Audit Report

Department of General Services
Office of the Secretary and Other Units

July 2025

OFFICE OF LEGISLATIVE AUDITS

DEPARTMENT OF LEGISLATIVE SERVICES

MARYLAND GENERAL ASSEMBLY

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Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly

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July 28, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the Secretary and other units of the Department of General Services (DGS) for the period beginning September 1, 2020 and ending July 15, 2024. The Office of the Secretary and other units 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.

Our audit disclosed that DGS could not support that $410.9 million in leases to relocate State agencies to downtown Baltimore were in the State's best interest. For example, DGS did not perform an analysis of the cost-benefits of purchasing property instead of awarding leases to private entities and the lease awards were not always presented to the Board of Public Works (BPW) in a transparent manner. We also found that the lease solicitations were not structured in accordance with certain State procurement regulations and did not sufficiently address each agency's needs, resulting in change orders that significantly increased the cost of the leases. Our audit also disclosed numerous issues with DGS' evaluation of the related proposals, including a lack of documentation to explain how proposed construction costs were reflected in the leases and to support that the rates were within the maximum allowable rate under State law.

In addition, DGS could not support numerous aspects of a $167.1 million lease renewal for the Maryland Department of Environment (MDE), which was to include $10 million in renovations by the landlord to MDE's office space. For example, DGS could not justify why the lease term and annual escalation percentage significantly exceeded other DGS leases. DGS also could not support the significant increase in the lease rate from the prior agreement, which will

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result in the State paying an additional $12.6 million in rent over the 20-year lease term, meaning that the cost of the renovations will ultimately be paid for by the State. Our audit also disclosed that DGS did not publish 172 (or 94 percent) of the 183 leases awarded between July 2021 and July 2024 on *eMaryland Marketplace Advantage* as required.

Our audit further disclosed deficiencies in DGS' procedures to monitor and account for capital funds. DGS did not obtain required procurement documentation from grant recipients and did not have a comprehensive policy for conducting site visits to ensure the funds were being used as intended. These conditions were noted in our November 2021 performance audit report of *State Grants*. DGS also did not have a procedure to identify and refer unused capital funds to BPW for deauthorization or extension. As of June 2023, capital funds totaling $194.2 million met the criteria for deauthorization provided in State law.

Our audit also noted issues with how DGS accounted for certain non-budgeted funds, a condition noted but not corrected from our prior report. We also noted concerns with the procurement of construction services for the Maryland State House Renovation, and the collection of delinquent amounts due from State agencies. Finally, we noted that DGS did not perform inventory compliance audits to ensure State agencies complied with State property and equipment requirements, as required, a condition which was included in our prior report.

DGS' response to this audit is included as Appendix B to this report. In accordance with State law, we have reviewed the response and, DGS has pervasive disagreements with the factual accuracy of our findings and many recommendations. In addition, even when agreeing with the recommendations in this report, we identified several instances in which statements in the response conflict or disagree with the report findings. In each instance, we have reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding and related recommendations.

In accordance with generally accepted government auditing standards, we have included general "auditor's comments" in Appendix A and included several auditor comments to specific DGS disagreements with the report findings.

We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with DGS. Notwithstanding the aforementioned disagreements, we wish to acknowledge the cooperation extended to us during the audit by DGS, its agreement with our recommendations, and willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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

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Background Information

Agency Responsibilities

The Department of General Services (DGS) consists of seven units, including the Office of the Secretary. This audit included the operations of the following six units:

- Office of the Secretary
- Office of Facilities Security
- Office of Facilities Management
- Office of Real Estate
- Office of Design, Construction, and Energy
- Business Enterprise Administration

These six DGS units 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. The remaining DGS unit, the Office of State Procurement, is audited and reported upon separately.

According to the State's records, the operating expenditures (excluding statewide capital project and capital grant expenditures) for the six DGS units included in this audit totaled approximately $512.4 million during fiscal year 2024 (see Figure 1). Expenditures have significantly increased during the audit period (from $117.1 million in fiscal year 2020) due primarily to expenditures totaling $339.3 million that were previously budgeted under the Board of Public Works (BPW) being reflected under DGS.

Figure 1
DGS Office of the Secretary and Other Units
Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	557
Vacant	41
Total	**598**

Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages & Fringe Benefits	$ 71,774,539
Technical and Special Fees	2,198,075
Operating Expenses	438,445,715
Total	**$512,418,329**

Fiscal Year 2024 Funding Sources	
	Funding
General Fund	$390,227,698
Special Fund	64,396,006
Federal Fund	1,575,156
Reimbursable Fund	56,219,469
Total	**$512,418,329**

Source: State financial and personnel records

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 7 of the 8 findings contained in our preceding audit report dated January 27, 2022. We did not follow up on one finding (Finding 5) in our preceding audit report. The status of this finding will be addressed in the next DGS – Office of State Procurement audit. In addition, our audit included a review to determine the status of 2 of the 6 findings, as applicable to DGS, contained in our performance audit report of *State Grants* dated November 10, 2021. See Figure 2 for the results of our review.

Figure 2 Status of Preceding Findings		
Preceding Finding	**Finding Description**	**Implementation Status**
	DGS Office of the Secretary and Other Units	
Finding 1	DGS did not adequately account for funds in a non-budgeted clearing account and could not determine the proper disposition of $1.74 million of the remaining amount in the fund at the end of fiscal year 2020.	**Repeated** (Current Finding 8)
Finding 2	DGS did not timely deposit approximately $465,000 in commission rebates, which resulted in the retention of certain funds that should have been reverted to the State's General Fund, at June 30, 2020 fiscal year-end.	Not repeated
Finding 3	DGS did not use available online controls to ensure that critical transactions were independently approved and were proper, and could not document that it verified the propriety of user access granted to its employees.	Not repeated
Finding 4	DGS did not verify that the Statewide fuel vendor performed accurate and valid fuel usage reconciliations, and conducted all environmental testing required by State regulations.	Not repeated
Finding 6	DGS did not have sufficient controls over cash receipts and non-cash credits posted to the accounts receivable records.	**Repeated** (Current Finding 10)
Finding 7	DGS had not established adequate controls to ensure the propriety of certain overtime payments and leave adjustments.	Not repeated
Finding 8	DGS did not adequately monitor State agencies to ensure they complied with State property and equipment requirements.	**Repeated** (Current Finding 11)
	State Grants	
Finding 5	DGS did not ensure that grantees submitted required documents to explain or support the basis used to select vendors to work on certain capital projects funded by State capital grants. In addition, DGS did not perform documented routine site visits.	**Repeated** (Current Finding 6)
Finding 6	Certain State agencies did not maintain documentation to support grant payments totaling approximately $22.3 million and made payments totaling $220,000 that were not in accordance with the related grant agreement.	Not repeated

Findings and Recommendations

State Center Relocation Leases

In April 2021, the State announced an initiative to relocate 13 State agencies from their present locations in Baltimore City to the central business district.[1] With the exception of the Department of Human Services, all of these agencies were located at State Center. The move was intended to provide modern, vibrant workplaces for State employees, as well as economic and civic revitalization and transformation to Baltimore. As of July 2024, DGS had awarded eight leases on behalf of nine agencies, totaling approximately $410.9 million (see Figure 3). This amount does not include annual parking costs, which totaled $4.7 million per year for these agencies.

Figure 3
State Center Relocation Project Leases Awarded as of July 2024

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

Source: DGS records
*Square footage based on original proposals prior to change orders.

[1] Baltimore's central business district is the downtown area which is predominantly businesses and is generally bounded by Martin Luther King Boulevard, Franklin Street, Jones Falls Expressway, and Pratt Street.

Finding 1 focuses on the overall decision to relocate agencies to the central business district by entering into lease agreements with private entities. Findings 2 and 3 relate to our review of the solicitation, evaluation, and award for five leases (MDH, DHS, COM, SDAT, and MDP) totaling $366.1 million, to determine whether the leases were awarded in a comprehensive manner and were in the State's best interest.

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 report the total costs of the leases to the Board of Public Works (BPW) in a transparent manner.

Analysis
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 report the total costs of the leases to the BPW in a transparent manner.

- DGS could not document that it conducted a cost-benefit analysis weighing the benefits of purchasing property for use by the nine agencies instead of awarding leases to private entities. Given the significant amount of space being leased by certain of these agencies we question whether the decision to lease was the most cost-beneficial alternative. For example, the MDH lease will cost the State $277.9 million over 15 years for a building that the current landlord purchased for $7 million in 2016.

- DGS could not document the extent to which it considered the cost-benefit of consolidating leases in a single location. Our review disclosed that only two agencies (MDL and DoIT) were relocated under a single lease. DGS advised that it considered the agencies' preferences regarding co-location with other agencies during the procurements but did not formally analyze whether agencies should be co-located to maximize the State's purchasing power and to achieve operational efficiencies.

- 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. A determination of the fair market rates could also have been used to assess the cost-benefits of leasing compared to other alternatives.

- DGS did not present the total cost of lease awards to the BPW in a transparent manner[2]. Our review of the BPW agendas and related meeting transcripts for the eight leases disclosed that DGS only reported the first-year cost of the leases instead of the full cost over the 10-to-15-year terms. The first-year rates did not accurately reflect the total cost because the agreements provided for annual rate increases of between two to three percent. Although the BPW agendas identified the term and escalation percentage, the overall cost may not have been readily apparent to the BPW. For example, DGS indicated that the annual cost of the DHS lease was approximately $3.7 million without presenting that the annual lease would increase to $5.8 million by year 10 and that costs will total $49.4 million over the term of the lease.

  Furthermore, DGS did not present other costs associated with the lease to the BPW, such as parking. In this regard, the eight leases included annual parking costs totaling $4.7 million that was not reflected in the annual costs reported to the BPW.

Recommendation 1
We recommend that DGS

a. prepare a comprehensive cost-benefit analysis that considers all viable lease/purchase options including for the remaining State agencies noted above,
b. document its consideration of co-locating agencies to maximize the State's purchasing power and achieve operational efficiencies,
c. determine the fair market rates for leases for use in decision making, and
d. ensure that leases are disclosed to BPW in a transparent manner by reporting the full contract amount including any related costs such as parking.

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.

Analysis
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. DGS advised us that they worked with each agency to develop

[2] BPW Advisory 2006-1 requires agencies to report the total value of contracts.

the solicitation request for proposal (RFP). Our test of five lease solicitations (MDH, DHS, COM, SDAT, and MDP) identified the following conditions.

- None of the five RFPs specified when agencies needed to occupy the space or indicated that proposals would be evaluated based upon the proposed occupancy date. State procurement regulations provide that solicitations should include the expected performance schedule and indicate the relative importance of each evaluation component to be considered in the award. This is significant because, as noted in Finding 3, certain proposals received lower scores due to having later occupancy dates despite this criteria not being included in the RFP.

- The space solicited did not always sufficiently address agency needs and other critical requirements. DGS management advised that the individual agencies were responsible for determining their requirements and that DGS would review these requirements when drafting the solicitation to ensure that all critical areas were addressed. Our review disclosed that certain criteria were excluded from three (DHS, MDH, and SDAT) of the five solicitations, resulting in DGS processing change orders after signing the leases. For example, DGS processed a change order adding an additional 16,600 square feet of storage space, increasing MDH's annual lease by $434,200 (or a total of $7.8 million over the 15-year lease term). In addition, the DHS lease did not include a requirement for a specific fire suppression system which ultimately resulted in an additional cost of $426,800.

- The amount of parking procured for the five leases was not adequately justified. For example, the DHS lease included 332 parking spaces for 720 employees and its fleet of 77 vehicles. DGS advised that it procured 1 parking spot for every 3 employees but could not document that it considered the current parking usage by each agency, and other factors such as the anticipated use of telework and public transit in developing this ratio. Total parking costs over the term of these 5 leases totaled $51.8 million.

