOLLOWING BOXES, IF APPLICABLE:

☐ Contractor agrees to accept payment via electronic funds transfer. Contractor agrees to a _____% discount off its unit price for any payment received within 15 calendar days after the date a vehicle has been properly delivered and a proper invoice has been received by the state. The state requests advanced notice of anticipate vehicle delivery dates. When the fifteenth day falls on a Saturday, Sunday, or legal holiday when state offices are closed, payment made on the following business day will qualify for the discount.

List contractor's EFT information here:

☐ If contractor receives payment within 15 calendar days after the date a vehicle has been properly delivered and a proper invoice has been received by the state, contractor will pay to the state an amount equal to **(check one)**

- ☐ _____ % of the total price for each vehicle.
- ☐ \$ _____ per vehicle on the invoice.

The state will monitor new contracts to determine if any savings are realized by this approach.

STATE FLEET MANAGEMENT

GEAR RECOMMENDATION SIX

The Commercial Vendor Repair Program (CVRP) surcharge of 16% should be lowered to a maximum of 13% with a maximum cap of \$75.

FACTUAL ANALYSIS

The surcharge for the CVRP was 16% with a cap of \$80 per repair invoice.

An operating reserve is necessary to pay the first two month's expenses and invoices. The current expense level requires a minimum of \$800,000, but if CVRP continues to grow, additional cash reserves will be necessary.

State Fleet Management conducted a review of the program's revenue and expenses over the past 4 years and determined that the rate could be lowered to 14% with a cap of \$75 per repair. While it is difficult to determine how much revenue will be generated from this rate reduction, SFM will monitor this program quarterly to see if further adjustments are required.

ACTION TAKEN

The CVRP rate has been lowered to 14% with a \$75 cap effective September 1, 2007. SFM will monitor program revenue and expenses quarterly to determine if further adjustments are necessary. Annual estimated savings to agencies are \$115,000.

STATE FLEET MANAGEMENT

GEAR 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 Vendor Repair Program (CVRP).

FACTUAL ANALYSIS

This recommendation supports findings made by the Board's consultants, Mercury Associates, Inc., which issued a comprehensive 143-page report on State Fleet Management operations in May 2005. While the GEAR Committee recommends consolidation of all non-Corrections facilities throughout the state, Mercury concluded that the Broad River Road Department of Corrections maintenance shop should be taken over and operated by State Fleet Management and that the Department of Transportation and the Department of Education should continue to operate outlying maintenance shops outside the Columbia area on a cost reimbursement basis.

The GEAR report states "individual agencies and/or the Legislature" as the authority for change in this recommendation. However, based upon the Mercury recommendations, the Board implemented a voluntary fleet centralization plan that encourages agencies to consider consolidation in areas where shops are located in the same general vicinity.

The CVRP, at its present size, could not currently support all the light duty vehicles that do not presently use the program. However, the program could accommodate the additional demand if it were added incrementally.

ACTION TAKEN

Based upon the facts and issues presented above and the current law, no administrative action is planned in response to this recommendation as it is in purview of other agencies and the General Assembly.

STATE FLEET MANAGEMENT

GEAR 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.

FACTUAL ANALYSIS

This recommendation is a continuation of GEAR Recommendation Seven. This recommendation closely parallels the recommendation made in May 2005 by Mercury Associates, which was made available to the Gear Committee. Mercury also recommended consolidating Columbia-area maintenance shops and reducing the number from seven to three, but recommended that State Fleet Management (SFM) operate the Corrections facility on Broad River Road, as well as the Department of Public Safety's shop on Broad River Road., and SFM's Senate Street facility that is jointly funded with the University of South Carolina. Mercury recommended SFM operate these facilities because it is the only entity with a core mission of fleet operations. The Board has implemented a voluntary fleet centralization plan that encourages agencies to consider consolidation in areas where shops are located in the same general vicinity.

SFM and the University of South Carolina have agreed to co-locate vehicle repair operations in a joint-use repair facility at 516 Senate Street. Facility size limitations (primarily parking issues) have prevented the University from moving its bus transportation section in with SFM.

Two of the agencies with vehicle repair facilities located in the Columbia area are the State Law Enforcement Division (SLED) and the larger Department of Corrections on Broad River Road. These two shops are located right next to each other.

ACTION TAKEN

As SFM and USC examine their future facility requirements, an effort will be made to completely consolidate operations. Once a facility large enough to house all three agencies is secured, SFM will be able to allow ETV to consolidate their vehicle repair operations as well. Consolidation of other facilities referenced by the GEAR report is within the discretion of the agencies referenced or the General Assembly.

STATE FLEET MANAGEMENT

GEAR 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 Management's (SFM) gas surcharge to agencies from \$.06 to \$.05 per gallon.

FACTUAL ANALYSIS

As pointed out to the GEAR Committee, SFM is already in the process of replacing SCEMIS in favor of a more capable, less costly system. On March 1, 2007, SFM received permission from the Information Technology Management Office to develop a solutions-based RFP to acquire the new system.

Implementation of this system and ensuring its compatibility with statewide accounting systems will require a need for programming services, at least initially, which will reduce the amount of savings from this change.

We plan to purchase the system software and begin implementation during fiscal year 2007-2008. Once implemented, the savings from the difference in operating cost for the new system vs. the old one should allow SFM to adjust the fuel surcharge.

ACTION TAKEN

SFM is planning to replace SCEMIS. Once a new system is implemented at an estimated cost of \$600K to \$800K per year, SFM will review program expenses to determine the proper adjustment to the fuel surcharge. No changes in this rate should be made until these savings are realized.

STATE FLEET MANAGEMENT

GEAR RECOMMENDATION TEN

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

FACTUAL ANALYSIS

As indicated in the recommendation, “according to the Comptroller General’s office, a credit card account cannot be used because the current state accounting system, STARS, is not capable of capturing the Federal Employer Identification number critical for payment.”

ACTION TAKEN

When the SCEIS system is fully implemented the state should be able to provide this type of transactional service to vendors.

COMPREHENSIVE PERMANENT IMPROVEMENT PLAN

GEAR 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.

FACTUAL ANALYSIS

Most permanent improvement projects seeking approval from the Budget and Control Board already have their funding approved either by the General Assembly, through a specific appropriation or the granting of revenue bonding or revenue generating authority. In effect, the State has already made the policy decision to fund the project. Traditionally, the Board's role has been one of regulatory review and quality control. This includes ensuring proper fund sources are used for the project and that the purpose of the work has not been significantly changed since initial approval has been granted. The Board also ensures that all relevant state laws, policies and procedures governing construction practices are met on each project for approval.

Ranking and prioritization of projects does take place through several mechanisms now, including the Governor's budget recommendations, appropriations and authorizations by the General Assembly, and through Joint Bond Review Committee actions. The GEAR proposal in effect states that the Board should seek to overrule capital projects approved by these entities if the projects fail to meet a criteria set by the Board. However, the Board is not authorized to reallocate funding sources between projects. Ranking and prioritizing projects at the Budget and Control Board level would be a change from its current role and would require the General Assembly to modify current laws for funding and prioritizing projects.

