

Audit Report

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**Department of General Services  
Office of Procurement and Logistics**

May 2010

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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**Karl S. Aro**  
Executive Director

**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF LEGISLATIVE AUDITS**  
**MARYLAND GENERAL ASSEMBLY**

May 5, 2010

**Bruce A. Myers, CPA**  
Legislative Auditor

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 following units of the Department of General Services for the periods noted:

Office of Procurement and Logistics (OPL) – May 1, 2006 to June 30, 2009  
Maryland State Agency for Surplus Property (MSASP) – August 1, 2006 to June 30, 2008

OPL manages the centralized procurement of certain goods and services for State agencies, including the procurement of contracts for the design and construction of certain State facilities. MSASP was responsible for the receipt and redistribution of State and Federal surplus property. Effective July 1, 2008, the Department discontinued the operations of MSASP and closed the surplus property warehouse.

Our audit disclosed that OPL had not ensured that the State's contract for commercial fuel services, which has been with the same vendor since 1989, represented the best value to the State. When the current contract was renewed in 2007, OPL did not perform any analysis to determine if the renewal was in the State's best interest. Such an analysis would be prudent given that the solicitation used by OPL when it last awarded this contract in 2002 included certain restrictive requirements that effectively prohibited other vendors from being able to compete for the contract. During fiscal year 2009, contract expenditures made to this vendor totaled approximately \$76.6 million.

Our audit also disclosed that OPL did not conduct a market analysis prior to continuing the State's participation in a multi-state pharmaceutical purchasing alliance. In addition, OPL did not ensure that it reviewed and approved State agency contracts for printing services as required by State law. We also noted that OPL did not obtain authorization from the Board of Public Works for a

significant contract modification totaling approximately \$750,000 to a vendor that provides energy and utility usage and bill tracking services for State agencies. Finally, we noted various internal control and record keeping deficiencies related to OPL's statewide purchasing transactions and vehicle fuel cards.

An Executive Summary of our findings can be found on page 5. The Department's response to this audit, on behalf of OPL, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by OPL.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

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# Executive Summary

Legislative Audit Report on the  
Department of General Services  
Office of Procurement and Logistics (OPL)  
May 2010

- **OPL had not analyzed the State's contract for commercial fuel services, which has been with the same vendor since 1989, to ensure the contract represented the best value to the State. Such an analysis would be prudent since the solicitation used by OPL when it last awarded this contract included certain restrictive requirements that effectively prohibited other vendors from bidding for the contract.**

OPL should determine whether the State should continue to purchase fuel and related management services from the current vendor, or if it should terminate the current contract. OPL should also ensure that procurement specifications are prepared in accordance with State laws and regulations, and competitively bid future procurements for fuel and related management services.

- **OPL did not conduct a market analysis prior to continuing to participate in a multi-state purchasing alliance for the procurement of pharmaceuticals, and did not take action to assist State agencies in monitoring the invoiced costs, which totaled \$14.2 million during fiscal year 2009.**

OPL should determine whether it is in the State's best interest to participate in this purchasing alliance. In addition, OPL should determine the purchasing volumes, calculate the related discounts, and advise State agencies of the discounts that should be received.

- **OPL did not ensure that it reviewed and approved State agency contracts for printing services, as required.**

OPL should implement procedures to ensure that State agency requisitions for printing-related services are submitted to it for review and approval.

- **OPL did not obtain approval from the Board of Public Works for a contract modification totaling approximately \$750,000 applicable to a contract to maintain and manage an online energy and utility bill database.**

OPL should submit the aforementioned contract modification to the Board of Public Works for its consideration.

- **OPL did not fully use the security features available on the State's Financial Management Information System to properly control certain critical purchasing transactions or annually determine the fair market prices of products and services available from Maryland Correctional Enterprises.**

OPL should take immediate action to correct these deficiencies.

