

Performance Audit Report

State Grants

November 2021



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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November 10, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a performance audit to assess the State's policies and guidance for advertising, awarding, and monitoring State-funded grants. During fiscal years 2015 through 2020, State-funded grant expenditures subject to this audit totaled approximately \$5.0 billion. In view of the significant amount of grant expenditures and deficiencies related to grantee monitoring and accountability previously identified primarily during our routine Office of Legislative Audits' fiscal compliance audits, we reviewed and evaluated existing statewide laws, policies, and procedures over these grants. We also reviewed grant activity at select State agencies to determine if appropriate mechanisms were in place for awarding, administering, and monitoring their specific grants.

Our audit concluded that the State needs to implement comprehensive laws, regulations, policies, and procedures over State grants. We noted that there was no control agency established in State law with the authority to promulgate statewide grant-related regulations, policies and procedures, engage in grant oversight, and monitor State agency's grant-related activities to ensure accountability with related grant terms and conditions. For example, the Governor's Grants Office (GGO) provides resources, training, research, and guidance to agencies, but lacks the legal authority to implement formal policies or enforce agency compliance with its guidance. Our report includes several specific recommendations on establishing statewide policies and procedures over the awarding and administering of grants, such as requiring competition when making awards, and use of standardized grant agreements that contain provisions to protect the State's interests.

Our report also includes a recommendation to require agencies to use a centralized grant management system (GMS) to administer and track grant awards and related expenditures. During our audit, GGO was in the process of procuring a GMS, which is intended to include multiple functions for agencies to improve their grant management practices. For example, a GMS should assist with the agencies tracking and monitoring sub-grantee activities. GGO advised us that once the GMS is operational, agencies will have the option to use this system; however, without the establishment of legal authority, GGO could not require agencies to use the system.

In our opinion, the lack of sufficient and formal statewide grant oversight resulted in inconsistent grant management practices at the State agencies we reviewed; impacting grantor and grantee accountability. Specifically, our review disclosed several State agencies lacked policies and procedures over the grant awards process, and consequently awarded grants without competition. Furthermore, our testing revealed that four State agencies had a lack of documentation to support grant payments totaling \$22.3 million and payments totaling \$220,000 that were not made in accordance with the related grant agreements. Finally, the Department of General Services (DGS), which processes a large number of State Capital Grants, did not obtain support for the grantees' selection of vendors for work performed on capital projects, nor did they perform documented site visits of these projects.

As explained in more detail in our report, State law established the Maryland Efficient Grant Application Council to report on matters involving recommendations to improve the State's grant processes. The Department of Budget and Management (DBM) is required to submit progress reports to the General Assembly and the Council will submit a final report by July 1, 2024. Accordingly, our recommendations regarding the establishment of comprehensive statewide policies and procedures are made to the GGO and DBM, under the direction of this Council. In addition, we included agency specific recommendations based on our review of their respective procedures, as appropriate.

The responses to this audit from all involved agencies are included as an appendix to this report. Agencies were only requested to respond when recommendations were made that specifically related to their agency. In accordance with State law, we have reviewed the responses and noted general agreement to our findings and related recommendations. However, we identified certain instances in which the Department of Human Services' (DHS) and DGS' responses indicated disagreements with certain report findings. In these instances, we reviewed and reassessed our audit documentation and reaffirmed the validity of the findings. In

accordance with generally accepted auditing standards, we have included an “auditor comment” within DHS’ and DGS’ responses to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with any of the audited agencies.

We wish to acknowledge the cooperation extended to us by these agencies during our audit and their willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

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Governor's Grants Office
Department of Budget and Management
Department of Commerce
Department of Human Services
Maryland Department of Labor
Department of General Services
Maryland State Department of Education

Audit Scope, Objectives, and Methodology

Audit Scope

We conducted a performance audit to assess if comprehensive guidance and/or policies were in place to oversee State grants and whether agencies were properly creating, awarding, and administering the grants. State grants are intended to help State agencies fulfill their objectives and missions. State regulations define a grant as the bestowing of a power, money, privilege, property, or other item of value that may be conditional, although without other consideration, by the State upon another party. Grants are identified specifically by formula, a specific allocation in law, or in the annual operating budget act, bond authorizations, or other acts of the legislature. State regulations further specify that a grant is not a contract. However, a grant is similar to a contract as it is a legally binding agreement funded with State monies that is between the agency and a recipient (such as, individuals, nonprofit organizations, or corporations) in order to carry out a public purpose and specifies the scope of work and allowable costs.