We contacted the Commission on Higher Education (CHE) to address the recommendation relating to higher education capital improvement plans. Garrison Walter, Executive Director of the Commission on Higher Education provided the following response:

"Our current procedure for recommending permanent improvement projects to the Joint Bond Review Committee and the Budget and Control Board has three components: 1) approving projects in year one for which funds have already been identified and secured; 2) scoring and prioritizing requests for capital improvement bonds for projects in year two; and 3) reviewing long-term capital planning for projects in years three through five. Our responsibility to provide regulatory control and quality review requires that, as part of this review, careful attention be given to project scope, justification, and funding sources. In July 2005, the Commission approved additional criteria that also consider such factors as enrollment growth, capacity needs, and health and safety issues.

It is important to recognize that the General Assembly has designated funding sources available to institutions and the bonding capacity associated with those funds. Many times these are auxiliary funds or directed appropriations that are not available to any other institution or for any

other purpose within the institution. Therefore, we believe it would be inappropriate for the Commission to prioritize these projects.”

ACTION TAKEN

Budget and Control Board staff will take any actions requested by the Board. However, to fully accomplish the recommendation would require the General Assembly to modify various funding laws and laws related to capital budgeting.

PROPERTY SERVICES

GEAR 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.

FACTUAL ANALYSIS

The Board is conducting an on-going analysis of the recommendation. At this time, Facilities Management has been unable to verify the projected savings in the report by changing to night time custodial services.

ACTION TAKEN

The Board is in the process of surveying all custodial service customers to determine what their cleaning preferences are and their willingness to reduce services if it results in savings to the state. Should there be any savings realized from this recommendation, the savings will be directed to deferred maintenance.

REAL PROPERTY MANAGEMENT

GEAR 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.

FACTUAL ANALYSIS

The two properties cited as not being marketed by the Board, the Bull Street Campus and the Ports Authority facility at Port Royal, are not under the control of the Budget and Control Board. Based on a Supreme Court ruling, the Bull Street property is held in trust by the Mental Health Commission which is the only entity with authority to sell it. The Ports Authority has statutory authority to own and dispose of real property pursuant to S.C. Code Ann. § 54-3-140. Ports Authority property is exempt from all Board oversight pursuant to budget Proviso 73.5 and its predecessors.

Proviso 73.5 also contains the following language: “Titling in the name of the state shall not affect the operation or use of real property by an agency.”

Traditionally, the using agency has been allowed to determine when it no longer needs the property it uses. The Board theoretically could implement a more aggressive approach and overrule the using agency’s decision as to the continued use of property; however legislation clearly authorizing the Board to overrule an agency decision should first be enacted. The sale of surplus property requires a vote of the Board.

ACTION TAKEN

Prior to the GEAR report, at the Board’s direction, the Division of General Services (GS) began development of an automated and comprehensive real property management system (RPMS). This automated system includes a category specifically designed to identify property that an agency is not presently using but is holding for future use. Additionally, the category requires an explanation as to the planned use. This category, along with the Partial use category, will allow GS to monitor the property use to determine if property should be used differently or should be declared surplus and sold.

The present surplus property list is being monitored and reviewed at least monthly to ensure that GS is moving forward with the sale of all surplus property in a timely and effective manner.

REAL PROPERTY MANAGEMENT

GEAR RECOMMENDATION FOURTEEN

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

FACTUAL ANALYSIS

General Services is uncertain how the Committee arrived at its projected savings figure. The GEAR report references one piece of property that has been for sale for eighteen years. That piece is a 6.5 acre remnant of an 84 acre tract that was declared surplus. The large majority of that acreage, 77 acres, was sold in the 1980s. The 6.5 acres was separated from the main parcel by a county road and the buyer of the larger parcel was not interested in purchasing it. The remaining parcel is zoned “Light Industrial” and sewer is not available. The appraisal information we have on this parcel indicates that its highest and best use is to “hold for future uses”, which is essentially to wait until development in the area results in sewer service which makes the parcel marketable.

General Services sent out requests for proposal and contracted with an auctioneer for property sales during 2006. In 2007, the Quartermaster’s dock at Sullivan’s Island was referred to the auctioneer for sale. The auction was scheduled to take place on September 14, 2007. However the sale has been delayed by action of the Board members to allow the town of Sullivan’s Island time to finalize a proposal to acquire the property.

ACTION TAKEN

General Services (GS) is in favor of using auctioneers, brokers, or any other sales methodology that will maximize net return to the state on surplus property sales. GS has already met with DOT’s real property manager to discuss their procurement of a broker. Also, General Services will explore the feasibility of offering commission protection to real estate agents who bring contracts for purchase of state property, as well as the advisability of contracting with brokers for the sale of its properties.

INSURANCE RESERVE FUND

GEAR 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.

FACTUAL ANALYSIS

Acting pursuant to Proviso 63.58, the Insurance Reserve Fund (IRF) commenced a competitive solicitation to procure a broker to place approximately 400 million dollars in property reinsurance. The solicitation required that the brokers responding to the solicitation quote a flat fee for their services. The IRF received 11 bids and these bids are being evaluated by an independent panel of experts. The evaluation results will be presented to the Board for consideration at its November 2007 meeting.

The Gear Committee projects an annual savings of \$2,080,000 by following the proviso. Whether this process will produce any costs savings in the State's property reinsurance costs is speculative and not currently identifiable or quantifiable. Variation in broker fees is not typically a significant driver of the overall costs for property reinsurance.

ACTION TAKEN

This recommendation is being fully implemented as required by Proviso 63.58.

INSURANCE RESERVE FUND

GEAR 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.

FACTUAL ANALYSIS

The GEAR report indicated that “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 –yet the state is paying a \$13 million annual premium.”

This analysis is faulty. There is a delay between the time a claim occurs and the time it is actually reported (up to two years). Until the claim is settled, final cost is unknown. Therefore, claims statistics for recent years are understated or “immature”. The most recent year will reflect the larger understatement for the claim statistics.

The statistics for the last six years are as follows:

| <i>Fiscal Year</i> | <i>Claim Amount</i> | <i>Status</i> |
|--------------------|---------------------|---------------|
| 2001-2002 | \$12.7 million | Mature |
| 2002-2003 | \$13.2 million | Mature |
| 2003-2004 | \$13.1 million | Mature |
| 2004-2005 | \$10.2 million | Immature |
| 2005-2006 | \$ 9.5 million | Immature |
| 2006-2007 | \$ 7.4 million | Immature |

The earliest three years are classified as “mature” and show an average incurred loss of \$13 million over a three year period. The last three years are considered to be “immature” and are expected to increase over time. Therefore, it would be inaccurate to include the last three years in the average claims paid out per year data due to the incompleteness of the information.

We cannot determine the basis by which the GEAR report calculated a savings of \$950,000 for one year and \$2,850,000 for three years. However, based on the analysis of the claims statistics for the first three years, the annual premium payment is reasonable when compared to mature claim costs.