## **Background Information**

### **Agency Responsibilities**

The Department of General Services (DGS) – Office of Procurement and Logistics (OPL) manages the centralized procurement of certain goods and services for State agencies, including the procurement of contracts for the design and construction of certain State facilities. OPL also oversees the State’s Automated Fuel Management Program; provides centralized printing and graphic services; manages state records, inventories, and surplus property; and administers DGS’ minority business enterprise program. According to the State’s records during fiscal year 2009, the value of statewide procurements awarded by OPL totaled approximately \$394 million, and OPL’s operating expenditures totaled approximately \$7.5 million.

### **Operations of the Maryland State Agency for Surplus Property Were Discontinued and the Surplus Property Warehouse Was Closed**

Effective July 1, 2008, the Department discontinued the operations of the Maryland State Agency for Surplus Property (MSASP), previously a unit within the Department of General Services – Office of Procurement and Logistics, and closed the surplus property warehouse located in Jessup, Maryland. MSASP was responsible for the receipt and redistribution of State and Federal surplus property. In its place, OPL implemented “GovDeals.com”, an online auction website, to facilitate the disposal of surplus state property. This new program is administered by OPL’s Inventory Standards and Support Services Division (ISSSD). Under this program, surplus property is maintained by the custodial State agency until disposal (for example; sale through GovDeals.com, donation to a non-profit, scrapping). ISSSD maintains responsibility for approving the method of disposal and retains documentation of all disposed surplus property. The scope of this audit includes the activities of the former MSASP for the period beginning August 1, 2006 and ending June 30, 2008, and the activities of the ISSSD in administering the disposal of surplus state property beginning July 1, 2008.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the 11 findings contained in our preceding audit report of the Department of General Services – Office of Procurement and Logistics, dated February 7, 2007. We determined that OPL

satisfactorily addressed 7 of these findings. The remaining 4 findings are repeated in this report. Our audit also included a review of the status of the 7 findings included in our preceding audit report of the former Maryland State Agency for Surplus Property, dated March 23, 2007. We determined that all 7 of these findings were satisfactorily addressed.

## Findings and Recommendations

### Statewide Fuel Management System

#### **Finding 1 (Policy Issue)**

**The Department of General Services (DGS) – Office of Procurement and Logistics (OPL) had not ensured that the current contract with the vendor that provides commercial fuel services represented the best value to the State. The same vendor has provided these services since 1989 and, when the contract was last awarded, certain provisions precluded other vendors from competing for the contract.**

#### **Analysis**

Although DGS has contracted with the same vendor to provide State agencies with gasoline, diesel, motor oil, and alternative fuel products since 1989, our review disclosed that DGS had not ensured that the contract with this vendor represented the best value to the State. In this regard, when DGS exercised a renewal option on the contract in 2007, it did not determine (for example, by preparing a cost-benefit analysis) whether the services were, at that time, being provided at the best value to the State.

Such an analysis would be prudent given that the solicitation used by OPL when it last awarded this contract in 2002 included certain restrictive requirements (use of proprietary software for monitoring fuel usage and generating various reports that was unique to the incumbent vendor) that effectively prohibited other vendors from being able to compete for the contract. Accordingly, we noted that no other bids were received except for that submitted by the incumbent vendor. During our review, we noted that numerous other vendors offer products (such as gasoline) and services (such as fuel delivery and monitoring systems) similar to those currently provided by the incumbent contractor.

The State's current fuel management system contract was for a five-year period from August 2002 through July 2007, and included an option (which was exercised by DGS in May 2007) to extend the contract for an additional five-year period from August 2007 through July 2012. The current contract also contained a provision that allowed DGS to terminate the contract if it determined that doing so is in the best interest of the State. Furthermore, under the terms of the contract, the vendor is required to maintain the system which dispenses the products and generates reports that include vehicle fuel consumption and related cost data to assist user agencies in managing their fleet operations. The vendor is also required to periodically inspect the State's fuel dispensing equipment (such as

underground storage tanks and gasoline pumps) and to perform all related maintenance and repairs.

State laws and regulations require that procurement specifications be written in a manner that promotes maximum practicable competition without modifying the State's requirements and that specifications not favor a single vendor. According to the State's accounting records, during fiscal year 2009, contract payments made to the vendor by the State totaled approximately \$76.6 million.

