

Audit Report

**Department of General Services
Office of the Secretary and Other Units**

April 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

April 17, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Secretary and other units of the Department of General Services (DGS) for the period beginning November 24, 2003 and ending January 31, 2007. The budgetary units covered by the audit are indicated on page 19 of this report.

Although DGS implemented a new system to help provide better recordkeeping over State identification (ID) cards in response to concerns included in our preceding audit, our current audit disclosed that DGS continued to lack adequate procedures for the issuance of State ID cards. Control over these cards is a significant concern since cardholders are allowed access to State facilities and can generally use these IDs to obtain free public transportation (such as bus and metro).

We also noted that DGS lacked sufficient policies and procedures for ensuring that certain real estate acquisitions and disposals were in the best interest of the State. We further noted that DGS lacked adequate documentation to support the procurement of, and certain payments for, architectural and engineering services related to a large construction project. Finally, additional deficiencies were noted in the procedures and controls over procurements and disbursements, cash receipts, and property.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Agency Responsibilities	7
District Court Construction Project	7
Current Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
State Identification (ID) Cards	
* Finding 1 – DGS Lacked Adequate Procedures and Controls Over State ID Cards and Related Collections	9
Real Estate	
Finding 2 – (Policy Issue) DGS Lacked Sufficient Policies and Procedures for Ensuring that Real Estate Transactions Were in the Best Interest of the State	10
Procurement and Disbursements	
Finding 3 – DGS Lacked Adequate Support for the Procurement of, and Payments for, Certain Architectural and Engineering Services and Did Not Properly Disclose All Pertinent Information to a Certain Oversight Board	11
Finding 4 – (Policy Issue) DGS Was Inconsistent in Reporting Contract Modifications to the Board of Public Works	13
Finding 5 – Proper Internal Controls Were Not Established Over Disbursement Transactions	14
Finding 6 – Certain Payments Were Improperly Redirected to Vendors Other Than Those on the Related Purchase Orders	15
Cash Receipts	
Finding 7 – Procedures and Controls Over Collections Need Improvement	16

* Denotes item repeated in full or part from the preceding audit report

Property	
Finding 8 – DGS Did Not Maintain Its Equipment and Related Records in Accordance with State Regulations	17
Audit Scope, Objectives, and Methodology	19
Agency Response	Appendix

Executive Summary

Legislative Audit Report on the Department of General Services – Office of the Secretary and Other Units (DGS) April 2008

- **DGS lacked adequate procedures and controls for the issuance and recovery of State identification (ID) cards. For example, there was no supervisory review of ID cards issued to ensure that the cards were issued to only authorized individuals.**

DGS should implement procedures and controls to provide adequate oversight over the issuance and recovery of State ID cards.

- **DGS lacked sufficient policies and procedures for ensuring that certain real estate sales and purchases were made in the best interest of the State. For example, DGS lacked an adequate policy for determining the value of real estate when significant differences are noted in the independent appraisals obtained for the property.**

DGS should establish formal policies to ensure that all real estate transactions are in the best interest of the State.

- **DGS lacked adequate support for the procurement of, and payments for, certain architectural and engineering services related to a large construction project.**

DGS should ensure that adequate support for the procurement and related payments is maintained for all architectural and engineering services.

- **DGS had not established adequate controls over disbursement transactions and certain payments were directed to vendors other than those on the related purchase orders.**

DGS should use available security features to control disbursement transactions and ensure payments are made to vendors identified on purchase orders unless prior approval is obtained to pay a third party.

- **Internal control and recordkeeping deficiencies were noted with respect to cash receipts and property.**

DGS should take the recommended actions to improve controls in these areas.

Background Information

Agency Responsibilities

The Department of General Services' Office of the Secretary and other units (DGS) provide professional and technical services for the planning, design, construction, and maintenance of most State facilities; manage and maintain multi-agency State facilities; and coordinate the State's real estate activities. According to the State's records, DGS expenditures (excluding statewide capital project expenditures) totaled approximately \$87.6 million during fiscal year 2007.