The GEAR report also recommended that “...the Insurance Reserve Fund should follow best practices by issuing an RFP to a qualified broker and then have the selected broker solicit quotes from all qualified carriers.”

Section 1-11-147 of the SC Code of Laws states “...Should the Board elect to purchase automobile liability reinsurance, the reinsurance shall be procured through a bid process in accordance with the South Carolina Consolidated Procurement Code with a contract term not to exceed three years.” Therefore, unless this statute is repealed or amended, the IRF does not have the authority to select a broker and to use a broker to obtain quotes.

Also, the automobile liability reinsurance program was bid with a three year contract in place effective May 2007.

ACTION TAKEN

The current contract begun in May 2007 will end May 1, 2010. The claims data along with annual premium payments will be re-evaluated at the end of the contract period. A cost savings analysis at that time will indicate if a transition from a fully insured automobile liability program to a self-funded program is beneficial.

PROCUREMENT

GEAR 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.

ACTION TAKEN

This recommendation requires Legislative action.

PROCUREMENT

GEAR 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.

FACTUAL ANALYSIS

We have long advocated that central state procurement should manage statewide term contracts and the state's largest, most complex procurements. Toward that end we have:

- Elevated procurement certifications over the 25 years of certification, e.g., Clemson's certificate # 1 (circa 1982) was for \$10,000 per transaction and today Clemson's certification is \$1,000,000 per transaction, an increase of 9,900%.
- Advocated successfully that the General Assembly (and in one case the Budget and Control Board) raise blanket agency procurement authorizations as follows: 1981 - \$2,500 (initial Code), 1992 - \$5,000, 1997 - \$10,000, 2004 - \$25,000 (by Budget and Control Board Action), and 2006 - \$50,000 (change in law). We initiated every one of the increases from the 1981 initial Code.
- Delegated hundreds of procurements above agency certification levels back to agencies on a case-by-case basis under authority of SC Code Section 11-35-840 based upon agency buyer expertise.

State law allows agencies to be delegated greater procurement authority or "certification", but many agencies have not sought additional certification. Currently, only 30 certifications by the Budget and Control Board are in place - 9 colleges and universities (out of 10 colleges and universities), 4 technical colleges (out of 16), and 17 state agencies (out of approximately 62 total agencies subject to the Code). The Board has granted procurement certification to every agency that has made a request for certification.

We welcome further specialization of procurement certifications based upon agency expertise. In 2004 we invited all representatives to a meeting to seek their assistance in accepting higher certifications. One alternative that we offered to those agency representatives was that we alter the certification process to focus on individual buyer expertise, rather than agencies. Agencies opposed this alternative.

Regarding training, the Procurement Services Division offers 10 procurement courses twice annually, we coordinate with the South Carolina Association of Governmental Purchasing Officials to offer 4 public procurement courses instructed by the National Institute of Governmental Purchasing (NIGP), and a 3-tier SC Procurement Certificate training program curriculum. See <http://www.mmo.sc.gov/MMO/training/MMO-training-classes.phtm> for our course offerings. We have rewritten the job description on an FTE to function primarily as a training coordinator to reevaluate, rewrite, and enhance our training offerings.

ACTION TAKEN

Changing the role of central Procurement Office with state agencies would require legislative action. We continue to encourage agencies to request higher levels of procurement certification.

PROCUREMENT

GEAR 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 on the contract for protests at certain levels. Assess a filing fee for protests that will be refunded if the protests are upheld.

FACTUAL ANALYSIS

While protests are rare, the procurement process is legislatively mandated to provide for transparency. It balances the needs of agencies to procure goods and services promptly and at the best price with the rights of potential vendors to be treated fairly and have their protests considered.

In 2006, the General Assembly enacted changes to the protest process designed to shorten it:

- eliminated protests for procurements under \$50,000. The previous amount was \$25,000;
- reduced the filing period for a protest of an award from 15 days to 10;
- limited the chief procurement officer's time to commence an administrative review to fifteen business days and the time to issue a decision in writing to ten days of completion of the review;
- limited the Procurement Review Panel's time to either convene the review panel to conduct an administrative review or schedule a hearing to facilitate its administrative review to 15 days and limiting its time to record its determination and communicate its decision to those involved to ten working days. (In matters designated by the review panel as complex, the review panel shall record its determination within thirty days.)

In Fiscal Year 2006-07, the State Procurement Office awarded 971 contracts, 26 of which were protested (1.75%). Of the 26 protests, 2 protestants prevailed. In other words, the initial contract awards proved correct in all but 0.21% of all cases. Most procurement activity currently is processed by state agencies, not the Board. We do not maintain statistics on how many agency procurement transactions there are.

In addition, the Code allows agency heads to request that the chief procurement officer lift the automatic stay of award imposed by the Code, which allows agencies to proceed with an award while the protest is being resolved. [11-35-4210(7)]. Agency heads rarely use this option.

The Code would have to be amended to require a filing fee for protests by the chief procurement officer. However, the Board policy continues to balance the need for prompt procurements without undo burden. The Procurement Review Panel does require a filing fee of \$250 for each appeal.

ACTION TAKEN

The State Procurement Office believes that delays imposed by the protest process are immaterial. However, we will continue to review the protest process for efficiency. Facts indicate no action should be taken at this time. Imposition of a filing fee by the Chief Procurement Officer would require a change in law.

PROCUREMENT

GEAR 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.

FACTUAL ANALYSIS

As noted in the recommendation, we concur.

We implemented the fee in 2003 in response to funding losses of approximately 25%. The chief procurement officers are authorized by 11-35-4860(5) to charge state agencies fees for various services. We felt this approach was better for everyone than billing agencies repeatedly for individual services occurring repeatedly throughout the year. The same approach is used by the federal General Services Administration and numerous multi-state cooperative procurement organizations such as the Minnesota Multi-State Cooperative for the Acquisition of Pharmaceuticals, U.S. Communities, and the Western States Contracting Alliance. Five other state central procurement offices incorporate an administrative fee into their term contract pricing. Central procurement offices in sixteen states are funded completely or partially from revenue sources. At implementation, we announced the fee to agency procurement officers at various events. The fee clause, which is almost two pages long, is included in every state term contract solicitation where it applies and is available on line at the following website address http://www.gs.sc.gov/webfiles/gc/Terms/040805_revised_standard_admin_fee_clause_for_new_contracts.pdf.

On March 21, 2007, we reduced the fee from 1% to 0.75%, as noted in the report. We review the fee level every six months and adjust it as necessary. The fee is imposed on certain statewide term contracts only. As noted in GEAR recommendation 18, through the issuance of aggregated statewide term contracts, the Materials Management Office offers its most significant services to state agencies and political subdivisions. The state term contracts generated by our office have proven to offer state agencies discounts of 20% - 29% each year. For Fiscal Year 2006-07, the discounts gained by state agencies and political subdivisions from statewide term contracts averaged 22%. The cost savings to agencies and political subdivisions more than outweigh the fees assessed.

ACTION TAKEN

The fee was reduced by the Procurement Office prior to the issuance of this recommendation of the GEAR Committee. We will pursue itemizing the fee with the affected vendors.