### **Recommendation 1**

#### **We recommend that OPL**

- a. determine (for example, by performing a cost-benefit analysis) whether it should continue to purchase fuel and related services from the current vendor, or if it would be in the State's best interest to terminate the current contract;**
- b. document and retain this determination for future reference; and**
- c. ensure, in the future, that procurement specifications are prepared in accordance with State laws and regulations so as to maximize potential competition.**

### **Finding 2**

**OPL's procedures for distributing vehicle fuel cards did not provide sufficient controls. In addition, OPL did not determine whether State agencies reviewed vehicle fuel usage reports.**

### **Analysis**

OPL's procedures for distributing vehicle fuel cards<sup>1</sup> were inadequate. Specifically, as stipulated in DGS' *Handbook for Fleet Managers*, all fuel cards ordered from the program contractor were to be mailed to agency fleet managers. However, the *Handbook* also stipulated that fleet managers request these cards from the program contractor. Consequently, the requirements set forth in the *Handbook* do not provide for a proper separation of duties over program fuel cards<sup>2</sup> since agency fleet managers could potentially obtain cards and make unauthorized purchases without being detected. According to DGS' records, as of October 14, 2009, there were 98 State employees designated as fleet managers and 14,500 active fuel cards.

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<sup>1</sup> Vehicle fuel cards are similar to credit cards, unique to the specific vehicle assigned, and used by vehicle operators when dispensing fuel.

<sup>2</sup> The Comptroller of Maryland's *Corporate Purchasing Card Procedures Manual* prohibits an agency's purchasing card program administrator (a position comparable to a fleet manager) from both requesting and receiving the purchasing cards.

In addition, although the aforementioned *Handbook* required that State agencies review available fuel usage reports generated by the commercial fuel services vendor, OPL did not determine whether the reports were being reviewed. These reports, which are received both by OPL and the individual user agencies, can be used to identify specific vehicles that have experienced excessive fuel usage (indicative of possible employee abuse) and potential pricing errors in vendor invoices. In a recent audit report issued by our Office, we commented that the fuel usage reports applicable to fiscal year 2008 for one agency included approximately 52,000 fuel use error flags applicable to 2,100 agency vehicle operators. While the accuracy of these reports relies, in part, on information recorded by the driver, without investigation there is no way of knowing the cause of the reported errors. Furthermore, as OPL is the control agency responsible for the State's fuel management system, we believe OPL should institute monitoring procedures to determine whether State agencies are reviewing the reports and investigating, at least on a test basis, the related error flags. A similar condition was commented upon in our preceding audit report.

## **Recommendation 2**

**We recommend that OPL**

- a. revise its current policy in the *Handbook for Fleet Managers* to require that requests for new fuel cards and the subsequent receipt and issuance of such cards not be performed by the same employee, and**
- b. monitor State agencies to determine whether vehicle fuel usage reports are being reviewed and questionable activity is being investigated (repeat).**

## **Pharmaceutical Drug Purchase and Distribution Contract**

### **Finding 3**

**OPL did not ensure that it was in the best interest of the State to continue to participate in a purchasing alliance for pharmaceutical drugs and did not properly monitor certain aspects of the related contract.**

### **Analysis**

OPL did not properly monitor the State's contract for the purchase and distribution of pharmaceutical drugs to various State agencies (primarily within the Department of Health and Mental Hygiene). Related expenditures related to this contract totaled approximately \$14.2 million during fiscal year 2009, according to the State's records. Specifically, since 1998, the State has participated in a multi-state cooperative purchasing alliance. As a member of the alliance, the State entered into a pharmaceutical contract with an alliance-

approved vendor at alliance-approved pricing. Our review of this contract disclosed the following conditions:

- When OPL procured the pharmaceutical contract in 2004, and when the contract was renewed effective May 1, 2006, OPL did not determine whether continued participation in the purchasing alliance was in the best interest of the State. Specifically, prior to awarding and renewing the contract, OPL did not conduct an analysis of the current market conditions to ensure that the alliance's pricing was the most beneficial to the State. This contract was originally set to end June 30, 2009, but was extended through December 31, 2009 to allow time for OPL to re-bid the contract.
- OPL did not ensure that the State received certain volume and other discounts provided for in the contract. For example, the contract provided that if the State purchased drugs totaling between \$750,001 and \$1.5 million monthly (and paid the invoices within 30 days), then the State agencies would receive a discount of .91 percent. An additional discount of .44 percent to .94 percent could also be obtained if the overall alliance's purchasing volume from this distributor exceeded certain thresholds. Additional contract provisions provided that other discounts, obtained when the vendor was able to purchase pharmaceutical drugs from manufacturers, were to be passed onto the State. We were advised by OPL management that the State agencies are responsible for ensuring that the proper discounts and prices are received. However, based on our review of the pricing process and the related vendor invoices, only OPL had access to the data needed to determine the proper discounts.

Similar issues were commented upon in our preceding audit report.

### **Recommendation 3**

**We recommend that OPL**

- a. in the future, ensure that it is in the best interest of the State to participate in the multi-state cooperative purchasing alliance contract (repeat);**
- b. determine the purchasing volumes, calculate the related discounts, and advise the State agencies of the discounts that should be received (repeat) and ensure other discounts obtained by the vendor are passed onto State agencies.**

## Printing Services

### **Finding 4**

**OPL did not ensure that it reviewed and approved State agency contracts for printing services, as required.**

### **Analysis**

OPL did not ensure that it reviewed and approved State agency contracts for printing services. Specifically, OPL lacked procedures to identify contract awards and related vendor payments made by State agencies for printing services that were not authorized by OPL. State law generally requires that OPL review and approve all contracts for printing services. OPL management advised us that to ensure compliance with the law, it believed that requisitions for printing services prepared by the user agencies were electronically routed to OPL (via on-line approval paths in the State's Financial Management Information System) and that, once received, such requisitions were reviewed by OPL to determine whether the requested services could be provided by OPL's print shops. However, our test of seven vendor payments totaling approximately \$968,000 applicable to printing services procured by seven State agencies during fiscal year 2009 disclosed that none of the tested procurements were routed to, or approved by, OPL. Furthermore, OPL was unaware that the services selected for testing were procured from private vendors and it did not know if these services had been obtained in a cost-effective manner.

In April 2009, OPL issued a letter reminding State agencies that all requests for printing services should be directed to OPL for review and disposition in accordance with State law. However, OPL lacked effective procedures to verify that State agencies complied with the aforementioned requirements. For example, OPL did not request the Comptroller of Maryland – General Accounting Division to periodically provide it with reports listing vendor payments processed by State agencies for printing services so that it could assure all printing services had been approved.

OPL's State Printing and Duplicating unit oversees and approves print, copy, graphic equipment, paper and supply contracts, and assists State agencies in preparing related technical specifications. As of October 31, 2009, the unit operated four print shops in the Baltimore metropolitan area. According to OPL records, during fiscal year 2009, the unit's expenditures totaled approximately \$591,000. In addition, according to the State's accounting records, during fiscal year 2009, State agencies expended approximately \$21 million for printing and duplicating services.

#### **Recommendation 4**

**We recommend that OPL**

- a. establish and implement procedures to ensure that State agency requisitions for printing-related services are submitted to OPL, as required;**
- b. document its approval of such requisitions and, when applicable, document reasons for authorizing State agencies to procure such services from private vendors; and**
- c. retain all related documentation for future reference.**

#### **Utility Tracking Contract**

##### **Finding 5**

**OPL did not obtain approval from the Board of Public Works (BPW) for a contract modification totaling approximately \$750,000 applicable to a contract for utility tracking services.**

##### **Analysis**

OPL modified a provision included in the current contract with a vendor that provides utility tracking services without requesting approval from the BPW, as required. Specifically, this modification increased the contract amount for the management of an online energy and utility bill database by approximately \$750,000. State procurement regulations require that approval be obtained from the BPW for any contract modification exceeding \$50,000.