Recommendation 2
We recommend that DGS

a. ensure solicitations comply with regulatory requirements including specifying an expected occupancy schedule and the relative importance of each evaluation component to be considered in the award;

b. ensure that agency space requirements are provided for in the solicitations; and

c. **document its justification for the amount of parking procured, including how factors such as anticipated telework and transit usage were considered in the decision.**

Finding 3
DGS did not properly evaluate lease proposals, raising questions as to whether the lease awards were the most advantageous to the State.

Analysis
DGS did not properly evaluate lease proposals, raising questions as to whether the lease 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 as required. Specifically, DGS rejected 4 proposals received for the SDAT solicitation because they combined financial and technical information but accepted 3 other proposals that did the same thing. DGS could not readily explain why it accepted the other 3 proposals including the proposal ultimately selected for award. In addition, the MDH solicitation scored proposals with later occupancy dates lower even though this criteria was not listed as an evaluation factor in the RFP. State procurement regulations require that proposals be treated consistently and evaluated based on terms established in the solicitation.

- DGS did not ensure that the net effective annual rates (NEAR) used to evaluate lease proposals were accurately calculated. DGS' real estate broker calculated the NEAR for each proposal to enable DGS to compare the annual rental cost of the different properties. Our review disclosed that certain data used in the broker's calculations were inconsistent with the related financial proposals. For example, the NEAR calculated for the 19,329 square foot property selected for the MDP lease used an expected utility rate of \$2 per square foot instead of the \$2.40 rate listed in the proposal. DGS could not document that it reviewed the rates used by the broker or readily explain the reason for this discrepancy or how it may have impacted its decision.

- DGS did not assess whether proposed construction costs included in the leases were necessary and reasonable. According to DGS records, the five properties selected for testing required estimated construction totaling \$120.3 million to adapt the properties for State use. While DGS advised that it reviewed the estimates for reasonableness, these reviews were not documented and we found that the proposals did not include detailed descriptions of the work to be performed and the associated costs in order to enable DGS to make these assessments. As a result, there was a lack of assurance that the lease rate was in the best interest of the State.

- DGS did not verify that annual rent did not exceed 15 percent of the property's fair market value at the time of award, which is the maximum allowable rate under State law. DGS advised that it determined the fair market value of the property by competitively procuring the leases, reviewing similar properties in its portfolio, and relying on a real estate broker to identify proposals that exceeded the market rate. Our review disclosed, DGS could not document that the annual rent met the statutory criteria, nor could it document that the broker had determined the fair market value for any of the 5 leases tested. Consequently, we were unable to determine the propriety of the awarded lease rates.

- DGS awarded a lease that did not meet the criteria in its policy. Specifically, the SDAT lease is located in the Federal Emergency Management Agency defined 100-year flood plain[3] even though DGS policy provides that State agencies are not to be located in such areas. DGS advised that this did not violate its policy because Baltimore City has building codes related to building in a flood plain. However, DGS policy does not provide for this deviation, and we noted that one proposal for the DHS solicitation was rejected in part because the property was located in a flood plain.

Recommendation 3
We recommend that DGS
a. evaluate lease proposals consistently and in accordance with the criteria specified in the RFP, as required by State procurement regulations;
b. ensure that the NEAR is accurately calculated by reviewing documentation to support the calculation;
c. perform documented assessments of the necessity and reasonableness of construction costs;
d. document its determination that annual rents do not exceed 15 percent of the property's fair market value at the time of award, as required by State law; and
e. comply with its policies when procuring leases including those regarding the location of State agencies.

[3] Areas within a 100-year flood plain have a one percent change of flooding every year.

Other State Leases

Background
As of August 2024, DGS was responsible for 276 leases on behalf of State agencies for office and warehouse space, parking, and other rental needs. We reviewed three leases totaling approximately $191.8 million awarded between December 2023 and January 2024. Specifically, we reviewed new leases for the Maryland Energy Administration ($11.5 million) and Maryland Department of Emergency Management ($13.2 million) and a lease renewal for the Maryland Department of Environment (MDE) headquarters totaling $167.1 million.

Finding 4
DGS could not support numerous aspects of the MDE lease renewal, certain of which were questionable.

Analysis
DGS could not support numerous aspects of the MDE lease renewal, certain of which were questionable. MDE's prior lease ended in December 2022 which was extended through December 2023. In January 2024, DGS renewed MDE's lease at a total cost of $167.1 million. As part of this renewal the landlord agreed to perform renovations to MDE's office space valued at $10 million. Our review disclosed the following conditions.

- DGS could not support the basis for the significant increase in the lease rate from the prior lease. Specifically, the lease rate increased from $20.84 to $22.54 per square foot (8.2 percent). As a result, the landlord will receive an additional $448,000 per year or an additional $12.6 million in rent over the 20-year lease compared to the prior lease. This is significant because the landlord committed to $10 million for renovations, which is ultimately being paid for by the State.

- DGS could not adequately justify the basis for the lease term and annual escalation percentage which significantly exceeded other leases awarded by DGS. Specifically, the lease provided for a 20-year term and an annual rent escalation rate of 3.45 percent increasing the annual rent from $5.9 million to $11.3 million in the final year. While DGS did not have policies establishing the maximum lease terms and escalation rates, DGS advised that it typically attempted to keep lease terms to 10 years and the annual escalation rates between 2 and 3 percent. In this regard, the other leases we reviewed were generally for 10-year terms and none of the escalation rates exceeded 3 percent.

- DGS could not support the decision to procure the renovations through the lease instead of competitively procuring the services. Specifically, $7.9 million of the renovation budget primarily consisted of cubicle enhancements. DGS could not document that it assessed whether this work was necessary and that the costs were reasonable, or that it considered separately procuring the services. In this regard, DGS could not document that it considered using the Maryland Correctional Enterprises (MCE) or other competitively procured vendors to perform the cubicle adaptations. State regulations generally require agencies to procure goods and services from MCE when available.

- DGS could not adequately justify the decision to waive the termination for convenience clause from the MDE lease. DGS advised that it waived this provision to help the landlord secure financing for the $10 million in improvements. While State procurement regulations provide that leases may exclude this clause based on the landlord's lender requirements, DGS could not provide evidence that the inclusion of this clause would preclude the landlord from securing financing for the improvements. Specifically, the only documentation DGS provided to us was a letter from the landlord's bank "respectfully requesting" that the clause be removed from the lease agreement. Given the length of the lease and the significant increase in the lease costs, we question whether the exclusion of this provision was in the State's best interest.

- DGS did not accurately represent the lease to the BPW. Specifically, the agenda indicated that the $10 million renovation budget was to renovate MDE's office space, convert the building to all electric infrastructure, and install solar panels to provide energy credits to the State. As noted above, almost all the costs were unrelated to energy savings and our review of the agreed upon improvements disclosed that the cost of the solar panels was included in the base rent, and therefore will be paid by MDE over the 20-year lease term.

Recommendation 4
We recommend that DGS document efforts to ensure that

a. **critical lease terms such as the rate, escalation clause, and lease term are reasonable;**
b. **renovation costs are necessary and appropriate for inclusion in the lease; and**
c. **critical lease information is accurately reported to the BPW.**

Finding 5
DGS did not always publish lease awards as required by State procurement regulations.

Analysis
DGS did not always publish lease awards on *eMaryland Marketplace Advantage (eMMA)* as required by State procurement regulations. According to agency records, DGS awarded 183 leases between July 2021 and July 2024. Based on our analysis of DGS records, 172 (or 94 percent) of the 183 lease awards were not published on *eMMA* as of September 2024. DGS could not explain why it had not posted the awards on *eMMA*.

State regulations require that contract awards greater than $50,000 be published on *eMMA* within 30 days of award. Publishing awards provides transparency regarding winning bidders and award amounts.

Recommendation 5
We recommend that DGS publish lease awards, including those noted above, on *eMMA* as required.

Capital Funds

Background
DGS is responsible for administering State capital funds raised through the issuance of Maryland Consolidated Capital Bond Loans (MCCBL), the proceeds of which are used to fund numerous initiatives including construction and real estate acquisitions by the State and for construction-related grants to various non-State entities. According to State accounting records, the unencumbered capital funds balance under DGS' purview totaled $1.71 billion as of June 30, 2024.

On November 10, 2021, we issued a performance audit on *State Grants* which contained the results of our review of the State's policies and guidance for advertising, awarding, and monitoring State-funded grants. The report contained two findings related to DGS:

- DGS did not ensure that grantees submitted required documents to explain or support the basis used to select vendors to work on certain capital projects funded by State capital grants. In addition, DGS did not perform documented routine site visits to ensure capital projects funded with State grants were progressing in accordance with the terms of the contract(s) funded by the grants.

- DGS did not maintain documentation to support grant payments totaling approximately $21.3 million for a community college capital project.

We reviewed DGS' procedures to monitor and account for capital funds. In addition, we reviewed DGS procurements related to the Maryland State House Restoration Project that were financed with 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 projects to ensure the funds were being used as intended.

Analysis
DGS did not obtain required procurement documents from grantees and did not perform periodic site visits to ensure the grant funds were being used as intended. As a result, there is a lack of assurance that grant funds were used properly and in the most effective manner. According to DGS records, there were approximately 1,845 active capital grants totaling $1.2 billion between October 2022 and April 2024.

- DGS did not ensure all required procurement documentation was obtained from grantees. Specifically, our test of four capital grants[4] totaling $12 million disclosed that DGS did not obtain documentation from the grantees to support the basis for selecting vendors working under these grants and thus could not readily determine if the vendors were selected via a competitive procurement process. Consequently, DGS lacked assurance that the funds were expended in an economical or efficient manner by the grantees.

  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, including the name, address, bid amount (or score), and any other selection criteria used. Although not required by the *Manual*, we believe competition should be required to ensure grant funds are being used properly.

- DGS did not have a comprehensive policy for performing site visits for State capital grants. Specifically, the policy did not establish requirements for the frequency and content of the visits, and steps for taking corrective action when issues are identified. Furthermore, the policy did not establish a formal

[4] We selected grants for testing based on materiality of expenditures between fiscal years 2021 to 2023.

process to select or 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. Site visits are critical to ensure projects are progressing in accordance with the contract(s) funded by State capital grants.

Similar conditions were noted in our November 10, 2021 *State Grants* performance audit report. As noted in that report, DGS disagreed with our findings and recommendation related to oversight of grantees and advised that it does not have the authority to require grantees to procure services through competition and would need authorization from BPW or a law change. In regard to site visits, DGS's response to that report indicated that it would work with BPW to develop a comprehensive site visit policy. Although DGS established a policy in April 2022, the policy did not address the areas noted above, and DGS only performed a limited number of site visits during our audit period.

Recommendation 6
We recommend that DGS

a. **work, in conjunction with the BPW, to obtain the necessary authority to require grantees to conduct competitive solicitations for their selection of vendors performing work on capital projects (repeat);**
b. **ensure grantees submit support for their vendor selection, as required (repeat); and**
c. **update its site visit policy for State capital grants, to include requirements for the frequency, content and timing of the visits, and steps for taking corrective action when issues are identified (repeat).**

Finding 7
DGS did not have a procedure to identify and refer unused capital funds to the BPW for deauthorization or extension. As of June 2023, capital funds totaling $194.2 million met the criteria for deauthorization provided in State law.

Analysis
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 these 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. DGS is responsible for referring unused capital funds to the BPW to

be deauthorized or extended[5]. Deauthorized capital funds can be used by the State for other purposes, such as to fund other capital projects without issuing additional debt and debt service on State bonds. According to DGS records, as of June 2023, there were 1,596 capital grants and projects with outstanding balances totaling approximately $1.6 billion.