District Court Construction Project

In calendar year 2003, the State purchased land (with an existing building) for the site of a new district courthouse from the respective Maryland county for \$5 million. The State also awarded a \$1 million grant to the respective county to design and construct a parking garage for use by the district court.

In calendar year 2004, DGS contracted with an architecture and engineering (A&E) vendor to design the new courthouse (including the demolition of the building on the site through the construction of the new courthouse) at a cost of \$4.25 million. The final designs were completed in calendar year 2005 and, as of November 2007, approximately \$3 million had been paid on the contract (the balance of the fee relates to services to be performed during the bidding and construction phases which have yet to occur).

In June 2007, DGS paid the aforementioned A&E vendor approximately \$32,000 to separate the demolition documents from the combined demolition/design project. We were advised that this was done so that DGS could request bids for the demolition independent of the construction so that the project could get started. Although the legislature authorized \$3 million for the demolition, no attempts were made to procure the demolition. In September 2007, DGS paid the aforementioned A&E vendor approximately \$24,000 to research additional sites for the court house. In this regard, we were

2003

<i>Purchase of land for courthouse</i>	\$5,000,000
<i>Grant to local government to design and construct a parking garage</i>	\$1,000,000

2004

<i>Design costs for courthouse</i>	\$336,620
------------------------------------	------------------

2005

<i>Design costs for courthouse</i>	\$2,377,994
------------------------------------	--------------------

2006

<i>Design costs for courthouse</i>	\$151,655
------------------------------------	------------------

2007

<i>Design costs for courthouse</i>	\$212,332
<i>Design costs to demolish building on current site</i>	\$31,753
<i>Design costs to find new location for courthouse</i>	\$24,326

Total	\$9,134,680
--------------	--------------------

Source: DGS records

advised by DGS management that any change in the location of the courthouse would result in at least \$2 million in additional design costs.

As of February 2008, no attempts had been made to initiate demolition of the building on the site or construction of the new courthouse, and DGS management was unable to tell us when the project would be started. DGS management indicated these conditions were the result of opposition to the location for the courthouse by the local jurisdiction's mayor and the fact that no construction funds had been appropriated. The capital budget submitted by the Governor for fiscal year 2009 includes \$71.4 million for the construction of the courthouse subject to approval by the General Assembly during the 2008 legislative session.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of four of the findings contained in our preceding audit report dated October 5, 2004. We determined that DGS had satisfactorily resolved three of these findings. The remaining finding is repeated in this report. Three other findings that were contained in our preceding audit report related to the Maryland State Agency for Surplus Property were addressed in our separate audit of the Agency dated March 23, 2007.

Findings and Recommendations

State Identification (ID) Cards

Finding 1

The Department of General Services lacked adequate procedures and controls over State ID cards and related collections.

Analysis

The Department of General Services (DGS) lacked adequate procedures and controls over State ID cards and related collections. Since the inception of a new State ID program in fiscal year 2005, through January 2008, DGS has issued approximately 70,000 State ID cards to State employees, lobbyists, and contractor personnel. Our review of procedures and controls over the State ID cards and related collections disclosed the following conditions:

- Independent verifications were not performed to ensure that State ID cards were issued properly. DGS employees had unilateral control over the issuance of the State ID cards to the applicants, allowing the employees to independently issue the ID cards. Although applicants were required to submit a completed application signed by authorized agency management and provide proof of identity (such as a drivers license) at the time of the application, there was no independent supervisory review or approval to ensure that such documentation was provided. As a result, there was a lack of assurance that all State ID cards issued were proper.
- DGS did not pursue recovery of State ID cards or lost card fees from employees who left State service. In response to our preceding audit report, DGS implemented procedures for periodic verification of employment for individuals holding a State ID card. However, DGS lacked any procedure for following up on employees who left State service and failed to return their State ID card. Specifically, DGS did not attempt to contact such employees to recover the State ID card or attempt to collect the applicable lost ID fees.
- DGS lacked adequate procedures and controls over collections for the replacement of State ID cards. Individuals who lose their State ID cards are charged a replacement fee of \$50 for the first occurrence, and \$250 for each subsequent occurrence and are issued a pre-numbered receipt for their payment. However, there was no accountability over the pre-numbered receipts as to issued, voided, or on hand. As a result, there was a lack of assurance that all collections were deposited intact.