PROCUREMENT

GEAR RECOMMENDATION TWENTY-ONE

Expand and improve the procurement system 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.

FACTUAL ANALYSIS

We agree that common templates for all procurement agencies provide for efficient procurement processes. Toward that goal, we have:

- In 2006, we completed a comprehensive revision of all bidding instructions, solicitation provisions, and contract terms and conditions, and solicitation forms: a two year process. We published a Compendium of standard clauses and solicitation forms that year, provided it to state agencies and political subdivisions and trained them on their use. The Compendium is available on our website at <http://www.gs.sc.gov/DDP/terms/>. Twice each year we offer continuing training to agency procurement officials on the use of the Compendium.
- In 2006, we automated the process for agencies to submit requisitions to this office electronically. Included therein is a solicitation attachment document that prompts requestors through the requisitioning process and the various forms required by the Procurement Code.
- In 2007, we automated the process of agency quarterly reporting sole source, emergency, trade-in, and preference directed procurements, which is required by SC Code 11-35-2440.
- We have established as a goal for Fiscal Year 2007-08, automation of the processes of the State Engineer's Office, and are currently actively pursuing that goal.
- The provision of common templates to all agencies is complicated by the fact that agencies use disparate automated purchasing systems. The new South Carolina Enterprise Information System (SCEIS) will provide a common automated procurement system. The State is scheduled to begin implementing SCEIS in November 2007. Over the next few years as all state agencies implement SCEIS, all procurement offices will utilize the same automated procurement system that will provide access to common templates.

ACTION TAKEN

The GEAR recommendation is completely in concert with MMO's ongoing process improvement. The cost of these improvements to date is \$475,417.

PROCUREMENT

GEAR 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.

FACTUAL ANALYSIS

At the time the GEAR Commission published its report, the Office of the State Engineer (OSE) was pursuing much of what the GEAR Commission recommended.

Regarding the staff of the State Engineer's Office, every member is either a licensed Registered Architect or a Professional Engineer. Every member of the staff has extensive experience working in the private sector as well as state government. Their role is not to "stamp drawings" as was anonymously quoted in the report. Their role is to protect the State of South Carolina by ensuring safe, sound, economical construction of state facilities. The comment in the report about the qualifications of the State Engineer's professional staff is incorrect.

ACTION TAKEN

The Office of the State Engineer will continue its on-going review of the laws and processes.

PROCUREMENT

GEAR RECOMMENDATION TWENTY-THREE

Consolidate all statewide procurement functions of the Board under the Procurement Office. Move Information Technology Management Office (ITMO) back from the CIO to the Procurement Office.

FACTUAL ANALYSIS

In 2001, the state's first CIO, Matt DeZee, believed it was imperative that the procurement function be located within the CIO to ensure monitoring and adherence to technology standards. Thus, The Executive Director of the Budget & Control Board gave approval to move ITMO from Materials Management Office (State Procurement Office) to the CIO.

The CIO's role in procurement was first scrutinized by the Governor's Commission on Management, Accountability and Performance. The report that was issued on September 30, 2003, made the following recommendation:

"Information Technology procurement should reside within the Office of the CIO, as the CIO is better positioned to understand how technology applies to business objectives for a single agency or across multiple agencies."

IT procurement was further examined in 2005 by the Legislative Audit Council. This limited-scope review did not consider issues involving the placement of ITMO. Instead, this report focused on the need to improve documentation in some procurement files.

ACTION TAKEN

This matter should be considered in concert with the other CIO recommendations. According to Proviso 63.3, this type of reorganization or restructuring would require Legislative approval.

OFFICE OF THE STATE CIO

GEAR 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.

FACTUAL ANALYSIS

Over the years we have recognized the need to review and modernize the State's Information Technology laws. Since 2000, there have been at least 11 bills introduced (including Restructuring Legislation) that deal with attempting to reorganize and restructure the State's IT processes and laws. Many other bills dealing with individual agency IT structuring have also been introduced, as well as many agencies' IT funding items being placed in annual Appropriations Acts.

ACTION TAKEN

This item is dependent on Legislative action. We will continue to assist the Legislature with their review.

OFFICE OF THE STATE CIO

GEAR 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 year's activities in the CIO reimbursement system and the CIO operations should be conducted with the goal of reducing charges to agencies to reflect their actual costs.

FACTUAL ANALYSIS

Financial Information Availability

The Executive Director has instituted an annual audit of all fees in the agency which will include the CIO division. The audit report should provide complete transparency of fees charged by the CIO to policymakers and interested parties.

The CIO operation is one of the more complex within the agency. The operations consist of numerous types of services, customers, contractual arrangements, and regulatory requirements that must be understood. In addition, CIO has within its operating costs the requirement to provide services that are not directly funded such as Homeland Security and the statewide 800 Mhz network.

Reducing charges to state agencies

During the past fiscal year the CIO rate review indicated that rate reductions would be appropriate. This is consistent with past practices within the CIO division. This is an area of on-going evaluation.

ACTION TAKEN

The CIO recently implemented a rate reduction retroactive to July 1, 2007, that will result in an estimated \$1.9 million annual recurring savings to customers.

The Executive Director has instituted an annual audit of all fees charged by the agency that will be available for review by any interested party.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION TWENTY-SIX

Create a CIO Council chaired by the state CIO made up of CIOs from the 20 largest state agency customers and 10 CIOs 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.

FACTUAL ANALYSIS

This recommendation proposes an approach to critical IT decision making in state government with a thirty-one (31) member CIO Council. It also raises questions about statewide planning, procurement and operations. Research in other states indicates that there are various structures used dependent upon the role and framework of the state CIO.

Currently, there is an established Architecture Oversight Committee (AOC) which represents all state agencies and is comprised of a total of nineteen (19) representatives that are either elected or appointed.

Fifteen members of the Architecture Oversight Committee represent functional groups (i.e., public safety, environmental, education, etc.) of state agencies, which share many of the same technology needs, issues and concerns.

The remaining members of the AOC consist of three (3) at-large members. The remaining permanent member is the State Chief Information Officer or his designee.

The AOC is used to oversee the **SC Enterprise Architecture (SCEA)**. The SC Enterprise Architecture (SCEA) provides a framework for making strategic technology investment decisions on a cost-effective, enterprise basis, in such a way as to meet the diverse business needs of agencies in the executive branches of state government.

The AOC's scope of responsibility is more limited than that of the Council proposed by the GEAR Committee.

In addition, communities of interest (health, education, public safety, etc.) have been formally created to encourage collaboration between organizations with similar business objectives. Communities of interest promote collaboration and encourage enterprise level solutions.

ACTION TAKEN

Analysis of this recommendation is on-going. The recommendation appears to propose that the policy and planning direction of the state's IT function should be restructured. This would be a critical component in the review of state laws and policies as addressed in GEAR Recommendation 24. While we believe that a customer based council has merit, a thorough review of organizational and oversight possibilities is recommended.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION TWENTY-SEVEN

Create an Information Technology Board (ITB) consisting of eight private sector CIOs and eight state agency heads to provide advice and council on IT matters to the Governor, the BCB and to the CIO.