Our analysis of DGS capital fund records disclosed 335 capital funded grants and projects with balances totaling $194.2 million as of June 2023, that met the criteria for deauthorization. For example, 33 grants and projects had unencumbered balances totaling approximately $12.3 million that were at least 7 years old, including $8 million related to a 2016 capital project for the Military Department. DGS advised us that it had not referred any of these funds to the BPW to be deauthorized or extended.

Recommendation 7
We recommend that DGS

a. **establish procedures to identify unused capital funds that meet the criteria for deauthorization; and**
b. **refer unused capital funds, including the $194.2 million noted above, to BPW for deauthorization or extension, in accordance with State law.**

Finding 8
DGS did not adequately account for funds in a non-budgeted clearing account primarily used to account for capital construction projects and did not determine the proper disposition of $8.4 million of the funds remaining in the account at June 30, 2024.

Analysis
DGS did not adequately account for funds in a non-budgeted clearing account and did not determine the proper disposition of $8.4 million of the funds remaining in the account at June 30, 2024. The clearing account was primarily used to receive and spend capital funds for construction projects funded by other State agencies' budgets.[6] The Comptroller of Maryland - General Accounting Division's budgetary closing instructions require agencies to analyze clearing accounts and adjust the balance to zero (after accounting for payables or encumbrances), which may include reverting the funds to the State General Fund.

[5] Extensions may also be granted via legislation enacted by the General Assembly.
[6] For most of our audit period, the fund was also used to account for renewable energy reimbursements related to DGS' purchases of renewable power. DGS established a separate account for renewable energy funds in fiscal year 2024.

Our review disclosed that DGS did not analyze the clearing account to identify the individual construction projects supporting the balance to enable a determination of the proper disposition of funds. DGS attempted to prepare a detailed fund composition as of June 30, 2024, but was unable to determine the specific construction projects associated with $8.4 million of the $20.8 million remaining in the fund. As a result, DGS could not readily determine the proper disposition of these funds such as whether the funds should be reverted to the State General Fund. In this regard, the $8.4 million reflected cumulative activity from fiscal years 2000 through 2023 and included $344,000 from fiscal years 2000 through 2016 which DGS acknowledged should be reverted.

A similar condition was commented upon in our preceding audit report. In response to that report, DGS indicated that it would prepare periodic compositions and determine the proper disposition of remaining funds in the clearing account at fiscal year-end. As noted above, while DGS attempted to prepare fund compositions, it ultimately did not determine the disposition of the funds.

Recommendation 8
We recommend that DGS

a. **prepare periodic (at least annually) compositions of the funds maintained in the clearing account to ensure all funds are properly accounted for (repeat); and**
b. **determine the proper disposition of the aforementioned $8.4 million and take appropriate corrective action, such as reverting the funds, as required (repeat).**

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.

Analysis
DGS procured construction management services without competition, did not fully disclose the cost of the project to the BPW, and could not support modifications to the contract. Construction management services is a process under which a contractor is procured to manage the project and procures additional vendors to perform the work without assuming risk for the project. According to its records, between September 2020 and July 2024, DGS procurements to rehabilitate structures that are listed on the National Register of Historic Places, which are exempt from State procurement law, totaled

approximately $51.3 million. We reviewed one of these procurements awarded by DGS in January 2022 for the restoration of the Maryland State House exterior and grounds. The original procurement was for $1.5 million for construction management services, and as of December 2024, expenditures for this contract totaled $24.2 million.

- DGS did not document its justification for procuring the construction management vendor without seeking competition. DGS advised us that it directly solicited the services because it was familiar with the vendor's work, but did not document that no other vendors could provide the services. State procurement regulations stipulate that sole source procurements can only be used when no other vendors are available and must be supported with a written justification approved by the agency head. Although DGS historic structure procurements are exempt from these regulations, DGS had not established a policy governing its exempt procurements at the time the contract was awarded.

- DGS did not disclose that the total anticipated cost of the State House project was $37.1 million when it presented the $1.5 million construction management services contract to the BPW. This is significant because DGS was not required to obtain BPW approval for 9 of the 11 subsequent modifications to the contract totaling $26.5 million. Although DGS procurements to rehabilitate historic structures are exempt from BPW approval requirements, the initial contract required BPW approval because it was financed by general obligation bond proceeds; however, subsequent contract modifications did not require BPW approval unless a new funding source was used. Senior BPW officials advised us that agencies should disclose the total anticipated cost of a project to BPW when the initial contract is procured.

- DGS could not support the basis for the 11 contract modifications processed between May 2022 and July 2024 that collectively increased the contract value by $33.5 million. DGS processed the modifications to increase the contract amount before obtaining task order proposals from the construction management vendor specifying the work that was to be performed and the related costs. DGS management advised us that they processed modifications to pre-fund the project for future tasks. As a result, DGS lacked an effective mechanism to manage the overall costs of the project and State accounting records did not accurately reflect these anticipated costs.

These conditions may have been caused, at least in part because DGS did not have the required policy for its exempt procurements when these contracts were procured. State law requires agencies that are exempt from State procurement law to have written policies addressing the procurement methods, advertising requirements, procurement goals (such as minority business enterprise participation), and the approval process for these procurements. Although DGS subsequently established a policy in June 2024, it was not sufficiently comprehensive. For example, the policy provided that DGS could directly solicit services, but did not specify how these procurements were to be conducted (such as the minimum number of vendors to be solicited) and did not require a documented justification for not using competitive procurements.

Recommendation 9
We recommend that DGS

a. **competitively procure services and/or document its justification for procuring services via sole source,**
b. **disclose the total anticipated cost of projects to BPW,**
c. **ensure contract modifications are properly supported, and**
d. **enhance its exempt procurement policy and justify any deviations in the policy from State procurement regulations.**

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.

Analysis
DGS did not adequately pursue collection of delinquent accounts due from State agencies and did not establish sufficient controls over accounts receivable records. DGS' accounts receivable consisted primarily of rental payments due from State agencies. According to State records, as of July 15, 2024, DGS' accounts receivable totaled approximately $20.4 million, of which $7.4 million was over 90 days past due.

<u>DGS Did Not Adequately Pursue Delinquent Accounts</u>
DGS did not adequately pursue delinquent accounts from State agencies. Our test of 12 delinquent accounts[7] totaling $6 million, disclosed that DGS had not sent dunning notices for 7 accounts and notices for the other 5 accounts were sent

[7] We selected test items from entities with the most material delinquent balances.

between 8 and 21 months after the account became delinquent. As of June 2024, 10 of these accounts totaling $4.7 million were still outstanding.

DGS advised that it had not discussed the delinquent accounts with senior leadership at the related agencies nor with other Executive Department leadership. Based on State regulations, State agencies cannot be referred to the State's Central Collections Unit (CCU) for collection. However, this does not preclude DGS from issuing dunning notices and escalating the issues to senior leadership, as necessary.

<u>DGS Did Not Establish Controls Over Adjustments to Accounts Receivable Records</u>

DGS did not verify output reports against supporting documentation to ensure that adjustments to the accounts receivable records were authorized and proper. This was significant because the system did not have the ability to establish independent online controls over the adjustments and 3 of the 10 employees who could record adjustments also had access to the related collections. As a result, errors or other discrepancies could occur without timely detection.

According to agency records, DGS processed 306 adjustments during our audit period totaling $35.8 million. Our test of 8 of these transactions[8] totaling $27.4 million, did not identify any improper transactions. The COM's *Accounting Policies and Procedures Manual* requires a supervisory review and approval of adjustments and the segregation of cash receipts handling duties from the accounts receivable record keeping duties.

A similar condition was noted in our preceding two audit reports dating back to August 3, 2017. In response to our prior report, DGS indicated that, effective March 2021, it would document independent supervisory reviews of all adjustments and ensure the employees responsible for accounts receivable records did not have access to collections. However, as noted above, DGS did not perform independent supervisory reviews of adjustments including non-cash credits and did not segregate these duties.

Recommendation 10

We recommend that DGS

a. **pursue collection of accounts receivable due from State agencies, including timely dunning delinquent accounts and conferring with senior leadership at the related agency and other Executive Branch oversight agencies (such as the Governor's Office) for agencies that continue to have delinquent accounts;**

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[8] We selected test items based on materiality.

b. **ensure that adjustments to accounts receivable are independently verified using supporting documentation (repeat); and**
c. **segregate the cash receipts and accounts receivable functions, as required (repeat).**

Monitoring of State Property and Equipment

Finding 11
DGS did not perform inventory compliance audits since September 2019 to ensure State agencies complied with State property and equipment requirements.

Analysis
DGS did not perform inventory compliance audits to ensure State agencies complied with State property and equipment requirements, as required by its policy. State law provides that DGS is responsible for State property and equipment for State agencies and units, with certain exceptions. DGS' *Inventory Control Manual* established under this authority provides guidance, procedures, and controls to State agencies for maintaining State property and provides that DGS will conduct unannounced spot audits of inventory procedures to ensure compliance with the *Manual*. While DGS advised that it reviewed agencies' annual inventory reports, as of December 2024, DGS had not performed an inventory compliance audit for any State agency since September 2019.

Based on DGS records, inventory audits that were performed prior to September 2019 disclosed deficiencies requiring corrective action, such as unrecorded capital equipment and improper segregation of duties. Furthermore, OLA's own audits have historically identified deficiencies, such as State agencies not performing required physical inventories.

A similar condition was commented upon in our preceding audit report. In response to that report, DGS indicated that it would hire additional employees to monitor State agency compliance with inventory standards and develop a policy that prioritizes reviews based on available resources by June 2022. While DGS hired additional employees, they were assigned other responsibilities and did not perform inventory compliance audits. DGS also did not develop a policy to prioritize audits based on available resources as indicated in its response.

Recommendation 11
We recommend that DGS

a. **perform inventory compliance audits to ensure State agencies comply with State property and equipment requirements (repeat), and**
b. **consider developing a policy to prioritize audits consistent with available resources (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Department of General Services (DGS) for the period beginning September 1, 2020 and ending July 15, 2024:

- Office of the Secretary
- Office of Facilities Security
- Office of Facilities Management
- Office of Real Estate
- Office of Design, Construction, and Energy
- Business Enterprise Administration

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 DGS' financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included capital projects, statewide capital grants, disbursements, real estate, statewide property, cash receipts, accounts receivable, payroll, budgetary closeout transactions, and the statewide fuel contract. Our audit also included certain support services (such as invoice processing and maintenance of accounting records) provided by DGS – Office of the Secretary to DGS – Office of State Procurement (DGS – OSP). In addition, our audit included similar services provided by DGS for certain capital projects authorized by law under the State's operating budget (that is, the BPW – Capital Appropriations) and the capital project budget (for example, Maryland Consolidated Capital Bond Loans). We also determined the status of seven of the eight findings contained in our preceding audit report and two findings included in our preceding audit report on State Grants.

Our audit did not include certain support services provided by DGS – OSP to the other DGS units. These support services (such as procurement) are included within the scope of our audit of DGS – OSP. Our audit also did not include activities related to the operation and maintenance of Government House. Although DGS receives an appropriation for these activities, these activities are audited as part of the Executive Department – Office of the Governor.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DGS' compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DGS.

Our assessment of internal controls was based on DGS' procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of September 1, 2020 to July 15, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DGS' operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DGS, were considered by us during the course of this audit.

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.

DGS managed the procurement of our Salisbury office lease. In our opinion, the contractual nature of this relationship did not impair our independence during our audit of DGS.

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 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.