Control over State ID cards is significant for security purposes since cardholders are, in essence, allowed unrestricted access to State facilities. In addition, the IDs can be used (with some exceptions) to obtain free public transportation (such as bus and metro) which, as of our preceding audit, the Department of Transportation estimated had an annual cost of over \$2.3 million.

Similar deficiencies were noted in our preceding audit report. In that report, we noted that we had received an allegation through our fraud hotline regarding the issuance of fictitious State ID cards to unauthorized individuals. We also commented that the DGS police had conducted a criminal investigation of the ID card process and the Department of State Police (DSP) performed an administrative review, at the request of DGS, both of which identified numerous deficiencies. We further noted that DSP had issued a report with recommendations to improve the ID card process and certain matters were referred to the Office of the Attorney General's Criminal Division. In response to the DSP report, DGS implemented a new system to help provide better recordkeeping and accountability over State ID cards.

Recommendation 1

We again recommend that DGS implement procedures to provide adequate ongoing oversight over the issuance and control of State ID cards and related collections.

Real Estate

Finding 2 (Policy Issue)

DGS lacked sufficient policies and procedures for ensuring that real estate transactions were in the best interests of the State.

Analysis

DGS lacked sufficient policies and procedures for ensuring that certain real estate transactions were in the best interests of the State. State regulations require that two independent appraisals be obtained prior to the purchase or sale of real estate. Our review of ten real estate transactions disclosed that for one sale transaction totaling \$2.1 million, only one appraisal had been obtained. DGS management advised us that another State agency was responsible for obtaining the appraisals and DGS was only involved in presenting the item to the Board of Public Works. However, DGS could not provide us with documentation to support their assertion that they were not responsible for obtaining the appraisals.

For three additional transactions (of the ten tested) totaling \$3.3 million, significant differences were noted between the two appraisals received. However, DGS did not obtain a third appraisal to help ensure that the State received the most advantageous price. For example, for one of the transactions tested for the purchase of real estate, DGS obtained two appraisals for \$1,020,000 and \$714,000 and subsequently purchased the property at the higher appraised value.

DGS does not have an adequate policy for determining a fair purchase price when there is a large disparity in appraisals, to ensure the State's interests are protected. Specifically, the price decision in cases in which disparities were noted in the independent appraisals was typically based on a DGS internal appraiser's review of the independent appraisals. Although a supervisor reviews and approves such decisions, there is not always adequate documentation to support the basis for the decisions. In this regard, although State regulations provide that DGS may obtain a third appraisal, no such appraisals were obtained in two of these cases to help determine the value of the property.

Recommendation 2

We recommend that DGS obtain at least two appraisals for all real estate transactions as required. We further recommend that DGS establish a formal policy for resolving disparities in appraisals to ensure that all real estate transactions are in the best interest of the State. For example, DGS could institute a policy of requiring a third independent appraisal if the two initial appraisals differed by more than a stipulated percentage or dollar value.

Procurements and Disbursements

Finding 3

DGS lacked adequate support for the procurement of, and payments for, certain architecture and engineering services related to a large construction project and did not properly disclose all pertinent information to a certain oversight board.