The price proposal originally submitted by the vendor was based on the assumption that it would need to create and manage a database containing approximately 11,000 utility accounts for which participating State agencies receive monthly invoices. However, after beginning work on the contract, the vendor determined that it would need to establish and maintain approximately 16,000 accounts in the database. As a result of the anticipated increase in the number of accounts, the vendor requested, and OPL agreed, to increase the total contract amount.

The original contract, which was for a five-year period from November 30, 2007 to November 29, 2012 and totaled approximately \$3.3 million, was entered into to assist the State to realize cost savings from energy upgrades and to help track energy and utility usage trends from year-to-year.

**Recommendation 5**

**We recommend that OPL submit the aforementioned contract modification to the BPW and, in the future, ensure that all contract modifications are submitted to the BPW, as required.**

**Statewide Purchasing Transactions**

**Finding 6**

**Proper internal control was not established over statewide purchasing transactions.**

**Analysis**

OPL did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal controls over DGS' statewide purchasing transactions. Specifically, OPL had not established on-line approval requirements for all such purchasing transactions initiated on behalf of other State agencies. As a result, 21 OPL employees could initiate and process statewide purchase orders without independent approval. Most of these employees could process transactions up to \$1 billion without independent approval. A similar condition was commented on in our preceding audit report.

According to the State's accounting records, during fiscal year 2009, OPL processed purchases totaling approximately \$394 million primarily for other State agencies that used the aforementioned statewide purchasing transactions.

**Recommendation 6**

**We recommend that OPL fully use the available FMIS security features by establishing adequate independent on-line approval requirements for all critical purchasing transactions (repeat).**

## Maryland Correctional Enterprises (MCE)

### **Finding 7**

**OPL had not determined the fair market price of MCE's goods and services since 2003.**

### **Analysis**

OPL, as the pricing authority for MCE, had not determined the fair market price of MCE's goods and services since 2003. In the absence of such a determination by OPL, it appears that MCE is determining the prices for its products and services. State agencies are required by law to purchase from MCE when goods and services are available at a price not exceeding the prevailing average market price.

State regulations require that, at least annually, OPL compile, publish, and distribute the fair market prices of the goods and services available from MCE. However, we were advised by OPL management that it would only review or change such prices if MCE requested that it do so. Consequently, State agencies were not given adequate information to facilitate compliance with the law and may be paying more than the fair market prices for MCE products and services. A similar condition was commented upon in our preceding audit report.

As of June 30, 2009, according to the State's accounting records, State agencies had expended approximately \$25 million on the current statewide blanket purchase order for MCE goods and services issued by OPL in April 2007.

### **Recommendation 7**

**We recommend that OPL**

- a. evaluate the current prices of MCE's goods and services, determine if the prices present fair market value and make any corrections, as deemed necessary; and**
- b. compile, publish, and distribute, as required, the fair market prices of MCE's goods and services at least annually (repeat).**

## **Audit Scope, Objectives and Methodology**

We have audited the following units of the Department of General Services for the periods noted:

Office of Procurement and Logistics (OPL) – May 1, 2006 to June 30, 2009  
Maryland State Agency for Surplus Property – August 1, 2006 to June 30, 2008

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine OPL's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit reports on OPL and the Maryland State Agency for Surplus Property.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included commodity procurement, construction procurement, statewide fuel management system, surplus property, eMaryland Marketplace, and OPL's use of the State's Financial Management Information System for performing statewide procurement functions. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OPL's 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.

Our audit did not include certain support services provided to OPL by the Department's Office of the Secretary. These support services (such as payroll processing) are included within the scope of our audit of the Department's Office of the Secretary.

OPL 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 findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect OPL's 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 OPL that did not warrant inclusion in this report.

The response from the Department of General Services, on behalf of OPL, 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 the Department 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

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April 30, 2010

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

Dear Mr. Myers:

The attached represents formal responses to the Office of Legislative Audits findings and recommendations in connection with your fiscal compliance audit of the Department of General Services – Office of Procurement and Logistics for the period beginning May 1, 2006 and ending June 30, 2009.

DGS will continue to make efforts to improve its overall fiscal accountability of operations within the Office of Procurement and Logistics. We welcome any additional comments you might have in this regard.