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 A

Auditor's Comments on the Department of General Services' Response

The Department of General Services (DGS) has indicated disagreement with the factual accuracy of 7 of the 11 findings in this report, and in some cases, indicates that we mischaracterized or did not support the issues being presented in the finding. DGS also disagreed with 10 of the 32 recommendations, and although they agreed to implement the remaining recommendations, additional details included in certain of these responses appeared to conflict with our analyses. We also noted that DGS did not include estimated completion dates for most of the recommendations, raising questions about DGS' commitment to ensuring the conditions identified in this report are resolved.

Contrary to the assertions made in the responses, the findings contained in this audit report are factually accurate, fairly presented, and properly supported based on the documentation DGS was able to provide during our fieldwork. Nonetheless, in accordance with government auditing standards, we reviewed and reassessed our audit documentation for each DGS disagreement and reaffirmed the validity of our findings and related recommendations. We did not modify our report because DGS' responses were not supported by sufficient, appropriate evidence.

In general, DGS' disagreements do not address the specific concerns noted in the findings, restate information and circumstances already acknowledged in our analysis, are not consistent with relevant laws, regulations, and policies, and/or contain assertions that are not supported by documentation provided to us by DGS during our fieldwork. Therefore, we have decided it is neither necessary nor practical to rebut DGS' many disagreements with the factual accuracy of each analysis on a point-by-point basis, when DGS agreed with the recommendation.

One example will be illustrative for our purposes. DGS' response states that our Analysis to Finding 11 is "Not Factually Accurate". DGS asserts that it has performed inventory compliance audits since September 2019 and annual inventory reports were reviewed as part of the inventory compliance audit. As stated in our finding, DGS advised that it reviewed agencies' annual inventory reports but a review of an agency's annual inventory report does not constitute an audit that is sufficient to ensure agencies are complying with DGS inventory standards such as ensuring equipment is added to the inventory records timely, and subject to periodic physical inventories as required. Ultimately, DGS agreed with the related recommendation and in response to another recommendation indicated that by stating that on-site audits improve visibility of deficiencies requiring corrective actions and during the months of May and June 2025, it had completed five on-site compliance audits.

We will address those specific instances in which DGS indicated disagreement with particular recommendations by including “Auditor’s Comments” at the relevant parts of the response.

Maryland
DEPARTMENT OF
GENERAL SERVICES

Wes Moore, Governor | Aruna Miller, Lt. Governor | Atif Chaudhry, Secretary

July 22, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
351 West Camden Street, Suite 400
Baltimore MD, 21201

Dear Mr. Tanen:

Please find enclosed the Department of General Services Agency Response Form, which contains responses to the various recommendations provided by the Office of Legislative Audits in their draft report for the fiscal compliance audit of the Department of General Services Office of the Secretary covering the period from September 1, 2020 and ending July 15, 2024.

Please do not hesitate to contact me at (410) 952-9006 or atif.chaudhry@maryland.gov if you require any additional clarification or information on our responses.

Sincerely,

Atif Chaudhry
Secretary

CC:
Chichi Nyagah-Nash, Deputy Secretary, DGS
Chinweike Eseonu, Chief Operating Officer, DGS
Wyllie Tchantchou, Chief Financial Officer, DGS
Johnathan Medlock, Assistant Secretary for the Office of External Affairs
Tiana Beaudouin, Chief Compliance Officer

Department of General Services
Office of the Secretary and Other Units

Agency Response Form

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 report the total costs of the leases to the Board of Public Works (BPW) in a transparent manner.

We recommend that DGS

a. prepare a comprehensive cost-benefit analysis that considers all viable lease/purchase options including for the remaining State agencies noted above,
b. document its consideration of co-locating agencies to maximize the State's purchasing power and achieve operational efficiencies,
c. determine the fair market rates for leases for use in decision making, and
d. ensure that leases are disclosed to BPW in a transparent manner by reporting the full contract amount including any related costs such as parking.

Agency Response			
Analysis	**Not Factually Accurate**		
Please provide additional comments as deemed necessary.	DGS conducted cost-benefit analyses for the State Center campus in order to determine the most cost beneficial option for the state agencies located on this site. DGS also contracts with independent commercial real estate brokers to accurately determine the fair market rates for all leases in order to ensure that leases are procured at rates that are either at, or below, market rates for the area. DGS considered various factors, including opportunities for consolidating leases, the fair market rates for leases, and parking associated with leases.		
Recommendation 1a	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with the recommendation that a comprehensive cost benefit analysis should be prepared for state agency relocations, DGS believes it has sufficiently conducted comprehensive cost benefit analyses for the relocation of state agencies from the State Center campus. However, DGS acknowledges that additional documentation could have been prepared and retained. DGS conducted two separate cost-benefit analyses considering all viable options for the State Center campus in order to determine the most cost beneficial option for the state agencies located on this site. These analyses		

	have indicated that relocating state agencies from State Center to commercial leased space will be the most cost-effective option moving forward. In 2021, DGS performed a cost-benefit analysis for the relocation of state agencies from State Center. More recently, DGS has conducted further cost-benefit analyses as part of an overall strategy to study the composition of DGS's Baltimore building assets. The results of both the 2021 and the updated cost-benefit analyses concluded that the relocation of agencies from the studied state-owned buildings to leased commercial spaces would yield significant savings and therefore are in the best interest of the State. While DGS could not explore every conceivable option for relocating State Center, DGS was deliberate in considering relevant, realistic, and viable options. For instance, the purchasing of property in which to relocate state agencies was considered but was determined to not be a viable option. Any property that would be purchased would take extensive capital funding to renovate in order to meet the specific space requirements for state agencies, and there would also be extensive maintenance costs throughout the occupancy term. In addition, the size and configuration of existing buildings would lead to challenges for space planning for agencies, since existing buildings will not have the exact square footage or configuration required to house one or more state agencies. This can lead to the inefficient utilization of space and excess square footage that will increase the design, renovation, operation, and maintenance related costs for a building.		
Recommendation 1b	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	DGS initially planned for co-locations of the agencies relocating from State Center and provided this documentation. The co-locations were initially grouped in a manner to issue similar and reasonably sized RFP's. After reviewing the available locations in the Baltimore City Central Business District, it was determined that competition would be limited for larger RFP's and it was more beneficial to reduce the size of the RFP's to ensure lease rates were as low as possible, by maximizing competition. Additionally, as the project proceeded it was determined that: co-locations were not required for most agency's operational needs; there were a limited number of buildings that could accommodate larger footprints resulting from co-locations; and, in order to reduce the commercial lease vacancy rate in Baltimore City it was beneficial to issue individual RFP's and increase competition and opportunities across commercial buildings. DGS considered whether there would be any potential cost and/or time savings through the co-location of state agencies but later determined there would not be savings due to each agency requiring separately secured and specifically designed space requirements. Each agency's space must be built out to the agency's unique specifications and in accordance with DGS space standards. State agencies also have independent security requirements		

	that vary based on operational needs. Accordingly, there are no cost savings being achieved from co-location and the procurement of larger lease spaces.		
Recommendation 1c	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, and acknowledges that the determination of fair market rates for leases is required as part of the state leasing process, the agency believes it has consistently complied with this requirement. DGS has previously and continues to determine and evaluate the fair market rates for all leases that are procured, including the State Center leases. DGS contracts with independent commercial real estate brokers to accurately determine the fair market rates for all leases in order to ensure that leases are procured at rates that are either at, or below, market rates for the area. The DGS commercial real estate broker performed an initial analysis regarding projected fair market rental rates and set a target range of rates for commercial leased space in the Baltimore City Central Business District. All State Center lease rental rates fell within this target range. For new lease procurements, DGS ensures that fair market rates are achieved by: compiling and analyzing initial market research; administering competitive RFP processes; and performing a comparison to the existing lease portfolio for the specific geographic area which is summarized in the Lease Acquisition Determination Form. The comparison to the existing lease portfolio is important because: there are unique requirements for State tenant build-outs, which differ from typical commercial lease requirements; and the State leases are developed based upon net useable square footage (i.e. omitting lessor controlled common area space that is within the limits of the demised premises) which differs from the the real estate industry standard for private sector usage of commercial rentable square foot(i.e. including lessor controlled common area space that is within the limits of the demised premises). Additionally, DGS prepared Lease Acquisition Determination Forms for each relocation comparing proposed new lease rates with those from the existing DGS lease portfolio in Baltimore City. Finally, the leases were competitively procured, with landlords competing for the space opportunities, with best and final offers solicited and evaluated for each location. DGS is confident that all State Center leases were procured with rental rates that were at, or below, fair market value.		
Recommendation 1d	**Agree**	**Estimated Completion Date:**	**Completed**

Department of General Services
Office of the Secretary and Other Units

Agency Response Form

Please provide details of corrective action or explain disagreement.	DGS consulted with the Board of Public Works (BPW) for clarification on BPW Advisory 2006-1 which directs agencies to report the total value of contracts. BPW staff have confirmed that the current practice of DGS providing the first year rent with the associated annual escalation costs on BPW meeting agenda items is legally sufficient for the BPW to approve lease agreements, and is in accordance with BPW Advisory 2006-1. The BPW office concurs that, with the information presented in the BPW agenda item, the total rent amount associated with the lease could be realized. While the current DGS practice for reporting lease costs on BPW agenda items is deemed to be legally sufficient, and in accordance with BPW Advisory 2006-1, DGS acknowledges that additional clarification can be obtained by reporting the total rent value for the rental term, which can meet best practices. Accordingly, DGS will begin including a line item for the total rent value for the term of the lease and a line item for parking costs when parking is a component of the lease, on all lease transaction items beginning with the July 2, 2025, BPW agenda.

Auditor's Comment: DGS disagrees with recommendation 1b stating that it initially planned for co-locations of agencies relocating from State Center and provided this documentation. DGS further stated that it later determined that co-locations were not required for most agency's operational needs and there would not be potential cost or time savings through the co-location of agencies. DGS could not provide us with documentation to support the assertions made in this response (such as providing us a formal analysis of whether agencies should be co-located to maximize the State's purchasing power) during our fieldwork and the response does not contradict the facts presented in the finding.

Department of General Services
Office of the Secretary and Other Units

Agency Response Form

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.