Analysis

DGS lacked adequate support for the procurement of, and payments for, certain architecture and engineering (A&E) services related to the district court construction project discussed on page 7 of this report and did not properly disclose all pertinent information to a certain oversight board. Specifically, our review of the procurement of the \$4.25 million service contract and related payments to the A&E vendor disclosed the following conditions:

- Although the DGS Qualification Committee members initialed the overall rating used to select the A&E vendor, their individual ratings were not properly documented. For example, our review of certain rating documentation disclosed that the members had not rated all the items on their individual ratings. As a result, we could not recalculate the individual scores to see if they agreed with the overall rating. Additionally, during the DGS assessment process, there was a change in ranking of the two highest ranked firms (the vendor initially ranked second ultimately was ranked first and was awarded the contract); however, there was no formal documentation to justify this change.
- There was a lack of documentation to justify an increase in the negotiated price by \$141,308 from the initial price proposal of \$4,105,005 to the final negotiated price of \$4,246,313. While DGS management advised us of several modifications to the scope of the contract during the price negotiation process which would have warranted an increase in the contract price, there was no documentation on file to support the impact of these changes in the price proposal. We further noted that, although the final negotiated price was disclosed, the initial price and the increase in the negotiated price was not disclosed to the State's General Professional Services Selections Board (GPSSB) established by State law to offer an equitable method for awarding State contracts. The GPSSB approves the ranking of firms and the results of the price negotiations, and recommends awards to the Board of Public Works (BPW). We were advised by DGS management that the negotiation process typically results in a lower price and that usually both the initial and final prices are disclosed to the GPSSB.
- While we were advised that the final designs were received from the vendor, there was a lack of documentation to support the progress billings paid to the vendor while the designs were being developed and for certain special services (such as additional renderings and meetings). Our review of DGS records disclosed that certain of the aforementioned payments were made after the related deliverables had been received. However, these records also disclosed that a number of progress payments were made before the related deliverables had been received and should have been supported by documentation of the vendor's progress on the project. For example, we noted two instances in which payments totaling \$980,000 were paid three months before the related deliverables were received. We were advised that these payments were made based on the judgment of the project manager who met regularly with the vendor. The *DGS Procedure Manual for Professional Services* requires A&E firms to provide monthly progress reports to the project manager until a construction contract is awarded. However, we were

advised by DGS management that monthly reports were neither required nor received by DGS.

Furthermore, no documentation was available to support an initial invoice for certain reimbursable expenses (such as postage and travel) and documentation to support subsequent invoices for these expenses was not reviewed for propriety. For example, we noted no documentation was received to support a \$32,000 billing for reimbursable expenses related to certain schematic designs.

Additional concerns related to this contract are included in a Special Review report issued by our Office dated February 28, 2008. Due to the questionable nature of the activities described in that report, we referred the matters to the Office of the Attorney General's Criminal Division.

Recommendation 3

We recommend that DGS ensure that adequate support is maintained for the procurement of and related payments made for all A&E services. We further recommend that DGS properly disclose all pertinent information to oversight boards.

Finding 4 (Policy Issue)

DGS was inconsistent in its methodology for reporting contract modifications to BPW.

Analysis

DGS was inconsistent in its methodology for obtaining approval from BPW for certain large contract modifications and for reporting certain smaller modifications to BPW on Procurement Agency Activity Reports (PAARs) as required.

We reviewed two projects totaling approximately \$21 million and \$29 million, with related contract modifications totaling \$871,909 and \$1,760,169. We found several change orders related to each project that were processed on the same day and cumulatively exceeded \$50,000 for each project. DGS management advised us that they did not believe that they were required to consolidate and obtain BPW approval for these or other change orders that cumulatively exceed the \$50,000 threshold, regardless of date they were processed, because the change orders were not related. However, for both projects reviewed, we also noted certain other change orders between \$25,000 and \$50,000 that were not included on PAARs as required, or were recorded on the PAARs at less than their actual value, because

they were consolidated with other change orders. For example, we noted that a change order to outfit a kitchen totaling approximately \$47,000 was not reported on a PAAR because it was offset by two unrelated change orders crediting the project for approximately \$24,000, lowering the net total to approximately \$23,000, which was then below the threshold required for reporting.