FACTUAL RESPONSE

This recommendation proposes an approach to critical IT decision making in state government with a 16 member Information Technology Board.

The Maryland State CIO was recently contacted about the MD IT Board, which is cited as the model in the GEAR recommendation. Ellis Kitchen, CIO of Maryland provided the following statement:

“The Information Technology Board (ITB) has not met in 3 years and we proposed disbanding it. What happened in the State of Maryland was that the Ethics Commission ruled that any company that participated in the ITB process would be precluded from bidding for and winning any state contracts so that pretty much killed that.”

ACTION TAKEN

While we believe that the idea of an ITB has merit, a thorough review of organizational and oversight possibilities is recommended.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION TWENTY-EIGHT

Procure an independent quality assurance and risk management vendor reporting directly to the SCEIS Executive Oversight Committee (EOC)

FACTUAL ANALYSIS

The CIO has quality assurance and risk management activities already engaged in the SCEIS project. However, the CIO, along with Board approval, could acquire additional services at an additional cost to the project.

Independent Verification and Validation (IV&V) is typically performed to validate and verify systems functionality during and after implementation. The benefits we would expect to derive are verification and validation of our Enterprise Resource Project (ERP) blueprint implementation, software configuration, testing procedures and implementation. This is a quality review and verification that quality practices and policies were completed.

ACTION TAKEN

The CIO agrees an IV&V review would add value to the SCEIS project. Initial estimates provided by SAP were cost prohibitive. More recent analysis indicates an anticipated cost of this quality assurance (QA) to be between \$600K-\$700K. The CIO has initiated the procurement of an independent IV&V vendor who will report to the Executive Oversight Committee.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION TWENTY-NINE

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

FACTUAL ANALYSIS

A significant portion of funds paid for state telecommunications come from agencies that receive substantial federal funding. In the past the state has had to pay fines and make repayment to the federal government when monies from internal services funds have been used for unrelated purposes.

ACTION TAKEN

Following the GEAR recommendation could cause the State to violate federal regulations prescribed by the Office of Management and Budget (OMB) Circular A.87.

OFFICE OF THE STATE CIO

GEAR 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.

FACTUAL ANALYSIS

Implementation of the SCEIS project is \$62.8 million. Of this amount, state agencies are required to pay 75% (\$47.1 million) for implementation. It is unclear whether the recommendation considers that agencies are required to pay 75% of the cost of implementation.

Also, to assist with the cost of implementation, the General Assembly created in law a special account allowing agencies to set aside protected funds to pay their portion. The first group of implementations will occur during the current fiscal year. Upon successful implementation of this group, the CIO plans to update the Business Case Study, which will show potential cost savings.

ACTION TAKEN

The Board will make the updated Business Case Study available to the Governor and General Assembly for use as deemed appropriate.

OFFICE OF THE STATE CIO

GEAR 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 the CIO.

FACTUAL ANALYSIS

Current solicitation is being held in abeyance for further analysis of this complex issue.

ACTION TAKEN

Ongoing analysis is being conducted and meetings are being held with key agencies by the Executive Director.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION THIRTY-TWO

The DHEC processing costs for the IBM database management system DB2 should be reduced to the costs proposed to DHEC by IBM.

FACTUAL ANALYSIS

The CIO has contracted with the Keane Corporation to analyze DB2 system optimization for DHEC and other DB2 customers. The CIO is awaiting a full report from the Keane Corporation. Initial review of the IBM project planning proposal to DHEC which includes further information from IBM, indicates that the pricing provided to DHEC does not include all applicable costs (such as personnel, disaster recovery, security, network costs).

ACTION TAKEN

We have engaged a consultant to evaluate the current system and any proposed alternatives. We are working closely with DHEC to arrive at a mutually agreed upon solution.

OFFICE OF THE STATE CIO

GEAR 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.

FACTUAL ANALYSIS

Section 11-35-1580 (g) directs the State CIO to develop a statewide plan for the management and use of statewide technology. In accordance with this, decisions about the future of information technology in South Carolina are made by the agencies and entities responsible for serving its citizens. As a result, the CIO aligns its strategy with standards and practices set forth by the Architecture Oversight Committee (AOC).

The last Statewide Information Technology Strategic Plan was created in 2005 by a committee of agency representatives in collaboration with the CIO. The plan incorporates goals and objectives to be completed by 2009.

Development of the 2005 Statewide Strategic Information Technology Plan involved a request for all state agency directors and IT directors to participate in meetings led by a third-party facilitator to discuss business objectives and needs.

From these meetings, a draft document was prepared by this third-party vendor identifying key result areas, objectives and action items. This document was shared with agency directors and IT directors for feedback from which the final plan was formalized.

The State CIO evaluates agency IT requests submitted via the IT Planning Office against the Statewide Strategic Plan to support compliance.

IT strategic plans submitted to the CIO by governmental entities are a critical factor for shaping the future of information technology in South Carolina. Governmental organizations in South Carolina must seek approval from CIO IT Planning for large scale IT procurements. The approval process ensures that governmental entities adhere to the information technology standards set forth by the AOC.

The CIO is committed to continual process improvement. A formal strategic planning improvement initiative incorporates a five-year time horizon and full life cycle IT costs. Plans are underway to involve stakeholders in updating the plan. Steps in this process include the following:

- Update status of action items as set forth in the plan
- Identify and brief key stakeholders
- Facilitate meeting of agency directors and IT directors to discuss business needs and to propose specific updates to goals and objectives
- Based on feedback, update the planning document
- Present the document back to the agency directors and IT directors for feedback and final approval

ACTION TAKEN

The CIO began a planning process in 2005 that closely parallels this recommendation. The plan is scheduled for review and update in 2008. We will review our process steps and ensure we optimize customer input.

OFFICE OF THE STATE CIO

GEAR 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.

FACTUAL ANALYSIS

Project Management Training

It was the recommendation of the Project Management Oversight Committee (PMTOC) that the State develop a project management training and certification program that addressed the issues of project management that arise in the government setting. The PMTOC is comprised of project management professionals from nine different governmental entities including representatives from higher education.

The specific technical college training program referenced in the GEAR report is strictly a Project Management Professional Certification Examination Preparation Course. Courses offered by technical colleges do not fully meet the training needs of a project management professional in a governmental setting.

Greenville Technical College offers a Project Management certificate program which has some similarity to the CIO curriculum, but is not custom-tailored to the governmental environment. This program involves approximately 13 days of classroom instruction and costs \$3,760 per student. For further comparison, Clemson University offers a Masters Certificate in Project Management which covers a similar range of subject matter to the CIO curriculum, but, again, not within the context of a governmental setting. Clemson's program involves 18 days of classroom instruction and costs \$7,600 per student.

The CIO PM curriculum is purposefully, custom-tailored to the S.C. State Government environment and consists of 24 days of classroom instruction; the total cost is \$3,900 per student.

For persons qualified to take the Project Management Professional (PMP) certification exam, the fee charged by the Project Management Institute® is \$555 per candidate (non-PMI® member) and \$405 per candidate (PMI® member).