We recommend that DGS

a. **ensure solicitations comply with regulatory requirements including specifying an expected occupancy schedule and the relative importance of each evaluation component to be considered in the award;**
b. **ensure that agency space requirements are provided for in the solicitations; and**
c. **document its justification for the amount of parking procured, including how factors such as anticipated telework and transit usage were considered in the decision.**

<table>
<tr><th colspan="4">Agency Response</th></tr>
<tr><td>Analysis</td><td colspan="3">Not Factually Accurate</td></tr>
<tr><td>Please provide additional comments as deemed necessary.</td><td colspan="3">DGS followed applicable State procurement regulations in the lease procurement process and worked closely with each agency to ensure their space needs were adequately addressed in the Request for Proposals (RFP) for leased space that were issued.</td></tr>
<tr><td>Recommendation 2a</td><td>Disagree</td><td>Estimated Completion Date:</td><td>Not Applicable</td></tr>
<tr><td>Please provide details of corrective action or explain disagreement.</td><td colspan="3">DGS complies with the applicable regulatory requirements when procuring leased space. COMAR 21.05.03.02(A)(3) stipulates that the "Content of the Request for Proposals" shall include, "[a] work statement or scope of services statement, performance schedule, and any special instructions." The regulation requires the agency to make the "performance schedule" rather than a specific "performance date" a requirement stipulated in the DGS RFP for leased space. The technical proposal packet to be completed by proposers include the "Technical Proposal - Offer to Lease Space to the State of Maryland" document, with Item F - Delivery Date of Space completed by all proposers. Accordingly, the DGS RFP requires offerors to present a performance schedule as part of their proposal, and therefore, this requirement complies with the applicable regulation. The reason that DGS permits the landlords to propose the anticipated delivery date for occupancy of the space after approval of the space plans and permits have been received, is that each building is unique, and this time period will differ across buildings. Some buildings may have vacant shell space that will require more work, and other buildings may have existing offices and cubicles that can be reused. Such lease-specific scenarios are anticipated by</td></tr>
</table>

	the regulation. For this reason, the regulation does not require a date certain for occupancy. Furthermore, DGS disagrees with the statement in Finding 3 that the "MDH solicitation scored proposals with later occupancy dates lower, even though this criteria was not listed as an evaluation factor in the RFP". When reviewing the Procurement Officer's Determination document for this particular procurement, the location did offer a later delivery date, but received the highest point score. This location ultimately was ranked second due to the $49.6 million rental rate increase above the second ranked proposal. Although the procurement officer mentioned the time delay costing the State an additional $1.98 million, it was not part of the financial proposal evaluation. The financial proposal evaluation and Procurement Officer's Determination was based upon the $49.6 million rent increase for that specific location. DGS properly evaluated the MDH proposals in accordance with the DGS - General Performance Standards and Specifications for the State of Maryland Leased Facilities and in accordance with RFP, Section 5.2 Award Determination, noting that "financial factors will receive greater weight than technical factors". DGS believes the award for the MDH relocation was made consistent with the defined procurement evaluation process and in the best interest of the State.		
Recommendation 2b	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently worked closely with state agencies in order to ensure that detailed agency space requirements are accurately provided for in RFP solicitations for leased space. Accordingly, DGS believes that it has consistently complied with this recommendation. DGS works extensively over several months with each relocating agency to complete the required DGS 680-1 space planning forms in order to identify the detailed space requirements for each agency. This includes extensive discussions and collaboration regarding an agency's current employee counts, vacant positions, telework schedules, and future growth. Key sections of the 680-1 form include assessing the requesting agency's: full time employee equivalent (FTE) count and current, as well as future growth; office and open workspace needs, which considers employee classifications and space standards; anticipated term of occupancy; parking requirements (for fleet, staff, and visitors); special purpose space requirements (conference rooms, huddle rooms, break rooms, wellness areas, server rooms, IT closets, storage space, file rooms, etc.); and overall justification for the request for space. The DGS space planning process also evaluates telework and hybrid work schedules and hoteling options, which all required extensive collaboration and coordination between DGS and the relocating agency. The DGS space planning process is not a passive process where the relocating agency submits a 680-1 form and DGS automatically		

	proceeds forward with the Request for Proposal for leased space. Instead, it is an interactive, and often iterative, process with DGS asking the agency probing questions about their current and future space needs and making sure agencies fully understand the space planning process. Each agency executed a "DGS ORE Competitive Procurement Disclosure and Provisions for Conflict Resolutions" letter where the agency head or designee acknowledged that "[t]he agency desires to move forward and requests that DGS ORE issue the RFP for space as outlined in the 680-1." In the three change order examples identified, the changes in scope occurred after the new Gubernatorial Administration took office in 2023, which was over a year after the RFP's had been issued and six months or greater after the leases had been approved by the Board of Public Works. Modifications to space plans are anticipated and expected when there are changes in Administration, due to changes in leadership and staffing, potential reorganization, and other programmatic changes.		
Recommendation 2c	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency performs extensive coordination with agencies on procuring the adequate level of parking for each agency, based on their individualized need. Accordingly, the agency believes it has consistently complied with this requirement. DGS utilizes the appropriate parking ratio to establish the base parking requirements for Requests for Proposals (RFP), the parking needs are also thoroughly discussed with each agency. DGS advised agencies that if parking was required outside of this ratio, a justification for the parking was needed by DGS. The DGS 680-1 space planning form required agencies to provide information on their state fleet needs, full-time employee count, and telework/hybrid work schedules, which was used to establish parking requirements along with the 1:3 parking ratio requirement. DGS discussed strategies to maximize parking for employees through the use of telework and the ability to stagger the use of parking and share it across employees. Each relocating agency signed the "DGS ORE Competitive Procurement Disclosure and Provisions for Conflict Resolutions" letter and acknowledged the following statements: "4. DGS ORE has explained to the agency that parking can be challenging and somewhat limited in the Baltimore Metropolitan area; 5. The agency understands that the DGS parking policy for the Baltimore Metropolitan Area permits agencies to pay for employee parking on a 1:3 ratio (1 parking space for every 3 employees). The area specified per the boundaries provided on the attached 680-1 is in the Baltimore Metropolitan area, and, as such, the 1:3 parking ratio applies; and 6. The agency has polled the employees to be relocated concerning their parking needs, and has determined that the combination of the parking to be provided per 1:3 parking ratio detailed in #5 above and the		

	public transportation available within the area covered by the boundaries is sufficient to meet the needs of the agency's employees."

Auditor's Comment: DGS disagrees with recommendation 2a and indicates that it believes that it complies with State procurement regulations by requiring offerors to present a performance schedule as part of their proposal. This response appears to improperly conflate lease proposals with the related solicitations. As noted in our analysis, State procurement regulations provide that the solicitation is to include the expected performance schedule and relative importance of each evaluation component to be considered in award. Requiring a performance schedule to be included in the proposal would not satisfy or mitigate the need to comply with this regulation.

DGS also disagrees that the MDH solicitation scored proposals with later occupancy dates lower even though this criteria was not listed as an evaluation factor in the solicitation. However, documentation provided by DGS to support the technical proposal evaluations for this solicitation clearly indicated that the expected occupancy dates were a factor in the award decision. For example, the evaluation committee's recommendation for award indicated that the location was selected due in part to the date of availability.

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Finding 3 **DGS did not properly evaluate lease proposals, raising questions as to whether the lease awards were the most advantageous to the State.**

We recommend that DGS

a. **evaluate lease proposals consistently and in accordance with the criteria specified in the RFP, as required by State procurement regulations;**
b. **ensure that the NEAR is accurately calculated by reviewing documentation to support the calculation;**
c. **perform documented assessments of the necessity and reasonableness of construction costs;**
d. **document its determination that annual rents do not exceed 15 percent of the property's fair market value at the time of award, as required by State law; and**
e. **comply with its policies when procuring leases including those regarding the location of State agencies.**

<table>
<tr><th colspan="4">Agency Response</th></tr>
<tr><td>Analysis</td><td colspan="3">Not Factually Accurate</td></tr>
<tr><td>Please provide additional comments as deemed necessary.</td><td colspan="3">DGS agrees with the factual accuracy of the finding that is solely related to the SDAT lease proposal's evaluation. However, in the calculation of the Net Effective Annual Rates (NEAR), DGS provided additional information further explaining how DGS accurately performs these calculations. Regarding construction costs reflected in lease rates, the turn-key lease structure does not require a separate construction budget in the financial proposal. In reference to ensuring lease rates do not exceed the statutory amount of 15% of fair market value (See, State Finance & Procurement Article §12-205), DGS ensures that the lease rates do not exceed the maximum allowable rate at the time of the award. Finally, while the SDAT lease location is within the flood plain, that is not a violation of DGS General Performance Standards & Specifications as stated in the response to Finding 3(e) below. The DHS lease, while also located in the flood plain, was not rejected for this reason.</td></tr>
<tr><td>Recommendation 3a</td><td>Agree</td><td>Estimated Completion Date:</td><td>Completed</td></tr>
<tr><td>Please provide details of corrective action or explain disagreement.</td><td colspan="3">While DGS agrees with this recommendation as stated, and specifically agrees with the observations related to the SDAT lease proposal's evaluation, DGS does evaluate lease proposals consistently and in accordance with the criteria specified in the RFP, as required by State procurement regulations. Accordingly, the agency believes it has complied with this requirement.</td></tr>
</table>

	The agency has received guidance from the DGS Office of State Procurement on the appropriate cure methods for RFP responses, and has implemented these protocols. DGS has also ensured that all preproposal conferences for lease procurements stressed to potential offerors the importance of submitting proposals in the appropriate format. However, for the MDH RFP, DGS disagrees with the conclusion that proposals with later occupancy dates received lower scores despite this criteria not being listed as an evaluation factor in the RFP. As explained in more detail in DGS response to Finding 2, the proposal for the location in question was not evaluated based upon a later delivery date, and therefore did not lose points in this area. This location ultimately was ranked second due to the $49.6 million rental rate increase above the second ranked proposal. Although the procurement officer mentioned the time delay costing the State an additional $1.98 million for the MDH RFP, it was not part of the technical or financial proposal evaluation. The financial proposal evaluation and Procurement Officer's Determination was based upon the $49.6 million rent increase for the location in question. DGS properly evaluated all MDH RFP proposals in accordance with regulations, DGS General Performance Standards and Specifications for the State of Maryland Leased Facilities, and in accordance with the requirements of the RFP, Section 5.2 Award Determination, noting that "financial factors will receive greater weight than technical factors." DGS believes the MDH award was made consistent with the defined procurement evaluation process and was determined to be in the best interest of the State.		
Recommendation 3b	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently and accurately calculated the Net Effective Annual Rent (NEAR) utilized in order to evaluate lease proposals. Accordingly, DGS believes that it has consistently complied with this recommendation. NEAR includes the base rental rate, annual escalations, operating expenses, rent abatement, parking costs, and any other miscellaneous pass-through operating expenses proposed by the offeror. The DGS evaluation process assigns full points to the proposal with the lowest proposed NEAR, while each successive proposal receives a score that is proportionately reduced based on the percentage difference from the lowest NEAR. In preparing the NEAR calculation, DGS first assesses the base rent, abatement, parking costs (if applicable), and annual escalations. If there are operating expense assumptions, DGS uses consistent rates for operating expenses (e.g., electric, janitorial, and real estate taxes) in the NEAR calculation if the operating expenses are not included in a landlord's base rent. These are noted as follows: on proposals where the State is paying for the specific		

	expenses identified, the estimated cost factors per square foot considered for electric is $2.00, janitorial- $1.50, and real estate taxes- $2.00; or proposals where the landlord is paying the expenses, but billing the State for increases over the base year, the estimated cost factors for: electric is $3.00, janitorial- $1.50, and real estate taxes- $2.00. The electric expense is higher under the base year scenario, because the electric service is not in the State's name under a State energy contract which is cheaper than the rates paid by a landlord. Additionally, a utility account in the landlord's name will also include taxes that are passed through to the State. Restating the electric expense, janitorial costs, and real estate taxes using the rates described above is a standard practice to ensure that all proposals are treated uniformly in this area. Without this step, some proposals may receive lower scores if they apply a higher cost for one or all of these categories. In the example identified by OLA, the difference in the utility expenses was not an error. It was an action taken intentionally to change the rate ($2.40) that was originally used by the landlord, to instead apply DGS's standard $2.00 per square foot for estimated utility expenses for all buildings/proposals during the evaluation process. While landlords may indicate higher utility costs, DGS applies the $2.00 standard so all proposals are evaluated fairly and consistently for utility expenses. DGS does this because some landlords may inflate the value of their proposals by increasing the utility rates. By resetting the utility rates at $2.00 per square foot, this ensures that all proposals are evaluated the same in this area. DGS believes that this methodology accurately calculates the NEAR values for each lease procurement.		
Recommendation 3c	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	For DGS lease procurements, a construction budget is only useful and required during the construction phase of the project. A construction budget is not required in the RFP, and it is not part of the procurement phase for a turn-key construction project. For the State Center Relocation project and other competitive lease procurements, landlords submit financial proposals that include their proposed lease rates to deliver the projects in a turn-key manner. Turn-key delivery means the landlord has fully included all costs in their proposed lease rate to effectuate the delivery of the project (including the architectural design and construction buildout of the space) according to the specific space program requirements set forth in the RFP (the scope) and in accordance with the DGS General Performance Standards and		