We wish to take the opportunity to thank your staff for their cooperation during the course of the audit.

Respectfully submitted,

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

Alvin C. Collins,  
Secretary



## Statewide Fuel Management System

### **Finding 1 (Policy Issue)**

**The Department of General Services (DGS) – Office of Procurement and Logistics (OPL) had not ensured that the current contract with the vendor that provides commercial fuel services represented the best value to the State. The same vendor has provided these services since 1989 and, when the contract was last awarded, certain provisions precluded other vendors from competing for the contract.**

### **Recommendation 1**

**We recommend that OPL**

- a. determine (for example, by performing a cost-benefit analysis) whether it should continue to purchase fuel and related services from the current vendor, or if it would be in the State’s best interest to terminate the current contract;**
- b. document and retain this determination for future reference; and**
- c. ensure, in the future, that procurement specifications are prepared in accordance with State laws and regulations so as to maximize potential competition.**

### **Response:**

We agree. OPL is currently conducting a strategic sourcing initiative for motor fuels. This evaluation will determine if there is a more cost effective strategy to purchase fuel and related management services or to validate if the current method should continue. If it is determined that another method is in the State’s best interest, a procurement will be done to realize the potential benefits and the current contract will be terminated if the benefits can in fact be substantiated. The finding of this review will be documented and maintained for audit verification purposes.

OPL endeavors to prepare and publish specifications that are not restrictive. In this particular instance, there was only one vendor that had the necessary knowledge of the software required to run the system. The alternative would have been to allow specifications for the replacement of the software and system. This would have made it extremely difficult to evaluate bids from alternative providers using (new) replacement software and systems with the one provider who could use the existing software and system. OPL believes that this would have been more detrimental to the other providers as well as the state from a cost standpoint as that they would have to add the cost of equipment and amortization of the system to their pricing.

Future solicitations for similar fuel management systems will be competitively bid once the outcome of the strategic sourcing analysis has been completed and direction taken with regards to an ongoing State-wide fuel system.

**Finding 2**

**OPL's procedures for distributing vehicle fuel cards did not provide sufficient controls. In addition, OPL did not determine whether State agencies reviewed vehicle fuel usage reports.**

**Recommendation 2**

**We recommend that OPL**

- a. revise its current policy in the *Handbook for Fleet Managers* to require that requests for new fuel cards and the subsequent receipt and issuance of such cards not be performed by the same employee, and**
- b. monitor State agencies to determine whether vehicle fuel usage reports are being reviewed and questionable activity is being investigated (repeat).**

**Response:**

DGS agrees with the recommendations above. The language within the Fleet Manager's Handbook is currently under review. We anticipate completion of revisions prior to the end of fiscal year 2010. Since 2007, DGS has been conducting fuel flag audits. The reports are forwarded to the respective Fleet Managers along with a memorandum explaining the flag errors. Agencies are required to investigate and respond to DGS by a due date. Many of the audits conducted over this period represent agencies that have large numbers of transactions. Below is a list of the agencies that have been audited during this period.

<u>DATE</u>	<u>AGENCY</u>
10/30/2007	Department of Aging
11/30/2007	Office of Administrative Hearings
11/30/2007	DAT - Administration
11/30/2007	Comptroller
1/4/2008	DBED
1/4/2008	MSLA
1/16/2008	MPT
1/16/2008	MSDE
2/26/2008	Office of the Attorney General
2/26/2008	DPSCS - MD Penitentiary
3/21/2008	MIEMMS
3/21/2008	Dept. of Agriculture