Project Management Threshold

Contrary to what is indicated by the recommendation, the current project management policy merely requires the agency to use the State Methodology or one approved by the State Project Management Office on projects of \$50,000 or more. Only major, multi-agency, and enterprise technology projects, as defined below, are required to have project managers. In most cases, a \$400,000 total cost and one of the other factors cited would determine the requirement for a certified project manager.

The Project Management Policy that was unanimously adopted by the Architecture Oversight Committee is as follows:

“All Major, Multi-agency and Enterprise Technology Projects must have a designated project manager. The project manager may be provided by the agency, another agency, the Project Management Services Group (PMSG) or by a contractor, at the agency’s discretion, and must be assigned to the project from initiation to closeout. Project managers for such projects shall be responsible for reporting project progress to the PMSG via the “Project Status Reporting Dashboard” process set forth below. Beginning on July 1, 2005, if a project manager is assigned by an agency to manage a Major, Multi-agency or Enterprise Technology Project, he or she must be certified as a project manager through a program approved by the PMSG, and either conducted by the PMSG or by a contractor approved by the PMSG (see Section 8.0 below).

For Small Technology Projects, the application of project management standards, guidelines and oversight will be performed by the agency and should be “tailored” to the size, type and importance of the project.”

When an IT project is submitted to the IT Planning Services Office (not the PMO) in the Division of the State CIO, it will be evaluated using the criteria set forth below to determine if it should be categorized as a Minor, Small, or a Major Technology Project as set forth in the policy. Generally, if a project meets two or more of the following criteria, it will be considered a Major Technology Project:

- (1) The estimated cumulative cost of the project exceeds \$400,000, and (2)
 - The project is mission critical to the agency and/or the State,
 - The expected duration of the project exceeds twenty-four months,
 - The project is considered a high risk for success (i.e., the project involves leading edge technology, there is no qualified project manager to oversee project, etc.), or
 - The project has enterprise or multi-agency implications.

Any project having a cumulative investment in technology of \$1,000,000 or more will be considered a Major Technology Project. This is unless the agency submitting/conducting the project has received certification to independently manage projects up to a cumulative investment in technology of \$5,000,000.

If the agency disagrees with the categorization of a project by the IT Planning Services Office, it may request a peer review by the Project Management Advisory Committee. The decision of this Advisory Committee shall be final.

Contrary to what is indicated by the recommendation, the current project management policy merely requires the agency to use the State Methodology or one approved by the State Project Management Office on projects of \$50,000 or more. Only major, multi-agency, and enterprise technology projects, as defined above, are required to have project managers. In most cases, a \$400,000 total cost and one of the other factors cited above would determine the requirement for a certified project manager.

ACTION TAKEN

The Board has contacted the State Technical College System to find out the level of interest and capability of providing the PMI training at the technical colleges. The bid process for PMI training is an open competitive process. CIO will encourage the technical colleges to participate in this process in the future.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION THIRTY-FIVE

DSS CIO should be an employee of DSS and not a part of the CIO staff

FACTUAL ANALYSIS

The Virtual CIO program provides professional IT expertise to organizations that chose not to employ a full-time CIO. DSS has chosen to utilize the VCIO program, and the CIO is pleased to be able to provide DSS and many other customers with the service in response to their requests.

ACTION TAKEN

Implementation of this recommendation is solely within the purview of DSS.

OFFICE OF THE STATE CIO

GEAR RECOMMENDATION THIRTY-SIX

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.

ACTION TAKEN

1) “There needs to be a new attitude adopted throughout the organization”

The Executive Director is conducting meetings with key customers. The Board plans on engaging an independent consultant to obtain actionable feedback from different customer groups and a benchmark for future assessments.

2) “The State CIO organization needs to be split into two separate entities, one of which needs to be a cabinet level state CIO”

Dividing the CIO into two separate entities requires legislative action. This matter should be considered in concert with other CIO recommendations.

OFFICE OF LOCAL GOVERNMENT

GEAR 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.

FACTUAL ANALYSIS

The General Assembly fully restored the state match funding for federal dollars to \$3.5 million for FY 2007-08. Therefore no reason exists to reserve SIRF funds for federal matching purposes.

ACTION TAKEN

The Office of Local Government is in the process of re-opening the State Infrastructure Loan Fund in order to process loans under the guidelines of the program and expects to make between 3 to 5 loans this fiscal year.

COMPETITIVE GRANTS PROGRAM

GEAR 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.

ACTION TAKEN

This recommendation requires Legislative action. The Competitive Grants Program is not governed or managed by the Budget and Control Board.

STATE ENERGY OFFICE

GEAR RECOMMENDATION THIRTY-NINE

Given the high cost of energy and significant carry-forward 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.

FACTUAL ANALYSIS

The funds available (\$2.1 million) in the ConserFund program must be used for the implementation of energy efficiency and renewable energy projects.

We believe this matter has been resolved by the State Energy Office's renewed efforts. A loan of \$450,000 was issued during June 2007. Since the GEAR report was issued a loan of \$182,500 was issued during August 2007, and a loan of \$1,929,000 was issued during September 2007. Potential loans in the pipeline total \$500,000.

ACTION TAKEN

This recommendation has been implemented.

BOARD OF ECONOMIC ADVISORS

GEAR RECOMMENDATION FORTY

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

ACTION TAKEN

This recommendation is directed to the BEA, not the Budget and Control Board.

GEAR RECOMMENDATION FORTY-ONE

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

ACTION TAKEN

This recommendation is directed to the BEA, not the Budget and Control Board.

GEAR RECOMMENDATION FORTY-TWO

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

ACTION TAKEN

This recommendation requires Legislative action.

GEAR 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.

ACTION TAKEN

This recommendation is directed to the BEA, not the Budget and Control Board.

STATE AUDITOR

GEAR 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.

ACTION TAKEN

This recommendation requires an action of Budget and Control Board members.

AGENCY CARRY-FORWARD

GEAR 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.

FACTUAL ANALYSIS

“Enormous and Growing Cash Reserves”

The GEAR Committee reports that the Budget and Control Board has “enormous and growing cash reserves....”

Of the \$1.114 billion that the Budget and Control Board carried forward into FY 2008, more than \$1.0 billion or 91% was funding for programs in three general areas: (1) insurance trust funds, (2) funding committed to building improvement projects and (3) loan and grant funds nearly all of which are already committed but disbursed in phases to local governments and political subdivisions for construction of drinking water and sewer facilities.

Of the \$434 million in growth, from FY 2005 to FY 2007, \$359 million was in insurance trust funds. The State Health Plan moved from the precarious position of having no reserves to the statutorily required 45 days and potentially funding about \$136 million of the OPEB unfunded liability. The state’s property and liability insurance program went from having reserves that were six times less than insurance industry standards to an acceptable ratio. In part, the growth in insurance funds was due to the redirection of insurance trust funds to the state’s general fund during the budget crunch of FY 2003 and the subsequent repayment of nearly \$55 million in FY 2007. In addition, \$28 million are special appropriations that the Board expends for other entities such as K-12 Technology and Base Closure. Other balances include, for example, \$4.9 million for SCEIS, \$1.2 million for energy programs, \$5.8 million for other agencies’ capital projects and \$5.9 million for State House Complex and Grounds upgrades and improvements.