	Specifications, without any change orders. If a change in the scope of the project later occurs, change orders are permitted; however, at the procurement stage, this is not a consideration. The RFP does not require that landlords separately itemize design / construction costs in the financial proposals. A construction budget is provided after Board of Public Works approval, once the design process has concluded, and the State has executed the final construction drawings. Requiring financial proposals to be structured in this manner provides the best value to the state, where the landlord is responsible for all capital costs associated with the design and construction buildout of the leased space to the agency's exact specifications, and are still required to provide the best possible lease rate that will be in-line with current market lease rates. DGS ORE reviews the technical and financial proposals, ranks the proposals, and then provides a best and final offer round to the landlords to provide their final lease rates. Construction budgets are not required at this phase, because all costs are included in the lease rate for the turn-key delivery of the project. A construction budget at this phase would not be useful, because all costs are rolled into the rental rate. At this stage, a Landlord has hired an architect to prepare a draft test-fit / space plan, but they have not hired a general contractor to perform the work. Any construction budget provided at the procurement stage would be very preliminary and would need to be revised following the architectural design phase of the project, when the construction drawings are finalized. A construction budget submitted with a lease proposal could not be relied upon for accuracy due to the passage of time from the procurement phase to the active construction phase, which is typically 12-18 months. A landlord's proposal must be evaluated based on the technical components of the building and the amenities it provides, as well as the financial proposal, including the rental terms, pass-through expenses, etc. Construction costs are included in the rent terms, and it is not necessary to have a construction budget at this initial stage. However, as noted below, it is very important to have a budget at the construction phase. During the lease construction phase of the project, ORE requires that construction budgets be provided and will work closely with landlords to monitor the budgets. The construction budgets can only be provided once the design process is concluded and the construction drawings are fully approved by the State. At this point, the landlord bids out the construction project and hires a general contractor. Once the general contractor is on board, a construction budget is provided to DGS. Construction budgets are useful tools at this stage to monitor projected costs, and if there are cost savings achieved in a particular area, ORE requests that these savings be applied to other areas of the project. If a shortfall occurs in a budgeted area,

	ORE works with the landlord to evaluate where funding can be shifted in other categories to resolve the shortfall.		
Recommendation 3d	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently ensured that the negotiated lease rates are in compliance with all applicable laws and regulations. Accordingly, DGS believes that it has consistently complied with this recommendation, which is documented by the agency's Lease Acquisition Determination form. In accordance with section 12-205 of the State Finance & Procurement Article, DGS verifies that a per square foot lease rate used to calculate an annual rent is not 15% above fair market value through the following process: (1) compiling and analyzing initial market research if no current rental rate data is available; (2) administering competitive RFP processes; and (3) performing a comparison to the existing lease portfolio for the specific geographic area which is summarized in the Lease Acquisition Determination form. The comparison to the existing lease portfolio is important because: of the unique requirements for the State tenant build-out, which differ from typical commercial lease requirements; and the State leases are developed based upon net useable square footage (i.e. omitting lessor controlled common area space that is outside of the demised premises) which differs from the private sector's use of rentable square footage (i.e. including a proportionate share of lessor controlled common area space that is outside of the limits of the demised premises). Accordingly, the Lease Acquisition Determination Form completed for each lease procurement provides documentation ensuring that the negotiated lease rate complies with applicable laws and regulations. DGS has determined that the approach utilized by OLA for calculating the total fair market value of a property by reviewing the assessed value of a property does not fully capture the comprehensive renovations made to a property for state tenant occupancy. Utilizing the as-is value of a property and dividing this cost by the square footage of the building does not adequately provide for a property's value when the state will occupy the space, and is contrary to best practices and evaluation methods for commercial property. Using the square footage lease rate for improved properties is the accepted method used in the commercial real estate industry to calculate the market value of a lease. The market rate should reflect the value of a fully renovated building rather than its existing condition at the time of sale. This distinction is important to properly represent the asset's worth.		

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	There is an important distinction between appraised value, assessed value, and market value. Appraised value is determined through an appraisal process, assessed value is determined by SDAT, and market value is determined by reviewing data based on current market conditions. There are no statutory or regulatory requirements for DGS to order appraisals for leased buildings, and to do so would be a costly exercise and would not be useful. DGS does not utilize SDAT-assessed values because these are often out of date due to the three-year assessment cycle, and they do not capture renovations that are being made to a building for the State's occupancy. Market value is determined on a real-time basis and incorporates factors that are specific to each commercial lease transaction. Rental rates include the cost of construction for the State's tenant fit-up, the operational costs for the building, insurance, security, a landlord's lending costs, etc. Therefore, DGS determines fair market value for rent through a market analysis, a review of the existing lease portfolio for a geographic area, and through a competitive lease process.		
Recommendation 3e	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently ensured it complies with applicable policies when selecting locations for state leases. Accordingly, DGS believes that it has consistently complied with this recommendation. This includes locations that are defined as being in a 100 year floodplain. The example presented in the OLA analysis for the new SDAT leased location in the Baltimore City Central Business District is technically located within the FEMA-defined 100-year floodplain, however this location does not violate DGS Policy. DGS General Performance Standards & Specifications states that "in counties where no building codes are in effect, leased space must comply with the following codes as may be amended and updated from time to time." Baltimore City has applicable building codes that regulate the design and construction of real property improvements within its jurisdiction, including those within a flood plain. There was therefore no deviation from the DGS policy, because the existing building in which SDAT is leasing space, was built in compliance with Baltimore City building codes. The policy does not preclude DGS from rejecting proposals for reasons other than its location in a flood zone. For example, although in the flood zone and in a county where applicable building codes are in effect, a DHS solicitation was rejected due to not meeting the minimum parking requirement. This is evidenced by the Procurement Officer's Determination form which states that the building was unable to provide on-site parking as required by the RFP and was, therefore, deemed non-responsive. Finally, it is important to note that in the		

	event of casualty absent a timely repair or mitigation, the DGS tenant lease template for commercial buildings provides for termination or other remedies.

Auditor's Comment: DGS disagrees with recommendation 3c and asserts that it obtains and monitors construction budgets once leases enter the construction phase. However, DGS could not provide us with documentation to support this assertion during our fieldwork. Moreover, assessing whether proposed construction work is necessary and reasonable prior to awarding the lease is critical because, as alluded to in DGS' response, the structure of these leases means that any potential cost savings will not be reflected in the lease rates.

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Other State Leases

Finding 4
DGS could not support numerous aspects of the MDE lease renewal, certain of which were questionable.

We recommend that DGS document efforts to ensure that

a. **critical lease terms such as the rate, escalation clause, and lease term are reasonable;**
b. **renovation costs are necessary and appropriate for inclusion in the lease; and**
c. **critical lease information is accurately reported to the BPW.**

Agency Response			
Analysis	**Not Factually Accurate**		
Please provide additional comments as deemed necessary.	DGS is thorough in its consideration of lease renewals. Specifically, DGS ensures that there is a proper basis for increases in lease rates, annual escalation percentages, and decisions to procure renovations and/or waiving termination for convenience. DGS also ensures that critical information is accurately reported to BPW. The facts are presented below.		
Recommendation 4a	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently ensured that lease renewals are strategically negotiated to achieve reasonable terms, and in compliance with applicable laws, regulations, and policies. Accordingly, DGS believes that it has consistently complied with this recommendation. For lease renewals, DGS begins the market rent analysis by using the existing rental rate and escalation percentage in an expiring lease to initiate the negotiation process. DGS ensures that any new proposed rental rates and annual escalation percentages are reasonable by calculating the total annual rent, compiling and analyzing initial market research if no current rental rate data is available, and performing a comparison to the existing lease portfolio for the specific geographic area. While DGS typically negotiates 10 year leases, when an appropriate justification exists for a longer lease term of 15 or 20 years, this can be recommended to the BPW. DGS has seen similar requests and need for extended lease terms for larger leased space requirements. In the instance noted, the landlord was unable to obtain financing to provide the $10 million renovation budget without a 20 year lease term. Similarly, while DGS typically negotiates 2-3% escalation rates, this can also be negotiated to a higher escalation rate. For the MDE		

	lease, the prior lease escalation rate was at 4%. DGS reduced the prior escalation rate from 4% to 3.45%. This transaction was in the State's best interest to avoid relocation costs and to remain at this location. Regarding concerns raised over the rent increase, it is important to consider the holdover period for this lease. The landlord was due to receive a rent increase of $0.84 per square foot based upon the prior lease's annual escalation rate of 4% during the holdover period, which did not occur due to the prior administration declining to renew the lease. DGS negotiated a rent increase of $1.65 per square foot and reduced the escalation rate from 4% to 3.45%. This negotiation ultimately resulted in approximately $3.5 million in savings to the State over the new twenty-year lease, when compared to continuing the terms under the prior lease. The landlord is not recovering an additional $12.6 million in rent from the State; instead, DGS negotiated both a $3.5 million reduction in rent and a $10 million new renovation budget. DGS provided documentation obtained from its real estate broker, which listed an average market rental rate of $26.06, which confirmed that the final approved rent was below market rate. Finally, regarding the decision to waive the termination for convenience clause from the MDE lease in question: DGS complied with COMAR Section 21.07.01.12(B) and had appropriate documentation from the landlord's lender supporting its decision. Section B(2)(c) provides for waiver of a termination for convenience provision in the event that "… some lending institutions may reject loan requests from landlords owning property that the State might wish to lease but that must be first upgraded at the owner's expense to meet State User Agency Requirements." The letter from the lender, which was provided, stated that a Termination for Convenience clause "negatively impacts our current underwriting criteria for refinances, especially due to the size of the MDE leases." This statement advised the State that the lender was precluded from financing the landlord's loan with a termination for convenience clause located in the lease. The exclusion of this provision was reasonable because it was the only option that permitted the landlord to provide the $10 million renovation budget to update the lease space, which has not been renovated since MDE originally moved into this location.		
Recommendation 4b	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	The process to include the design and construction costs into the rental rate and amortize this expense over the lease term is the standard methodology utilized by the DGS Office of Real Estate to procure commercial leased space. This procurement strategy allows the state to strategically leverage its buying power by having landlords design and construct leased space to the State's exact specifications. Accordingly, landlords are responsible for		

	all the upfront planning, design, construction, and infrastructure costs for the site. The State negotiates a lease rate for the site that is either at, or below, market rate, and only begins paying the landlord rental payments after occupancy. Therefore, the State incurs no upfront capital costs, and only budgets for operating costs to cover rental payments at the location. This procurement methodology allows the State to negotiate extremely favorable terms for leases, and ensures leases are procured in the best interests of the State. In the example cited in the analysis for the MDE lease, the agency was unable to consider directly paying $10 million to reimburse the landlord for renovation costs due to budget constraints. The agency did not have a capital improvement budget available to support this expense, but only had operating budget funds established in accordance with the prior lease. Due to the facility having no prior major renovations for cubicles, the landlord offered a plan to refurbish and renovate the existing cubicles at a significant cost discount from purchasing new cubicles. Since no new cubicles were being purchased, it was not an option to consider the purchasing of Maryland Correctional Enterprises (MCE) cubicles. The cost of the renovated cubicles was significantly lower than the cost of an average MCE cubicle. DGS provided documentation regarding the MCE pricing. Accordingly, the decision to allow the landlord to renovate the existing cubicles was the most cost effective option for the State.		
Recommendation 4c	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	DGS ensures that the appropriate lease information is accurately reported to the Board of Public Works (BPW) for lease procurements. DGS disagrees that the BPW agenda item for the MDE lease renewal was incorrect regarding the budget. For the specific example noted, the Lease Exhibit budget document listed the photovoltaics array as a $0 base rent item being provided by the landlord, however, it was included in the master budget. The summary of items listed in the agenda item was meant to highlight the significant portions of the new renovation project. DGS provided adequate budgetary information in the BPW agenda item for this lease renewal, as all renovation costs (base rent costs and tenant improvement allowance) are included and amortized in the rental rate.		