State procurement regulations require all contract modifications exceeding \$50,000 to be approved by BPW. In addition, contract modifications greater than \$25,000 and less than \$50,000 are required to be reported on PAARs that DGS periodically submits to BPW for review. State laws, regulations, and BPW advisories do not provide specific guidance on whether modifications should be consolidated for purposes of reporting to BPW. Additionally, our discussions with BPW personnel also confirmed that approval and reporting requirements are not clear and acknowledged the need to establish a consistent approach for handling contract modifications that is within the spirit of the procurement regulations.

Recommendation 4

We recommend that DGS obtain clarification from BPW as to when modifications should be consolidated for determining approval and reporting requirements, and submit qualifying modifications to BPW for approval or review, as appropriate.

Finding 5

Proper internal controls were not established over disbursement transactions.

Analysis

DGS did not fully use the available security features of the Financial Management Information Systems (FMIS) to restrict user access and to prevent unauthorized disbursement transactions. Specifically, our review disclosed that three employees could initiate and approve invoices without independent approvals and one could release the transaction to the Comptroller of the Treasury's General Accounting Division (GAD) for payment without approval. As a result, these employees could process unauthorized disbursement transactions which may not be readily detected. We further noted that two of these individuals could also redirect payments to a vendor other than the one on the related purchase order (as discussed further in Finding 6). According to the State's accounting records, DGS processed disbursements totaling approximately \$179 million through FMIS during fiscal year 2006.

Recommendation 5

We recommend that DGS fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions.

Finding 6

Payments on certain purchase orders were improperly redirected to vendors other than those on the related purchase orders.

Analysis

Payments to certain vendors were not processed properly and related control agency approvals were not always obtained. As noted Finding 5, two DGS employees had the ability to redirect payments to vendors other than the one on the purchase order. During fiscal year 2007, DGS processed 366 payments totaling \$39.8 million (primarily for capital projects) to vendors other than the ones on the related purchase orders.

Our test of seven of these payments totaling \$10.7 million disclosed that all of the payments were made to entities other than the vendors on the original purchase orders, in violation of State policy. For example, two of the payments tested totaling \$2.2 million related to a capital grant for which the grantee instructed DGS to pay certain third parties (an architect and contractor) directly. Absent written approval from GAD, which none of the seven payments had, the payments should have been made directly to the grantee.

Changing the vendor when processing an invoice could circumvent procurement and/or budgetary requirements, or be used to process fraudulent transactions. The processing of payments to different vendors under one purchase order also circumvented certain online controls, such as proper tracking of vendor payments to ensure that total payments to a vendor do not exceed related contract amounts, and could ultimately result in duplicate and/or erroneous payments.

The Comptroller of Treasury's *Accounting Procedures Manual* provides that the State generally does not make payments to third parties. However, in instances where there is a legally binding contract that requires the State to make a payment to a third party instead of the original vendor under the contract, the agency must write to GAD and obtain permission to make the payments under the new name.

Recommendation 6

We recommend that DGS identify all payments redirected to a vendor other than the one on the related purchase order, determine the propriety of the transactions, and take any appropriate corrective action. We also recommend that DGS submit payments to be made to third parties to GAD for approval prior to payment as required.

Cash Receipts

Finding 7

Procedures and controls over collections need improvement.

Analysis

Procedures and controls over collections need improvement. During fiscal year 2007, DGS received collections totaling approximately \$1 million. Our review of procedures and controls over these collections disclosed the following conditions:

- On a daily basis, employees in the DGS Finance Office delivered collections batched into deposits to the Office of the Comptroller of the Treasury (COT) for subsequent deposit. Although these deposits were entered into a courier's logbook by the DGS employees, no receipt or acknowledgment (such as a signature on the logbook) was obtained from COT employees to document that COT had received the deposit. As a result, there was a lack of accountability if funds were not ultimately deposited.
- Collections received in the DGS Office of Real Estate were not properly accounted for. Specifically, the Office did not record the collections or verify that all collections were delivered intact to the DGS Finance Office.