Limit Carry Forward of all Sources of Funds to 5% of Budget and Lapse the Rest Unless Executive Director Allows an Exception

The GEAR Committee recommends limiting divisions’ carry forward to a maximum of 5% of their budget unless the Board’s Executive Director allows an exception based on input from Internal Audit. The Committee recommends that balances over 5%, without an exception from the Executive Director, lapse to the state’s general fund. This “methodology” is recommended for “fee-based revenue as well as General Funds.”

The Budget and Control Board staff agrees with the GEAR Committee that it is responsible to review its rates and cash balances. The agency conducts a review annually. As part of the present review, the Board is formulating a process to make its rates more transparent through an annual audit process.

Perhaps where the recommended 5% limit on carry forward may be most problematic is for the fee-based revenue operations. The federal government allows a 16% cash balance for their

programs administered by the states. Outside consultants advise a similar or higher percentage as appropriate for fee supported programs. 16% equates to about two months of expenditures ($2 \text{ months} \div 12 \text{ month} = 16.6\%$) and is based on ongoing operating costs and cash flow needs. A state agency or business that sells services for a fee typically provides those services and bills for their cost one month and receives payment at the end of the next month.

In addition to cash flow requirements, lapsing other funds to the state's general fund may have significant adverse consequences including the violation of law. Because the Board sells goods and services to state agencies with federal funds, any use of the agency's revenue for other purposes must not, in simplified terms, result in the federal government bearing a portion of the cost of state government that is not attributable to the applicable federal program.

Presently an annual budget proviso authorizes state agencies to carry forward up to a maximum of 10% of its original general fund appropriations. 2007 Act 117, Part IB, Proviso 72.29. This proviso was introduced several years ago to address what is commonly referred to as "end of year spending" and to allow agencies opportunity for continuous budget management. Rather than have a flurry of agency spending near the end of the fiscal year so as to avoid lapsing funds, the General Assembly decided the better practice was to allow agencies a 10% carry forward. The idea was to promote frugality during the fiscal year and to permit better planning and more effective spending of conserved funds.

ACTION TAKEN

The Board is in the process of reviewing rates and cash balances and has instituted an annual fee audit process to be conducted by the Internal Audit Unit. As to lapsing general funds above 5%, this is a policy matter requiring a change in law that would affect all agencies.

DORMANT ACCOUNTS

GEAR 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.

FACTUAL ANALYSIS

The GEAR Committee reports five accounts housed at the Board as having insignificant activity in a year or longer: (1) CCF Ward v. State, (2) Funded Debt Sinking Fund, (3) Civil Contingent Fund, (4) Baldrige Training and (5) Brandenburg.

Only the Baldrige training account and, to a lesser degree, the Ward v. State account are subject to expenditure at the determination of agency staff. The Civil Contingency Fund is expended upon unanimous vote of the five member Budget and Control Board. Brandenburg funds are spent at the direction of the Commission on International Cooperation and Agreements, and the Funded Debt Sinking Fund is spent upon presentment of the subject bonds for payment.

ACTION TAKEN

Although the Budget and Control Board continues to use the training account for what it considers important development of its staff, the agency would support legislation to lapse the unobligated balances in all the accounts as recommended by GEAR. Board staff had already planned to recommend one of the two accounts it administers, CCF Ward v. State, for lapse or reappropriation.

HUMAN RESOURCES

GEAR RECOMMENDATION FORTY-SEVEN

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

FACTUAL ANALYSIS

In the late 1960s, the human resources function in South Carolina was autonomous within each agency. In 1975, the General Assembly enacted the State Personnel Act which created the State Personnel Division. Over the years, OHR has established a decentralized HR function based on the premise that “one size does not fit all.” This approach maximizes an agency’s flexibility to implement HR policies that fit its unique culture within broad statewide guidelines. This approach has consistently earned South Carolina the highest possible marks on the *Governing* survey of the states, which declared OHR a best practices for other governments to follow.

Some aspects of the State’s HR function remain centralized. Central State Human Resources Regulations promulgated by OHR ensure that all state employees are subject to common rights and policies. These regulations create the basic structure for the classification and compensation system, job vacancy postings, leave programs, employee performance evaluation system and other matters. OHR also provides model HR policies for agencies to use and OHR approves the agencies’ HR policies for grievance, overtime, reduction-in-force, employee performance management and discipline. However, because employee management is at the core of an agency head’s ability to lead their organization, each agency maintains its own HR staff that is directly responsible for recruiting, interviewing and hiring their own employees.

Creating a centralized state human resources organization with direct responsibility to hire and manage all state employees would require a fundamental shift in state government policy as well as the transfer from agencies to OHR of many employees who currently work in agencies.

While there is no dotted-line reporting structure currently between OHR and the agency HR staffs, OHR works very closely with the agency HR staffs. This relationship is reflected in OHR’s mission statement: “The Office of Human Resources partners with our customers to create excellence in human resources.” OHR regularly solicits input from the agency HR staffs to make decisions about the State’s HR function.

ACTION TAKEN

No action has been taken, because moving to a more centralized HR function would require a major shift in philosophy by the State’s leadership. Creation of the more formal, dotted-line reporting structure would require legislative action.

HUMAN RESOURCES

GEAR RECOMMENDATION FORTY-EIGHT

Implement a temporary to hire solution for high turnover classifications.

FACTUAL ANALYSIS

In the mid-1990s, the legislature extended the probationary period before employees in permanent FTE positions acquire grievance rights from six months to one year. This probationary period allows employers and new employees twelve months to determine whether the employment relationship is successful. Because the benefits package offered by state government is an important recruitment tool now for vacant positions, delaying when new hires receive these benefits could make recruitment more difficult. In addition to hiring employees in permanent positions, agencies can contract with vendors for temporary employees through a state contract obtained through the Procurement Code, or agencies can hire temporary employees directly without going through a vendor. These temporary hires are limited, by S.C. Code Ann. § 8-17-320(25) (1976, as amended), to one year. Because these temporary employees do not receive benefits, their salaries are often adjusted slightly higher as an offset. There is also an administrative fee associated with temporary hires through a vendor. The administrative fees for vendors currently on State contract that hire temporary employees range from 29% to 33%. Agencies, such as the Department of Corrections, can currently implement the temporary to hire concept for one year. The training needed for certain Department of Corrections employees, such as correctional officers, would probably be necessary whether the hire is in an FTE or temporary position.

ACTION TAKEN

No action has been taken, because the temp-to-hire concept is currently available to state agencies for a period of one year through either the probationary period for FTE positions or through temporary positions. Expanding the temp-to-hire concept beyond one year would require legislative action.

HUMAN RESOURCES

GEAR 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.

