Department of General Services (DGS)
Office of the Secretary and Other Units

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Presentation to Joint Audit and Evaluation Committee

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Report Overview

- This audit covers 6 of the 7 DGS units* and includes core DGS services such as capital projects and grants, disbursements, cash receipts, accounts receivable, and payroll. In addition, our audit includes services provided by DGS on behalf of other State agencies including professional and technical services for the planning, design, construction, and maintenance of State facilities; real estate activity; and oversight of State property and equipment.

- This report covers the period from September 1, 2020 to July 15, 2024. The report contains 11 findings including numerous findings for which DGS disagrees with the some or all of the factual accuracy and related recommendations.

* The Office of State Procurement is audited and reported upon separately.

Key Findings

- DGS could not support that $410.9 million in leases to relocate State agencies were in the State's best interest.
- DGS did not ensure that lease solicitations were properly structured and addressed each agency's needs.
- DGS did not properly evaluate lease proposals.
- DGS could not support numerous aspects of a $167.1 million lease renewal for the Maryland Department of Environment.
- DGS did not identify and refer unused capital funds to the Board of Public Works (BPW) to be deauthorized or extended.
- DGS procured construction management services for the Maryland State House Rehabilitation Project without competition, did not disclose the anticipated cost of the project to BPW, and could not support modifications to the contract.

State Center Relocation Leases Background

In April 2021, the State began relocating 13 State agencies. As of July 2024, DGS awarded 8 leases for 9 agencies totaling $410.9 million, with additional annual parking costs totaling $4.7 million.

Agency	Lease Term in Years	Square Footage	Total Cost Over Lease (in millions)
Maryland Department of Health (MDH)	15	463,000	$277.9
Department of Human Services (DHS)	10	149,024	49.4
Maryland Department of Labor (MDL) and Department of Information Technology (DoIT)	10	126,432	38.8
Comptroller of Maryland (COM)	10	67,586	19.3
State Department of Assessment and Taxation (SDAT)	10	47,391	13.4
Maryland Department of Planning (MDP)	10	19,329	6.1
Maryland Department of Aging (MDOA)	10	16,876	4.7
Department of Disabilities (DoD)	10	4,079	1.3
	Totals	893,717	$410.9

State Center Relocation Leases (Finding 1)

DGS could not adequately support that entering into lease agreements totaling $410.9 million to relocate agencies to Baltimore's central business district was in the State's best interest and did not transparently report the total costs to BPW.

- DGS could not document a cost-benefit analysis weighing the benefits of purchasing property instead of awarding leases to private entities and the extent to which it considered the cost-benefit of consolidating leases.
- DGS did not determine the fair market rates for the leases, resulting in a lack of assurance that the leases were at or below market rates.
- DGS only reported the first-year costs of the leases to BPW instead of the full cost over the 10-to-15-year terms. DGS also did not present other costs such as $4.7 million in annual parking costs for the 8 leases awarded as of July 2024.

State Center Relocation Leases (Finding 2)

DGS did not structure lease solicitations in accordance with State procurement regulations and did not ensure that the solicitations sufficiently addressed each agency's needs.

- The Requests for Proposal (RFP) did not specify when the agencies needed to occupy the space nor indicate that proposals would be evaluated based upon the proposed occupancy date.
- The space solicited did not always sufficiently address agency needs and other critical requirements, resulting in certain change orders being processed after the leases were signed that significantly increased the cost.
- DGS could not adequately justify the amount of parking procured, which will total $51.8 million over the term of the 5 leases tested.

State Center Relocation Leases (Finding 3)

DGS did not properly evaluate lease proposals, raising questions as to whether the awards were the most advantageous to the State.

- DGS did not evaluate the SDAT and MDH lease proposals consistently and in accordance with the criteria specified in the RFPs.

- DGS did not ensure that the net effective annual rates calculated by its real estate broker were accurate for use in evaluating lease proposals.

- DGS did not assess whether proposed construction costs included in the leases were necessary and reasonable, and did not verify that annual rents did not exceed the maximum allowable rate under State law.

- The SDAT lease is located in a FEMA-designated 100-year flood plain even though DGS policy provides that State agencies are not to be located in such areas.

Other State Leases (Finding 4)

DGS could not support numerous aspects of the Maryland Department of Environment (MDE) lease renewal.

- In January 2024, DGS renewed MDE's lease for 20 years at a cost of $167.1 million. The landlord agreed to perform renovations valued at $10 million.
- The lease rate increased by 8.2 percent from the prior lease. In addition, the term and annual escalation percentage significantly exceeded other DGS leases.
- DGS procured the renovations (primarily cubicle enhancements) through the lease instead of competitively procuring the services and did not accurately represent the renovations to the BPW.
- DGS could not adequately justify the decision to waive the termination for convenience clause from the MDE lease.