<u>DATE</u>	<u>AGENCY</u>
4/16/2008	Military
5/23/2008	DHCD
5/23/2008	DHMH - Springfield
6/20/2008	DOT - MDTA
6/20/2008	DOT - MTA
7/14/2008	DMSP
8/26/2008	DLLR
8/26/2008	DJJ - Headquarters
10/22/2008	DOT - SHA - District 3
10/22/2008	DOT - SHA - District 2
10/22/2008	DOT - SHA - District 7
10/22/2008	DOT - SHA - District 1
11/14/2008	DNR - Natural Resource Police
11/14/2008	DPSCS - MRDCC
12/24/2008	DHR
12/24/2008	DOT - MPA
1/22/2009	DPSCS - MCE
1/22/2009	DOT - Office of Chart
3/10/2009	SHA -Golden Ring
3/10/2009	Maryland Aviation Administration
4/2/2009	SHA - Marlboro
4/2/2009	DHMH - Spring Grove
4/27/2009	DOT-SHA- Frederick Shop
4/27/2009	MDOT - MVA
5/28/2009	MDE - ADMIN
5/28/2009	DHMH - Deputy Sec Operations
6/24/2009	SHA - Fairland
6/24/2009	SHA - Gaithersburg
8/7/2009	MD State Police
8/7/2009	Harford County Health Department
8/7/2009	DNR - Office of the Secretary
8/7/2009	DNR - Wildlife and Heritage Services
8/7/2009	DHMH - Deer's Head Center
8/7/2009	MDOT - Headquarters
8/7/2009	DJS - Cheltenham
9/2/2009	Agriculture
9/2/2009	DHCD
9/2/2009	DJJ - Headquarters
9/2/2009	MDOT - MTA
9/2/2009	MDOT - MAA
10/5/2009	SHA -Centreville Shop
10/5/2009	SHA - Chief Engineer
10/5/2009	SHA - Construction Inspection
10/5/2009	SHA - Annapolis Shop

<u>DATE</u>	<u>AGENCY</u>
10/5/2009	SHA - Cambridge Shop
11/2/2009	DPSCS - ECI
11/2/2009	DPSCS - MCTC
11/2/2009	DPSCS - MRDCC
11/2/2009	DPSCS - RCI
11/2/2009	DPSCS - MTC
11/24/2009	MD House of Correction - Jessup
11/24/2009	MD Correctional Institution - Hagerstown

DGS currently has no formal audit unit. However, we are actively seeking through DBM to create the function in support of this and other oversight responsibilities within the department. In the future, an ISSSD staff person will ensure at a minimum, follow-up of agency flag errors on a test basis.

## **Pharmaceutical Drug Purchase and Distribution Contract**

### **Finding 3**

**OPL did not ensure that it was in the best interest of the State to continue to participate in a purchasing alliance for pharmaceutical drugs and did not properly monitor certain aspects of the related contract.**

### **Recommendation 3**

**We recommend that OPL**

- a. in the future, ensure that it is in the best interest of the State to participate in the multi-state cooperative purchasing alliance contract (repeat);**
- b. determine the purchasing volumes, calculate the related discounts, and advise the State agencies of the discounts that should be received (repeat) and ensure other discounts obtained by the vendor are passed onto State agencies.**

### **Response:**

We disagree with a. (above)-The contract was competitively bid by the State of Minnesota. The bid included the State of Maryland's estimated quantities. As such, an analysis would be somewhat unconventional as it is generally accepted that prices received as a result of a competitive bid represent a statement of market reasonableness for the products. The rationale for the Intergovernmental procurement is such that increasing total volume by aggregating with other similar jurisdiction's does

result in lower prices for all. We believe this approach has proven beneficial and in the best interest of the State of Maryland.

Notwithstanding, OPL conducted an analysis in June 2009 comparing prices from the then current contract with that of the (new) replacement contract. Also, we compared both to the pricing received from the State of Pennsylvania's contract which was competitively bid in 2009. The analysis showed that using the Minnesota Multi-state contract resulted in price advantages to the State of Maryland.<sup>1</sup>

We agree with b. (above)-With regard to the audit of invoices, each agency has a unique log-on I.D. to the State of Minnesota's contract website where they can obtain pricing information and reports. The pricing also incorporates volume discounts based on the level of activity for all state purchases. The agency also has the ability to contract with an independent audit firm (e Audit Solutions) in order to have their invoices audited to ensure correct pricing. OPL recognizes the need to review and validate procurement volume and contract pricing as well as to perform more monthly audits of agency invoices to ensure compliance with contract pricing and volume discounts. DGS will monitor total payments to the contractor (Cardinal) via FMIS. Also, DGS will recommend that all affected agencies take advantage of the e Audit Solution currently available as a component of the M-CAP contract.