This audit was initiated by the Office of Legislative Audits (OLA) as a result of various issues with the awarding and monitoring of State grants identified during our routine fiscal compliance audits, and in our February 7, 2020 review report on the Opioid Operational Command Center. Specifically, during the period July 1, 2015 to December 31, 2020 OLA audit reports disclosed 26 findings primarily related to grant awards and monitoring at 14 State agencies (see Exhibit 1 for a summary of grant related findings from previously issued audit reports).

State agency expenditures are recorded in the State's Financial Management Information System (FMIS) using object codes. Object code 12 is used to account for grants, subsidies, and contributions. We analyzed statewide expenditures from all funding sources that were charged to object code 12 during the six-year period from July 1, 2014 to June 30, 2020, which totaled \$68.2 billion.

We excluded certain object 12 non-grant expenditures for subsidies and contributions (such as, employer share of health insurance), grants that were federally funded, and grants to local municipalities. In addition, we excluded expenditures totaling \$3.7 billion that were not related to State grants. For example, we excluded \$2.0 billion at the Department of Human Services related to Child Support payments, foster care subsidies, funding to local departments of social services and public assistance programs, and \$1 billion at the Maryland State Lottery related primarily to payments to lottery winners. Finally, our review focused only on grants by Executive Department agencies. Our review did not

include grants by State Universities since we found these expenditures were primarily financial aid to students or related to university sanctioned research.

After excluding the aforementioned expenditure activity, the remaining expenditures subject to audit totaled \$5.0 billion, which were primarily processed at 22 State agencies (See Figure 1 for a summary of the State agency grant expenditures subject to audit and see Exhibit 3 for a summary of the major grant programs at the agencies).

Figure 1
Summary of State Grant Expenditures Subject to Audit
by State Agency
Fiscal Year 2015 to Fiscal Year 2020
(Dollar amounts in millions)

State Agency		Grant Expenditures		
		Operating	Capital	Total
1	Department of the Environment	\$692.0	\$181.0	\$873.0
2	Maryland State Department of Education	727.2	36.7	763.9
3	Department of General Services	2.4	508.7	511.1
4	Department of Natural Resources	128.2	361.6	489.8
5	Department of Commerce	302.4	4.0	306.4
6	Maryland Higher Education Commission	300.3		300.3
7	Maryland Department of Labor	282.2		282.2
8	Maryland Department of Agriculture	248.8	29.5	278.3
9	Department of Housing and Community Development	155.7	80.0	235.7
10	Maryland Department of Health	221.1		221.1
11	Maryland Energy Administration	131.7		131.7
12	Maryland Technology Development Corporation	121.5		121.5
13	Maryland Department of Transportation	111.6		111.6
14	Maryland State Library Agency	90.6		90.6
15	Department of Human Services	70.2		70.2
16	Board of Public Works	37.5		37.5
17	Maryland Health Benefit Exchange	30.7		30.7
18	Maryland Department of Planning	25.0	5.5	30.5
19	Department of Public Safety and Correctional Services	17.2		17.2
20	Maryland State Police	12.3		12.3
21	Office of the Attorney General	12.1		12.1
22	Executive Department Boards, Commissions, and Offices	10.6		10.6
23	Other Departments	16.7	0.2	16.9
TOTALS		\$3,748.0	\$1,207.2	\$4,955.2

Source: State records

We judgmentally selected 40 of these grants at 6 State agencies for testing based on our assessment of risk and significance, and consideration of our coverage of certain grant activity during our routine fiscal compliance audits of the respective State agencies (for example, certain large grant programs historically are subject to review during our regular fiscal compliance audits). The grants selected for testing included awards totaling \$206.8 million, and we tested related payments totaling \$69.5 million (see Figure 2).