Other State Leases (Finding 5)

DGS did not always publish lease awards as required by State procurement regulations.

- DGS awarded 183 leases between July 2021 and July 2024.

- Our analysis of DGS records disclosed that 172 (or 94 percent) of the 183 lease awards were not published on *eMaryland Marketplace Advantage (eMMA*) as of September 2024.

- State regulations require contract awards greater than $50,000 to be published on *eMMA* within 30 days of award.

Capital Funds (Finding 6)

DGS did not obtain required procurement documentation from grantees and did not have a comprehensive policy for conducting site visits of the related projects.

- According to DGS records, there were 1,845 active capital grants totaling $1.2 billion between October 2022 and April 2024. Our test of 4 capital grants totaling $12 million disclosed that DGS did not obtain documentation to support whether the vendors working under these grants were competitively procured. The *Maryland Capital Grants Project Manual* encourages grantees to use competition and requires them to provide DGS with the basis for the selection of each vendor.

- DGS' site visit policy did not address how frequently visits were to be conducted and did not establish a process to prioritize site visits consistent with available resources. In this regard, DGS could not explain the basis for selecting the 61 capital grants for which site visits were performed between October 2022 and April 2024.

Capital Funds (Finding 7)

DGS did not have a procedure to identify unused capital funds and refer them to the BPW for deauthorization or extension.

- State law provides that capital funds must be encumbered within 2 years and fully expended (or encumbered) within 7 years of when the related State debt is issued, unless a formal extension is granted by the BPW.

- According to DGS records, as of June 2023, there were 1,596 capital grants and projects with balances totaling $1.6 billion.

- We identified 335 capital funded grants and projects with balances totaling $194.2 million as of June 2023 that met the criteria for deauthorization but had not been reported to the BPW to be deauthorized or extended. For example, 33 grants and projects with unencumbered balances totaling $12.3 million were at least 7 years old.

Capital Funds (Finding 8)

DGS did not adequately account for funds in a non-budgeted clearing account and did not determine the proper disposition of $8.4 million.

- The clearing account was primarily used to receive and spend capital funds for construction projects funded by other State agencies' budgets.

- DGS did not analyze the account balance at year-end to determine the individual construction projects supporting the balance to enable a determination of the proper disposition of the funds.

- As of June 30, 2024, the account balance included $8.4 million related to activity from fiscal years 2000 to 2023. DGS acknowledged that $344,000 of this amount should be reverted to the State General Fund but could not readily determine the proper disposition of the remaining funds.

Capital Funds (Finding 9)

DGS procured construction management services for the Maryland State House Rehabilitation Project without competition, did not fully disclose the cost of the project to the BPW, and could not support modifications to the contract.

- In January 2022 DGS awarded a $1.5 million construction management services contract for the project through direct solicitation. Procurements to rehabilitate historic structures are exempt from State procurement law.
- DGS did not have an exempt procurement policy at the time this contract was awarded and could not justify the decision to not seek competition.
- DGS did not disclose the anticipated project cost ($37.1 million) to BPW.
- DGS could not support 11 contract modifications totaling $33.5 million.

Accounts Receivable (Finding 10)

DGS did not adequately pursue collection of delinquent accounts due from State agencies and did not establish sufficient controls over accounts receivable records.

- Our test of 12 delinquent State agency accounts totaling $6 million disclosed that DGS had not sent notices for 7 accounts and notices for the other 5 accounts were sent between 8 and 21 months after the account became delinquent.

- DGS did not address the delinquent State agency accounts with senior leadership at the related agencies or other Executive Department leadership.

- DGS did not ensure that adjustments to the accounts receivable records were authorized and proper.

Monitoring of State Property and Equipment (Finding 11)

DGS did not perform inventory compliance audits to ensure State agencies complied with State property and equipment requirements.

- State law provides that DGS is responsible for State property and equipment for most State agencies and units.
- We found that DGS had not performed an inventory compliance audit for any State agency since September 2019.
- DGS inventory audits performed prior to September 2019 disclosed deficiencies including unrecorded capital equipment and improper segregation of duties. In addition, OLA audits have historically identified deficiencies such as State agencies not performing required physical inventories.

Conclusions

Our audit of DGS identified numerous concerns related to State agency leases, monitoring and accounting for capital funds, delinquent accounts receivables, and State agency compliance with State property and equipment requirements.

We made detailed recommendations to DGS and we will assess the status of the recommendations during the course of our next audit.

We are happy to answer any questions.