<u>Auditor's Comment</u>: DGS disagrees with recommendations 4b and 4c. DGS' response to recommendation 4b asserts that the decision to procure renovations for the Maryland Department of Environment (MDE) through a lease renewal instead of competitively procuring the services was appropriate because MDE did not have a capital appropriation to support the expenses. This response does not address the specific concern noted in our finding - that DGS could not document that the renovations were necessary and that the costs were reasonable – and raises new concerns that the structure of this lease may have circumvented State budget law. Furthermore, the response indicates that DGS provided documentation regarding Maryland Correctional Enterprises (MCE) pricing as justification for its decision not to competitively procure cubicle enhancements. However, DGS could not provide any documentation that existed prior to the lease award in January 2024; rather, the only documentation DGS provided related to this assertion was an email from June 2025, more than a year after the lease was awarded.

DGS' response to recommendation 4c asserts that DGS ensures that critical information is accurately reported to the Board of Public Works (BPW) and that the costs for the MDE lease renewal were included in the master budget, with the agenda item meant to highlight the significant portions of the renovation project. As noted in the analysis, the majority of the $10 million renovation budget related to cubicle enhancements and the cost of installing solar panels was included in the base rent (rather than the renovation budget), and therefore would be paid by MDE over the 20-year lease term. Given that the BPW agenda did not mention cubicle enhancements at all even though these were the primary cost driver and indicated that a portion of the renovation budget was to install solar panels, we disagree with DGS' assertion that the inclusion of these costs in the master budget is sufficient to accurately convey critical information to BPW.

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Finding 5 **DGS did not always publish lease awards as required by State procurement regulations.**

We recommend that DGS publish lease awards, including those noted above, on *eMMA* as required.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 5	**Agree**	**Estimated Completion Date:**	**Completed**
Please provide details of corrective action or explain disagreement.	DGS strives to ensure that all contract awards are appropriately published on the eMMA website in a timely manner. DGS acknowledges that some lease contracts were inadvertently not fully uploaded and published on eMMA in a timely manner, due to human error. This issue has been addressed and all prior lease contracts have been published on eMMA, and DGS will ensure that all future lease contracts will also be published in a timely manner. Due to human error, some lease contracts were uploaded to the eMMA website but were not published. An employee was not aware of an additional step required to authenticate the award to be published. The necessary training has taken place and contract awards have since been published on eMMA. DGS has established new protocols to ensure there is verification of the contract awards and that this finding is not repeated.		

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Capital Projects

Finding 6
DGS did not obtain required procurement documentation from grantees and did not have a comprehensive policy for conducting site visits of the projects to ensure the funds were being used as intended.

We recommend that DGS

a. work, in conjunction with the BPW, to obtain the necessary authority to require grantees to conduct competitive solicitations for their selection of vendors performing work on capital projects (repeat);

b. ensure grantees submit support for their vendor selection, as required (repeat); and

c. update its site visit policy for State capital grants, to include requirements for the frequency, content and timing of the visits, and steps for taking corrective action when issues are identified (repeat).

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 6a	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	The Maryland Capital Grants Projects Booklet (CGL Booklet) that was supplied to all new grantees, provided guidance to the grantees, and encouraged them to make an effort to get as much competition as possible when hiring a contractor. It did not require the grantees to follow any particular process, or to justify to DGS what they did when choosing a contractor. The CGL Booklet indicated that "the State encourages grant recipients to use competition to obtain the best value for the dollar." DGS acts as administrators for this capital grant program, and therefore can only provide direction and guidance. If the grantee does not comply, there is no way for DGS to enforce the request or to penalize the grantee for not complying, when there is no law or regulation requiring the utilization of competition when selecting a vendor. As noted in the response to the November 10, 2021 State Grants audit report, the authority over the Capital Grants Program is vested in the Board		

	of Public Works (BPW). While the BPW did delegate the administration of the program, DGS has no authority to enact this recommendation.		
Recommendation 6b	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	DGS acts as administrators for the Capital Grant Program. As the entity with authority over the Program, the Board of Public Works would need to either draft and enact the policy, or at the very least direct DGS to draft the policy for their review and approval before DGS could revise their operational procedures to comply with this recommendation. Furthermore, the revised CGL Booklet which was issued on January 26, 2024 no longer references a vendor selection requirement.		
Recommendation 6c	**Agree**	**Estimated Completion Date:**	**10/31/2025**
Please provide details of corrective action or explain disagreement.	DGS will update its site visit policy for State capital grants, to include requirements for the frequency, content and timing of the visits, and steps for taking corrective action when issues are identified.		

Auditor's Comment: DGS disagrees with recommendations 6a and 6b because it believes existing guidance is sufficient and that it does not have the authority or responsibility to address the recommendations. In regard to the sufficiency of the guidance, our *State Grants* report clearly demonstrated the need for more than just guidelines to ensure grant funds were used effectively. Furthermore, our recommendation clearly delineates BPW's role in the grant oversight and therefore incorporated BPW in the recommended corrective action.

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Finding 7
DGS did not have a procedure to identify and refer unused capital funds to the BPW for deauthorization or extension. As of June 2023, capital funds totaling $194.2 million met the criteria for deauthorization provided in State law.

We recommend that DGS

a. establish procedures to identify unused capital funds that meet the criteria for deauthorization; and

b. refer unused capital funds, including the $194.2 million noted above, to BPW for deauthorization or extension, in accordance with State law.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 7a	**Agree**	**Estimated Completion Date:**	**12/31/2025**
Please provide details of corrective action or explain disagreement.	DGS will document procedures to identify unused capital funds that meet the criteria for deauthorization or termination in accordance with §8-128 of the State Finance and Procurement Article.		
Recommendation 7b	**Agree**	**Estimated Completion Date:**	**8/27/2025**
Please provide details of corrective action or explain disagreement.	On December 19, 2024, DGS notified the Board of Public Works of the list of grants due to expire. Since that time, there has been additional activity on some of the grants identified. DGS is preparing a subsequent agenda item to refer the unused capital funds to BPW.		

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Finding 8 **DGS did not adequately account for funds in a non-budgeted clearing account primarily used to account for capital construction projects and did not determine the proper disposition of $8.4 million of the funds remaining in the account at June 30, 2024.**

We recommend that DGS

a. **prepare periodic (at least annually) compositions of the funds maintained in the clearing account to ensure all funds are properly accounted for (repeat); and**
b. **determine the proper disposition of the aforementioned $8.4 million and take appropriate corrective action, such as reverting the funds, as required (repeat).**

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<tr><th colspan="4">Agency Response</th></tr>
<tr><td>Analysis</td><td colspan="3">Not Factually Accurate</td></tr>
<tr><td>Please provide additional comments as deemed necessary.</td><td colspan="3">This finding should not fall under the heading of “Capital Funds”. The clearing account is in the operating budget. Funds transferred from other agencies come from their operating budget, which is why the unused funds are returned to the State funds. In addition, the clearing account is used as a placeholder for all unidentified transactions while waiting for proper documentation to move the funds to the appropriate account. Therefore, it could be misleading to the reader to characterize this account as Capital Funds.

Throughout the current audit period, DGS reverted $2,449,216.32 to the State at the end of the FY 2022, and $3,008,409.42 at the end of FY 2024 for a total of $5,457,625.74. Therefore, $8.4 million is not the accounted amount to be reverted because this amount includes the cumulative balance from FY 2017 to FY 2023, in which there are still active construction projects. The amount of $344,074.80, which was reverted on March 6, 2025, represents the true unaccounted amount.</td></tr>
<tr><td>Recommendation 8a</td><td>Agree</td><td>Estimated Completion Date:</td><td>Not Applicable</td></tr>
<tr><td>Please provide details of corrective action or explain disagreement.</td><td colspan="3">While DGS agrees with this recommendation as stated, in accordance with the explanation below, the agency believes it has consistently complied with this recommendation.

DGS prepares annual periodic compositions of the funds maintained in the clearing account to ensure all funds are properly accounted for. As noted above, DGS reverted $2,449,216.32 to the State at the end of the fiscal year 2022, and $3,008,409.42 at the end of FY 2024 for a total of $5,457,625.74</td></tr>
</table>

	in this audit period. Preparing the periodic composition was necessary to revert these funds. DGS annual periodic compositions comply with the Comptroller of Maryland's Schedule D of the fiscal year-end closing instructions, which state that for Generally Accepted Accounting Principles (GAAP) purposes, clearing and suspense accounts, exceeding $100,000, must be analyzed and adjusted to a zero balance and if not cleared, negative balances should be shown on the statutory close-out. Positive balances, if any, should be reported.		
Recommendation 8b	**Agree**	**Estimated Completion Date:**	**Completed**
Please provide details of corrective action or explain disagreement.	This recommendation has already been completed. OLA arrives at the amount of $8.4 million by subtracting the clearing account balance of $12.4 million at the end of FY 2024 from the total cumulative balance of $20.8 million. However, this presumes that DGS could not account for funds from FY 2000 through FY 2023, which is not the case. DGS acknowledges that the composition of the funds has been performed in order to revert $5 million to the State in FY 2022 and FY 2024. The additional $344,000 reversed to the State in March 2025 is the balance of what had not been accounted for, due to the system limitations in accessing the transaction details. However, it should be noted that this balance is a cumulative amount from FY 2000 through FY 2016.		

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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.

We recommend that DGS
a. competitively procure services and/or document its justification for procuring services via sole source,
b. disclose the total anticipated cost of projects to BPW,
c. ensure contract modifications are properly supported, and
d. enhance its exempt procurement policy and justify any deviations in the policy from State procurement regulations.

Agency Response	
Analysis	**Not Factually Accurate**
Please provide additional comments as deemed necessary.	The original contract for construction management services for the State House Renovation project was approved for $1.5 million at the January 26, 2022 Board of Public Works (BPW) meeting. The reason for presenting the historic exempt procurement to BPW was because it was funded with bond funds. This was in compliance with MD State Finance and Procurement Article § 8-301 which requires that all agencies submit a contract that is using general obligations bonds to BPW for approval. DGS presented an item to utilize a new bond fund source for this historic exempt procurement to BPW on July 6, 2022 and it was approved. DGS also presented an item to utilize a new bond fund source for this historic exempt project to BPW on January 17, 2024 and it was approved. All bond funds authorized and necessary for this project have been presented to and approved by the BPW. The procurement exemption for historic structures is granted in MD State Finance and Procurement Article §11-203 (a)(1)(xvii). OLA applies sole source procurement rules to this procurement, however, the statute indicates that historic exemptions in procurement do not need to follow sole source procurement rules. Nevertheless, justification for using the vendor was presented to BPW on January 26, 2022. Additionally, DGS supported the basis for the 11 contract modifications processed between May 2022 and July 2024 that collectively increased the contract value and the basis for increasing the contract value via modifications are explained in the response to recommendation 9d. This process was intended to be responsive to the expectation that approximately 50% of the final cost of this project would be associated with previously

	unknown field conditions. Accordingly, the contract was structured to serve as an allowance against which the State could issue task order assignments to accommodate competitively-bid contract scope as well as change conditions. This allowed the State greater ability to aggressively manage the budget while controlling scope creep and ensuring best-value results.		
Recommendation 9a	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	The vendor contract for construction management was not competitively bid and instead was procured in compliance with the historic procurement exemption statute cited below, based on the firm's experience with historic projects and specifically with intimate prior knowledge and experience in working on the State House. The decision to engage with the vendor was based on these factors as well as the project managers' determination that the proposal offered by the vendor offered best value to the State. This determination was approved internally by DGS and subsequently by the BPW. The historic exemption is granted in MD State Finance and Procurement Article §11-203 (a)(1)(xvii) and it specifically exempts historic structure procurements from State procurement regulations. The intent of the legislation is to provide the agency with the flexibility to select consultants and contractors to execute work in a manner that serves the best interests of the State in the preservation of our historic properties. In order to do so, the law exempts DGS from State procurement law, and the legislation's fiscal summary anticipated minimal increases in contract cost due to limited competition for such procurements. However, the fiscal summary also acknowledged that the potential additional costs would likely be offset by reduced risk for contract modifications and extensions that could adversely impact the total project cost resulting in negligible impacts, if any. The legislation allows DGS the freedom to make "best value" decisions for specific historic projects, subject to Maryland Historic Trust's concurrence that an exempt procurement is warranted. The concurrence of the Maryland Historic is documented. As noted above, the historic exemption is granted in MD State Finance and Procurement Article §11-203 (a)(xvii). It states that Division II does not apply to the Department of General Services for the rehabilitation of a historic structure to the extent the procurement is necessary to preserve the historic fabric of the structure. Division II encompasses Titles 11-19 of the MD State Finance and Procurement Article. This includes Title 13 - Source Selection. Therefore, Division II sole source procurement rules do not apply to historic exempt procurements. Nevertheless, DGS documented in the remarks section of the agenda item that was presented to BPW on January 26, 2022 the justification for using the vendor for this project.		