Recommendation 7

We recommend that DGS immediately record all collections upon receipt and obtain a receipt or an acknowledgement when funds change possession so they can be properly accounted for.

Property

Finding 8

DGS did not maintain its equipment and related records in accordance with State regulations.

Analysis

DGS did not maintain its equipment and related records in accordance with State regulations. For example, DGS did not maintain an equipment control account independent of the related detail records and did not reconcile the results of physical inventories performed in fiscal years 2005 and 2006 to the related detail records to identify missing items. According to DGS records, the value of the DGS equipment totaled approximately \$8.8 million as of March 2007.

The DGS *Inventory Control Manual* requires that a control account and detail records be maintained to properly reflect all transactions for all categories of property and that the detail records be reconciled to the related control account balance. The *Manual* further requires that physical inventory variances be investigated and resolved.

Recommendation 8

We recommend that the DGS comply with the *Inventory Control Manual* requirements.

Audit Scope, Objectives, and Methodology

We have audited the following units of the Department of General Services (DGS) for the period beginning November 24, 2003 and ending January 31, 2007:

- Office of the Secretary
- Office of Facilities Security
- Office of Facilities Operations and Maintenance
- Office of Real Estate
- Office of Facilities, Planning, Design, and Construction

The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DGS' financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of certain of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DGS' operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

The DGS Office of the Secretary provides certain support services (for example, invoice processing and maintenance of accounting records) for the DGS Office of Procurement and Logistics. In addition, similar services are provided for certain capital projects authorized by law under the State's operating budget (that is, the Board of Public Works – Capital Appropriations) and the capital project budget (for example, Maryland Consolidated Capital Bond Loans). These support services are included with the scope of the audit.

The DGS Office of Procurement and Logistics provides procurement-related services for the other DGS units. These procurement services are included within the scope of our audit of the Office of Procurement and Logistics. Our audit also did not include the operations of the Maryland State Agency for Surplus Property which is audited separately. Finally, our audit did not include activities related

to the operation and maintenance of Government House. Although DGS receives an appropriation for these activities, they are audited as part of the Executive Department – Governor.

Our audit scope was limited with respect to DGS' cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all DGS cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

DGS management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DGS' ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DGS that did not warrant inclusion in this report.

The DGS response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DGS regarding the results of our review of its response.

APPENDIX

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor



Alvin C. Collins
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES
OFFICE OF THE SECRETARY

April 15, 2008

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street, Room 1202
Baltimore MD 21201

Re: Audit Finding Responses

Dear Mr. Myers:

Thank you for the opportunity to respond to the Office of Legislative Audits (OLA) final audit report on specific divisions within the Department of General Services (DGS) for the period beginning November 23, 2004 through January 31, 2007. DGS realizes that this is a final report; nevertheless, DGS took the opportunity to share some of its processes, implementations, and existing regulations that are in place to ensure OLA's audit recommendations will continue. It is my expectation that our new leadership and management continues to improve our policies and operations.

Enclosed are the Department's responses to the eight audit findings which required additional information and documentation. DGS continues to be committed to a standard of constant improvement. We appreciate your contribution to that effort. If you have any questions or comments, you may contact me at 410.767.4960.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alvin C. Collins'.

Alvin C. Collins
Secretary

Enclosure

cc: Beatrice Tignor, Deputy Secretary



Finding 1

The Department of General Services (DGS) lacked adequate procedures and controls over state ID cards and related collections.

DGS Response

DGS concurs with the general audit analysis and recommendations.

DGS Police has developed protocol to ensure the integrity of the State Security Card issuance which includes:

- Proper issuance, supervisory oversight, and independent review
- DGSP supervision will continue an internal audit to ensure accountability of cards removed from inventory vs. cards issued
- DGSP will institute measures to ensure further the integrity of the program.

DGSP has implemented a procedure for recovery of ID cards and fees

- DGSP will cross reference records and personnel records received from participating agencies to ensure the return of security cards from those separated from state service and will pursue recovery of loss card fees.