Figure 2
Summary of Grants Selected for Testing
(Dollar amounts in millions)

Type	Grant Program Description	Grants Tested		
		Count	Award Amount	Payments Tested
Department of Human Services				
Operating	Child Welfare - Substance Use Services and Technical Assistance	2	\$4.1	\$0.7
Department of Commerce				
Operating	Promote Tourism	6	2.0	1.6
Maryland State Department of Education				
Operating	Family Support Centers - Management and Monitoring	2	5.3	3.0
Maryland Department of Labor				
Operating	Maryland Employment Advancement Right Now (EARN) - To advance the skills of the State's workforce, grow the State's economy, and increase sustainable employment for working families	15	4.3	0.6
Maryland Department of Health				
Operating	Statewide Academic Health Center Research Grants (SAHC) - Cancer Research	2	5.2	2.1
Department of General Services				
Capital	Construction and Renovation Projects	12	185.9	61.5
Totals		39	\$206.8	\$69.5

We conducted this audit under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland and performed it 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.

Objectives and Methodology

Our audit included the following objectives:

1. To determine if the State has comprehensive policies and procedures governing the awarding and administration of State grants, and to assess the adequacy of those policies and procedures.
2. To determine if State agencies had appropriate mechanisms in place when creating, awarding, and administering State grants to ensure adequate accountability.

To accomplish our objectives, we conducted interviews of selected State agency employees. We also conducted tests, analyses, and inspections of documents and records to achieve our objectives. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The data we obtained were subject to various tests to determine data reliability. Based on these tests, we determined the data were sufficiently reliable for use in our audit.

Generally, grant agreements and related 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 specifically indicated neither statistical nor non-statistical audit sampling was used to select the agreements and related 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.

Finally, to identify best practices regarding the management and monitoring of State grants, we identified other states that, based on web searches, appeared to have comprehensive policies and procedures for State grants. In addition, we obtained a general understanding of federal government grant policies. See Exhibit 4 for a summary of our research.

More detailed descriptions of the specific objectives and related methodologies are discussed in the Findings and Recommendations section of this report.

In addition to the conditions included in this report, other less significant findings were communicated to the Department of General Services and the Department of Commerce that did not warrant inclusion in this report.

Fieldwork and Agencies' Responses

Our fieldwork was completed during the period from January 2020 to March 2021 (the timing of this audit work was impacted by OLA scheduling considerations related to COVID). The responses from the agencies selected for review during this audit are 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 these agencies regarding the results of our review of their responses.

Background Information

Overview and Responsibilities for State Grants Awarded by Executive Department Agencies

The State does not have a single agency designated to provide centralized comprehensive oversight and guidance to agencies on how to manage and monitor the State grants' life cycles. Rather, each State agency or unit is responsible for the management of its grants. Several State agencies and offices (such as, the Governor's Grants Office, Maryland Department of Planning, Department of Budget and Management, and Department of General Services) are responsible for overseeing a portion of the State grants life cycle as further described below.

Governor's Grants Office (GGO)

GGO was created on February 1, 2004 through the State budget process under the Office of the Governor with no specific responsibilities or requirements defined in State law or regulations. Since inception, the GGO has assumed a limited role involving State grants; essentially serving the public as a repository of available State grants. Specifically, State agencies self-report information regarding available grants to GGO for inclusion in a summary directory of State grant information published on its website. The GGO's website includes information on each available grant such as the grant name, applicable state agency, and links to additional information on the related State agency websites, such as program descriptions, effective dates, available funding, and application instructions. However, GGO advised us that State agencies are not required to notify them of all available grants and it does not have statutory authority to require State agency compliance.

Proactively, GGO has issued a *Grants Manual*, updated January 23, 2015, that provides information on best practices and other federal grants information in one reference document, which includes instructions and guidance for each stage of a grant from pre-award to closeout. Although the *Manual* is primarily intended to provide guidance on the federal grant processes, some of the content could be useful to assist in the administration of State grants. For example, the *Manual* explains methods for monitoring grants by State agencies that includes conducting site visits to observe program activities and implementation. However, as with the notification of available grants, State agencies are not required to adhere to any best practices contained in the *Manual*.

Maryland Department of Planning (MDP)

The MDP State Clearinghouse for Intergovernmental Assistance (Clearinghouse) coordinates the timeliness and accuracy of grant information, as required by State law, with a network of more than 80 sponsoring State agencies. According to the MDP website, the primary mission of the Clearinghouse is to ensure that financial (including grants), and non-financial assistance projects operating within Maryland are consistent with State and local policies and programs. This is accomplished by circulating requests for financial assistance, plans and development projects to State, regional, and local public officials. The Clearinghouse provides access to information regarding these projects through the Maryland InfoPortal, a digital catalog which contains links to over 700 programs providing financial, non-financial and technical assistance and direct development to local government, civic and private organizations, and individuals.