FACTUAL ANALYSIS

Four years ago this type of exemption was established for cabinet and constitutional officers by Proviso in the annual appropriation act. That Proviso is not in place for this fiscal year. Deputy directors of restructured agencies and division directors of the Budget and Control Board, however, remain exempt from the State Employee Grievance Act according to § 8-17-370 of the Act and serve at-will.

ACTION TAKEN

No action has been taken, because employees in the top two levels under the Executive Director of the Budget and Control Board are currently exempt from the Grievance Act and serve at will. Exemption of other state agencies would require legislative action.

HUMAN RESOURCES

GEAR 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 administrative costs.

FACTUAL ANALYSIS

The Executive Institute was a part of OHR years ago. The Executive Institute is currently a separate office of the Board. The Institute is designed to bring a course of study modeled on the Kennedy School of Government case study method pioneered at Harvard University. Each year, there are three two-day case study sessions which address issues of critical thinking, problem analysis and leadership development. Four one-day sessions deal with management techniques and their application. Faculty are drawn from the Kennedy School of Government at Harvard University, the University of Washington, University of Tennessee and Baruch College – City University of New York. Small group discussion facilitators come from the ranks of state agencies and state institutions of higher education. Participants gave the 2006-07 Executive Institute an overall rating of 4.74 on a scale of 1-5, (1 being poor and 5 being excellent).

The estimated cost for the 2007-08 Executive Institute class is \$7,281. Executive Institute costs are either comparable or lower than other programs with a similar design and course offering. The Executive Institute's budget is smaller than it was 10 years ago.

ACTION TAKEN

No action has been taken, because the restructuring proviso would require legislative action to make the recommended change.

HUMAN RESOURCES

GEAR RECOMMENDATION FIFTY-ONE

The Office of Human Resources should discontinue TempO – the state-run temporary employment agency.

FACTUAL ANALYSIS

A survey of state agencies the use TempO services was conducted in September 2007. The results of this survey show that 41.7% of respondents believe there would be no significant fiscal impact on their agency if TempO was discontinued, 33.3% responded it would cost them more money, and 25% were uncertain what the impact would be. Survey results further show that 80% of agencies responding did not agree that the TempO program should be eliminated.

TempO provides specific temporary employment assignments for state agencies in Richland and Lexington counties. A maximum of 3 OHR employees administer the program. The TempO administrative costs that are passed on to state agencies is 23 percent compared to 29-33 percent charged by private-sector temporary agencies on state contract. As a result of this administrative fee, the TempO program covers all of its direct costs (salaries and fringe benefits for the 3 OHR employees). The building which houses TempO also houses OHR's training, recruitment, and workforce planning staff, along with training class rooms and a hearing room for state employee grievance appeals. Sale of the building would require OHR to find other space to accommodate the other staff and functions.

Since the inception of TempO, 357 employees have moved into FTE positions which demonstrates that TempO provides an opportunity for the TempO employee and the state agency to determine if they are both satisfied before an employment offer from the agency is made.

ACTION TAKEN

No action has been taken, because the majority of customers prefer to use this service and it offers cost savings for state agencies. In addition, elimination of the TempO program would require a reduction-in-force of OHR's revenue based employees, which would require legislative action under the restructuring proviso.

We do not recommend selling the building because it is fully utilized.

STATE HEALTH PLAN

GEAR RECOMMENDATION FIFTY-TWO

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

FACTUAL ANALYSIS

This recommendation is consistent with H 3789 as passed by the House of Representatives. This legislation establishes a trust fund which includes an advance funding of Other Post Employment Benefits (OPEB). This legislation also includes an annual transfer of funds from the State Health Plan to the OPEB trust fund of any excess over 140% of the actuarially determined liability of the State Health Plan.

ACTION TAKEN

This recommendation requires legislation.

STATE HEALTH PLAN

GEAR RECOMMENDATION FIFTY-THREE

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

FACTUAL ANALYSIS

This recommendation is consistent with H 3789 as amended by the Senate. The GEAR report listed an average savings of \$71.4 million for the first year and savings of \$214.2 million over the next three years. The savings linked to this change will largely occur after the year 2030 with the first savings beginning in 2014. The GEAR calculation was derived by using the 50 year present value savings of \$3.57 billion and dividing it by 50 to achieve an annual savings of \$71.4 million.

| Year | Projected Savings |
|------|-------------------|
| 2014 | \$ 1 million |
| 2020 | \$ 12 million |
| 2030 | \$ 60 million |
| 2037 | \$100 million |
| 2056 | \$169 million |

ACTION TAKEN

This change requires legislation.

STATE HEALTH PLAN

GEAR RECOMMENDATION FIFTY-FOUR

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

FACTUAL ANALYSIS

Prescription Step Therapy has been the practice of the State Health Plan and is annually reviewed for changes consistent with spending trends, the availability of generic drugs, and rebates to insure the lowest prices. Over the last five years, generic drug use has increased from 37.1 % to 50.5% for all drugs dispensed under the State Health Plan.

ACTION TAKEN

We are in the process of briefing Budget and Control Board staff liaisons as to the details of the proposal and expect implementation in the near future.

STATE HEALTH PLAN

GEAR 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.

FACTUAL ANALYSIS

The GEAR report recommended “ 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.”

We have significant concerns about patient disruption and possible non-compliance with medication(s) if such a financial penalty as proposed were in place.

ACTION TAKEN

The State Health Plan will continue to market and promote mail order services. Having choices in this circumstance contribute to better personal health. This change would require approval by the Budget and Control Board. No such proposal was made at the August 2007 Board meeting at which the State Health Plan of Benefits for 2008 was approved.

STATE HEALTH PLAN

GEAR RECOMMENDATION FIFTY-SIX

Establish a network management approach along with a \$1,000 participant maximum for chiropractic.

FACTUAL ANALYSIS

The implementation of a \$1,000 cap would save the State Health Plan an estimated \$13 million annually. An alternative is the implementation of a network management approach with savings of approximately \$4.7 million annually.

The percentage of State Health Plan participants obtaining chiropractic services is consistent with national norms; however, the average payment of \$874 per chiropractic patient exceeds the national average of \$500.

ACTION TAKEN

Either approach considered in this recommendation requires Budget and Control Board action. No such proposal was made at the August 2007 Board meeting at which the State Health Plan of Benefits for 2008 was approved.

RETIREMENT

GEAR 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.

ACTION TAKEN

This recommendation requires Legislative action.

GEAR 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.

ACTION TAKEN

This recommendation requires Legislative action.

GEAR RECOMMENDATION FIFTY-NINE

Change the retirement eligibility for new employees back to 30 years.

ACTION TAKEN

This recommendation requires Legislative action.

RETIREMENT

GEAR RECOMMENDATION SIXTY

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

FACTUAL ANALYSIS

An actuarial study was provided to the GEAR Committee. The study indicates that to do what is suggested would require an increase in contributions/rates to the system. In addition, other policy concerns should be considered, such as disability coverage.

ACTION TAKEN

Study completed. Implementation would require Legislative action.

AGENCY STRUCTURE

GEAR 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.

ACTION TAKEN

This recommendation requires Legislative action.