DGSP has implemented collections procedure for security cards that need to be replaced.

- A Security Card Program software program is used to collect pertinent data whenever monies are received by the Security Card Process Center. A person other than the individual issuing the card will collect and remit the money to Finance.

DGSP has implemented audit policies and procedures.

- Quality control audits will be conducted by the Manager of the Security Card Processing Center to ensure that cards issued are proper.

DGS will continue to provide oversight over the issuance, control, and recovery of State ID cards and related collections.

Finding 2

DGS lacked sufficient policies and procedures for ensuring that certain real estate transactions were in the best interests of the State.

DGS Response

The following response from the Office of Real Estate is being provided to substantiate its position on Appraisal Variance and MEDCO:

Appraisal Variance: DGS Office of Real Estate has instituted the following policy and procedure for addressing the circumstances of a wide variation or difference between the value opinions.

- For those situations where the spread between the two original appraisals is 30% or less, the Valuation and Appraisal Division will be permitted simply to make a recommendation of value that is based on or both of the appraisals. This would allow the Valuation and Appraisal Division to make that recommendation of value that is the same as one of the original appraisals or provide a composite valuation at their discussion.
- For those situations where the difference between the original appraisals exceed 30%, in consultation with the procuring agency, we would procure a third fee appraisal subject to final approval of the procuring agency. If the procuring agency is unwilling to procure a third appraisal, a composite appraisal will be provided.

Medco: Regarding the sale for \$2.1 million-MEDCO was designated as the developer for the Rosewood Tech Center per BPW Real Property Action Item 32-RP, 11/15/95, and the property assigned to them for this purpose. As such, MEDCO handled all due diligence in the transaction including appraisal work per internal MEDCO memo from Steve Cassard to Secretary Gene Lynch. The terms of the agreement for the transfer lots 2 and 3 of the Rosewood Center were negotiated and agreed upon prior to the effective date of the BPW Advisory 2005.

The item was taken to the Board of Public Works on December 14, 2005, and the Board of Public Works approved the item with the exception to the Advisory requiring two appraisals. However, for all future transactions management on behalf of Client Agencies, it is the intent of DGS to adhere to the BPW Advisory and Law requiring acquisition of two appraisals for all dispositions of State Property requiring Board of Public Works approval.

Finding 3

DGS Lacked adequate support for the procurement of, and payments for, certain architecture and engineering services related to a large construction project and did not properly disclose all pertinent information to a certain oversight board.

DGS Response

DGS concurs with the recommendation to maintain adequate support for the procurement of and related payments made for all A & E services. Additionally, DGS will ensure that all pertinent information is provided to oversight boards.

Finding 4

DGS was inconsistent in its methodology for reporting contract modifications to BPW

DGS Response

DGS does not agree that it was inconsistent in its methodology for reporting contract modifications to the BPW. DGS followed BPW procedures for PAAR reporting. In a few instances when credit modifications were combined with and modifications, it reduced the overall modification so that it would not be PAAR reportable. DGS does combine small modifications that are unrelated, but does not combine them so that they become reportable to the BPW. DGS combines modifications simply to reduce paperwork and the number of modifications to a project. DGS does not believe that additional clarification from the BPW is required.

Finding 5

Proper internal controls were not established over disbursement transactions

DGS Response

We concur with the findings and analysis. The problem occurs only when the same individual has the ability to initiate and to release the same transmittal documents.

As an internal control enhancement, DGS Procurement and Logistics devised a program/report that would reflect any document initiated and released by the individual. This report is reviewed and retained by the Director of Fiscal Services on a weekly basis to ensure that the individual does not perform both functions relating to the same transmittal. Additionally, all payments initiated by this individual are approved and transmitted to GAD by a member of the DGS Fiscal Management staff other than the individual. We will continue to work toward full utilization of the FMIS security feature.

Finding 6

Payments on certain purchase orders were improperly redirected to vendors other than those on the related purchase orders.