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<sup>1</sup> **Auditor's Comment:** The intent of our report was to point out that OPL should periodically determine if it was in the State's best interest to continue participating in its pharmaceutical contract. In its response, DGS stated that it believed the contract represented a "statement of market reasonableness for the products" and that an analysis had been done in June 2009 in conjunction with consideration of the replacement contract. The June 2009 analysis referred to in the response was not performed by OPL, but rather was prepared by Department of Health and Mental Hygiene personnel. OPL's involvement with this analysis was not documented. Nevertheless, if a similar process is performed by OPL personnel in the future, such a process may satisfy the concerns raised in this finding.

## Printing Services

### **Finding 4**

**OPL did not ensure that it reviewed and approved State agency contracts for printing services, as required.**

### **Recommendation 4**

**We recommend that OPL**

- a. establish and implement procedures to ensure that State agency requisitions for printing-related services are submitted to OPL, as required;**
- b. document its approval of such requisitions and, when applicable, document reasons for authorizing State agencies to procure such services from private vendors; and**
- c. retain all related documentation for future reference.**

### **Response:**

We Disagree. OPL does have procedures in place to comply with state law and provide assurance that State-agency requisitions for print-related services are provided to OPL first in order for determination to be made of the propriety of the job and /or whether a waiver should be granted authorizing the agency to use a private vendor. Documentation of such is retained in the office of Printing and Duplication and available for audit purposes.

Since the Governor's Initiative to consolidate state-wide print operations under DGS in January 2009, DGS has taken steps to enhance its procedures and documentation over approval of print requisitioning.<sup>2</sup>

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<sup>2</sup> **Auditor's Comment:** The DGS response stated that OPL had procedures to ensure requisitions for print-related services were provided to OPL. Our audit disclosed that procedures that OPL claimed to have initiated were contingent upon the State's Financial Management Information System automatically routing printing-related requisitions directly to OPL. However, our testing of selected payments for printing services showed that the tested procurements were not routed to, or approved by, OPL. As a result, OPL had no assurance that print services were being referred to OPL for prior approval.

## Utility Tracking Contract

### **Finding 5**

**OPL did not obtain approval from the Board of Public Works (BPW) for a contract modification totaling approximately \$750,000 applicable to a contract for utility tracking services.**

### **Recommendation 5**

**We recommend that OPL submit the aforementioned contract modification to the BPW and, in the future, ensure that all contract modifications are submitted to the BPW, as required.**

### **Response:**

We agree. OPL will submit the contract modification to the Board of Public Works. In the future, OPL will determine whether similar contract modifications will result in cost savings before making such modifications.

## Statewide Purchasing Transactions

### **Finding 6**

**Proper internal control was not established over statewide purchasing transactions.**

### **Recommendation 6**

**We recommend that OPL fully use the available FMIS security features by establishing adequate independent on-line approval requirements for all critical purchasing transactions (repeat).**

### **Response:**

We agree. OPL will take away the ability for Procurement Officers to initiate and approve direct, standard and blanket purchase orders. Therefore, no individual will have the authority to both initiate and approve purchase orders.

## Maryland Correctional Enterprises (MCE)

### **Finding 7**

**OPL had not determined the fair market price of MCE's goods and services since 2003.**

### **Recommendation 7**

**We recommend that OPL**

- a. evaluate the current prices of MCE's goods and services, determine if the prices present fair market value and make any corrections, as deemed necessary; and**
- b. compile, publish, and distribute, as required, the fair market prices of MCE's goods and services at least annually (repeat).**

### **Response:**

We agree. OPL is currently reviewing the catalog of offerings from MCE and evaluating their prices. As part of that review process, MCE provides DGS with comparative pricing for similar items. That information is reviewed and additional research is conducted by DGS staff to insure that prices charged by MCE are in fact fair market prices. Once the determination has been made, the items and their fair market prices will be compiled and published as required

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