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	Furthermore, while the construction management contract for the vendor was not competitively procured, every sub-contract was, in fact, competitively procured under this contract, with the project manager rendering final procurement decisions. In certain instances, the project manager elected not to award to the low bidder based on qualifications, ability to staff the project, ability to meet schedule, or other factors leading towards a "best value" decision.		
Recommendation 9b	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	The original contract for construction management services for the State House Renovation project was approved for $1.5 million at the January 26, 2022 Board of Public Works (BPW) meeting. The reason for presenting the historic exempt procurement to BPW was because it was funded with bond funds. This was in compliance with MD State Finance and Procurement Article § 8-301 which requires that all agencies submit a contract that is using general obligation bonds to BPW for approval. This exempt procurement would not otherwise require BPW review and approval. DGS presented an item to utilize a new bond fund source for this historic exempt procurement to BPW on July 6, 2022 and it was approved. DGS also presented an item to utilize a new bond fund source for this historic exempt project to BPW on January 17, 2024 and it was approved. All bond funds authorized and necessary for this project have been appropriately presented to and approved by the BPW. With regard to the State House renovation project, DGS submitted items to the BPW and fully disclosed the process under which this project was to be managed in accordance with MD State Finance and Procurement Article § 8-301. The BPW approved the submitted items without comment. Furthermore, it should be noted that the anticipated cost of a historic project of this magnitude is nearly impossible to "anticipate." The project manager's pre-construction expectations were that the project would experience significant unknown field conditions and would therefore incur significant change conditions. To date, task orders represent approximately 25% of the contract value .		
Recommendation 9c	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, the agency has consistently ensured that all contract modifications for construction projects are properly supported. Accordingly, the agency believes it has consistently complied with this recommendation.		

	With regard to the State House renovation project, the contract modifications were properly supported and the basis for increasing the contract value via change orders was explained. The process to modify the contract by change order was intended to enhance the “allowance” under which the construction management contract was being executed and did not serve to address any specific change condition or base contract scope. It was intended to be responsive to the expectation that approximately 50% of the final cost of this project would be associated with previously unknown field conditions, which is expected for these types of historic projects. As such, the change orders were intended to continue to fund the scope of work within the limits of the overall appropriations dedicated to the project. Task orders were authorized by DGS to implement specific project scope, be it competitively-bid base contract scope or change conditions. The authorized task orders represented the binding contract scope and were fully supported by documentation of each contract award or change condition, including narrative and detailed back-up of the proposed costs.		
Recommendation 9d	**Agree**	**Estimated Completion Date:**	**6/30/2026**
Please provide details of corrective action or explain disagreement.	DGS is enhancing its existing historic structure procurement exemption policy. The policy will be submitted to the Board of Public Works in compliance with State Finance and Procurement Article §12-401 which states that, at the beginning of each fiscal year, a unit exempt from Division II shall submit policies and procedures to the BPW.		

Auditor’s Comment: While DGS disagrees with recommendations 9a and 9b, much of the response (for example, the exempt nature of the procurement and BPW approval requirements) is consistent with facts already presented in the finding and does not refute our analysis. For example, the response to recommendation 9a indicates that DGS did not competitively bid the construction management contract because procurements to rehabilitate historic structures are exempt from State procurement law and that DGS selected the vendor based on the firm's prior knowledge and experience in working on the State House. The exempt nature of the procurement and DGS’ justification for selecting the construction management vendor are clearly noted in the finding and the response does not provide any further justification for the decision to award this contract without competition.

While DGS’ response to recommendation 9b asserts that DGS fully disclosed the process under which this project was to be managed, DGS does not dispute that it did not disclose the full cost of the project to BPW when the initial contract was procured; rather, DGS notes that it is “nearly impossible” to anticipate the cost of a historic project. We would like to reiterate that, as noted in the analysis, our position is based on consultation with senior BPW officials, who advised us that agencies should disclose the total anticipated cost of a project when the initial contract is procured.

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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.

We recommend that DGS

- **a. pursue collection of accounts receivable due from State agencies, including timely dunning delinquent accounts and conferring with senior leadership at the related agency and other Executive Branch oversight agencies (such as the Governor's Office) for agencies that continue to have delinquent accounts;**
- **b. ensure that adjustments to accounts receivable are independently verified using supporting documentation (repeat); and**
- **c. segregate the cash receipts and accounts receivable functions, as required (repeat).**

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 10a	**Agree**	**Estimated Completion Date:**	**Completed**
Please provide details of corrective action or explain disagreement.	DGS has developed and implemented a process to escalate inquiries concerning delinquent accounts to the appropriate parties. DGS currently has a dedicated accountant for the agency's accounts receivable, and a mailbox is utilized for all communications, as well as a Smartsheet to track the process.		
Recommendation 10b	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, in accordance with the explanation below, the agency believes it has consistently complied with this recommendation. To ensure that adjustments to accounts receivable are subject to independent supervisory review and approval, in March 2021, DGS implemented a process which requires that the AZ report (Output report) be run monthly. This report shows all non-cash credits to the		

	accounts receivables. The budget manager with User Class 04 and 89, who is independent from the accounts receivables process and does not have the capability to post a non-cash credit, was responsible for reviewing this report for accuracy. Once the budget manager was given access to the safe due to office coverage changes, the role of independent reviewer shifted to the Agency Budget Specialist. Now, the Agency Budget Specialist who is independent from the accounts receivables process and does not have the capability to post a non-cash credit, is responsible for reviewing this report for accuracy. All non-cash credits are reviewed for appropriateness and signed off on by the independent reviewer. To alleviate additional concerns regarding the function of the Agency Budget Specialist as an independent reviewer, the reviewer will initial each cancellation file which is reviewed.		
Recommendation 10c	**Agree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, in accordance with the explanation below, the agency believes it has consistently complied with this recommendation. The process to ensure segregation of cash receipts and accounts receivable functions was enhanced as of December 2020. These enhancements, detailed below, were put in place to further segregate responsibilities and add additional steps to the review of the deposit process. In the past, the mail was picked up by the Payroll team, which also completes the deposit entries in FMIS and on the bank website via remote access. Now, the DGS Fiscal Office has a Fiscal Accounts Technician II in our Accounts Payable unit on a given day who picks up the mail and prepares the deposit log and the deposit ticket. Once these are prepared, the original of the log is given to the Lead Accountant who prepares the bank reconciliation, and the checks, deposit ticket, and a copy of the log are delivered to the payroll unit. After the Fiscal Accounts Technician II in Accounts Payable completes the initial part of the deposit process, the documentation is split into 2 packages: 1) One package goes to the Lead Accountant. During the bank reconciliation process, this individual reviews it against the posted deposit, initials it, and scans it. 2) Another package is delivered to the Payroll unit. The Payroll unit employees are responsible for entering the deposit into FMIS as well as performing the remote deposit into the bank using the scanner. Once the deposit is entered, the complete documentation is scanned and saved onto the network, and the hard copy is retained until the accountant completes the bank reconciliation. The payroll supervisor, deputy director, or director of fiscal reviews the deposit paperwork and		

	approves it in FMIS. The deputy director reviews the bank reconciliation on a monthly basis and advises the Payroll unit via email of the destruction of checks 60 days after the checks are cashed. The email confirming the destruction of the check is saved for records. According to the "Policy on the Use of Remote Deposit Services by Maryland State Agencies" from the Maryland State Treasurer, revised on December 6, 2022, DGS is in compliance with all requirements. Receivable entries are processed by the accountant in the General Accounting Unit. Once processed, the lead accountant reviews and approves the entries. After approval, the stamp or signature is added to the batch header and saved in the Receivables folder for records.

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Monitoring of State Property and Equipment

Finding 11
DGS did not perform inventory compliance audits since September 2019 to ensure State agencies complied with State property and equipment requirements.

We recommend that DGS

a. perform inventory compliance audits to ensure State agencies comply with State property and equipment requirements (repeat), and

b. consider developing a policy to prioritize audits consistent with available resources (repeat).

Agency Response			
Analysis	**Not Factually Accurate**		
Please provide additional comments as deemed necessary.	DGS has performed inventory compliance audits since September 2019. Annual inventory reports were reviewed as part of the inventory compliance audit.		
Recommendation 11a	**Agree**	**Estimated Completion Date:**	**Completed**
Please provide details of corrective action or explain disagreement.	While DGS agrees with this recommendation as stated, in accordance with the explanation below, the agency believes it has consistently complied with this recommendation. DGS agrees to further enhance its compliance audits to include onsite physical audits of inventory. Although not required by statute, the DGS Inventory Standards and Support Services Manual states that DGS will conduct unannounced spot audits of inventory procedures at State agencies. The Manual does not require onsite physical inventory audits. During this audit period, DGS' Inventory Standards and Support Services Division (ISSD) performed inventory compliance audits of the Annual Inventory Reporting Procedures to ensure State agencies complied with State property and equipment requirements, as required by its policy. The division hired two contractual employees as auditors, which began reviewing the Annual Inventory Reporting Process and determined that they could find ways to improve the current reporting process. A new electronic reporting process was implemented in May 2024. This new process now provides greater efficiency for inventory reporting and data collection. All State agencies and departments are now required to submit the information electronically for the three (3) required reports. Twenty agencies were audited for their FY24 Annual Inventory Reports.		

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Recommendation 11b	**Disagree**	**Estimated Completion Date:**	**Not Applicable**
Please provide details of corrective action or explain disagreement.	There is no need for a policy. The ISSD division will continue auditing inventory control procedures utilizing existing staff. ISSD has the appropriate level of full-time permanent positions to perform the necessary inventory audits, in accordance with DGS' Inventory Control Manual. Additionally, the division has utilized the existing staff to conduct physical, on-site audits, even though they are not required by the current DGS Inventory Standards and Support Services Manual. While not required by DGS's manual, the on-site audits improve visibility of deficiencies requiring corrective action. During the months of May and June of this year, DGS has already completed five on-site compliance audits.		

Auditor's Comment: DGS disagrees with recommendation 11b stating there is no need for a policy. This response is inconsistent with the prior report response when DGS indicated it would develop a policy that prioritizes reviews based on available resources. While DGS did not develop a policy, its response indicates that existing staff have conducted physical, on-site audits, including five audits completed in May and June 2025. We continue to believe that DGS should consider developing a policy to prioritize audits for situations when available resources are not sufficient.

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