DGS Response

We concur with the findings and analysis. The payments being referenced relate to capital grants. These appropriations are approved as a capital line item in the capital budget for a specific grant. In the case of the Community College Grant Program, it is a statewide appropriation used for many grants. In both cases, the Board of Public Works (BPW) approves the expenditure of capital funds for the grants. The award of the contract is made by the grantee and is not related to a Blanket Purchase Order (BPO) approved by the Procurement Division. Per BPW approval, the Capital Projects Accounting Unit (CPAU) establishes a purchase order (PO) for the sole purpose of encumbering the funds. Prior to disbursing capital funds, State regulations/procedures require an encumbrance to be created.

The state of Maryland Capital Projects Grant Agreement approved by the BPW states the following:

B.4 Disbursement of Grant: Subject to the availability of funds, the BPW may periodically **authorize payment to, or on behalf of,** Grantee funds in an amount not to exceed the Grant amount.

B.6 Payment Procedure: **The State shall make payment to or on behalf of the Grantee** in accordance with the procedures in Booklet – Information for Capital-Grant Recipients and such other terms and conditions as the BPW, in its sole discretion, may impose.

This gives the Capital Projects Accounting Unit the option of reimbursing the grantee or making direct payment to the vendor. We have no knowledge of the final payee; therefore, we normally choose to set up the purchase order under the name of the grantee. This process has proven to be the best mechanism. There could be a significant time lapse (years) between the Board approval and when the initial expenditure is made. There could be one payment or multiple payments over that period of time of which some are reimbursements and others are direct payments to approved vendors.

In some cases where the grantee does not have the cash flow or does not choose to pay the vendor directly, the grantee requests the State to do so on their behalf. Depending upon how the PO was established, this may or may not require a change in payee. We have historically processed payments in this manner, and this practice has been accepted by GAD. Creating changes to the PO would significantly increase the workload of DGS staff. **We will continue to work with GAD and the ADPIC committee to resolve this matter to the satisfaction of all parties.**

In instances relating to acquisition of property, we make every effort through contact with the DGS Office of Real Estate to determine who the payee will be. This is usually a title company, but this information may not always be available at the time the PO is established. In this specific instance, we use the name of the seller indicated on the agenda item approved by the BPW. This aspect of a settlement is subject to change. Either way, the DGS Attorney General's Office determines the payee and instructs Fiscal who and how much to pay. Documentation exists in our files to support all payments and includes the attorney's instructions.

In all cases, all payments are reviewed and approved by staff (Project Manager, Agency) other than the Capital Projects Accounting Unit prior to transmittal to GAD.

Finding 7

Procedures and controls over collections need improvement.

DGS Response

As a result of this audit, DGS has negotiated with the Comptroller to use a signature log. Fiscal has developed a receipt form satisfactory to both organizations which the Comptroller's office now signs and DGS retains the forms.

Real Estate is in the process of establishing a log similar to the one in Fiscal Services with a final sign off by Fiscal on all checks.

Finding 8

DGS did not maintain its equipment and related records in accordance with state regulations

DGS Response

We concur with the auditors findings and agree to modify our procedures to comply with the recommendations. DGS maintains a control account in Excel and reconciles it monthly to the detail records. DGS reconciles current year expenditures (additions) on the DAFRT100 to report to the detail records stored in the ATRACK system monthly. Deletions are taken from the Excess Property Declarations processed during the month. Transfers are recorded as adjustments based on the supporting documents. Internal transfers between administrations are treated as an adjustment in the month they occur.

DGS will further comply with the Inventory Control Manual requirements.

AUDIT TEAM

Brian S. Tanen, CPA, CFE
Audit Manager

Joseph E. Adriani
Alexandra E. Zouras, CPA
Senior Auditors

Susanne M. Anacker
Catherine M. Clarke
Chiaka N. Opara
Jennifer L. Thompson
Kimberly H. Ugalde
Staff Auditors

OTHER STAFF WHO CONTRIBUTED TO THIS REPORT

Richard L. Carter, CISA