Department of Budget and Management (DBM)

DBM's role in State grants is primarily limited to the budget process. DBM's Office of Capital Budgeting (OCB) prepares the Governor's annual capital budget, and five-year Capital Improvement Program, which includes numerous State-owned construction projects and grant and loan programs. Each State agency under its authority is assigned a capital budget analyst, who provides technical assistance for the related budget submissions. OCB reviews and approves facility plans, inspects sites, holds hearings, and prepares testimony for presentation by Executive Department officials to the General Assembly for capital projects that are funded by a grant as well as other funding. For example, DBM reviews requests for community college construction grants and approves the justification and scope of the project.

In addition, DBM, in conjunction with the Department of Information Technology (DoIT), launched an internet portal during fiscal year 2019 that allows the public to access expenditure data for the State operating budget, grants and loans, and payment information by vendor. The portal provides interactive charts, graphs, and tables. For example, in the grants and loans section of the portal, users can review lists of recipients by amounts received, and amounts expended by each State agency. For State grants, State agencies are only required to submit expenditure data to DBM for individual grant awards with total payments of \$50,000 or more, and the portal does not include payments to local or State government entities or reimbursements to providers in a State program.

Department of General Services (DGS) – Capital Grants

The Board of Public Works (BPW) has delegated the oversight function for State capital grants awarded to non-profit organizations, local governments, private colleges, hospitals, and detention centers to DGS (nevertheless, the Comptroller

of Maryland performs some financial responsibilities related to these grants). These projects typically provide employment, community development, economic gain, and contracting opportunities for local businesses. Funds for capital grants are authorized through the State capital budget process. Government entities may qualify for capital grants for a variety of projects such as funding the cost of construction for public schools, community colleges, and correctional facilities. Non-profit organizations such as historical sites, private colleges, and universities and hospitals may also qualify for these grants in order to provide funding for their capital costs.

The Joint Chairmen's Report (JCR) from the 2021 Session, stated that the Capital Grants and Loan (CGL) process administered by DGS, as delegated by the BPW, is overly cumbersome, difficult for grant recipients to navigate, and results in delayed access to authorized State grant funds and unnecessary project implementation delays. The budget committees requested BPW undertake a full evaluation of the CGL process with the purpose of developing and implementing new and revised internal controls and procedures that enhance DGS' project management and the assistance the department provides to grant recipients. The new and revised procedures should emphasize reducing the time it takes to bring executed grant agreements to BPW for approval, and expediting the internal review and documentation of project expenditures required prior to grant fund disbursement determinations. The JCR did not provide a date for the implementation of this request. BPW management advised us that as of September 17, 2021, they had started working on the request and expected to issue a report on their progress prior the start of the 2022 Legislative session.

Maryland Efficient Grant Application Council

Chapter 484, Laws of Maryland, effective July 1, 2020, established the Maryland Efficient Grant Application Council to advise and report on matters involving the grants life cycle to GGO and DBM. The Council's members include employees from key State agencies, including the Director of GGO, or designee, who shall serve as the Chair of the Council.

The purpose of the Council is to improve efficiency, streamline and reduce redundant processes, reduce paperwork and administrative burdens on granting agencies and grant recipients, and facilitate the development and implementation of a statewide centralized grants management and accountability system. The Council is required to study and make recommendations to GGO and DBM regarding the creation of:

- a uniform grant application form,

- uniform financial controls and reporting requirements for grant recipients, including performance progress reporting,
- regulations adopting uniform guidance for grant activities,
- timeframes and deadlines for the various tasks related to grant activity.

The law requires the Council to submit a report on its full recommendations to DBM and the General Assembly by July 1, 2024. The law further requires DBM to submit progress reports to the General Assembly on or before December 31 of the calendar years 2022 through 2026.

Common Types of State Grants

State grants help fund either operating activities or capital projects.

- **Operating Grants** are intended to provide funding for an organization's administrative and operating costs, assist with strategic financial and organizational capacity, and/or help maintain core programs and essential staff.
- **Capital Grants** are intended for building construction, building renovation, refurbishing, maintenance, land purchases, or the purchase of large equipment such as building furnishings and materials.

Grants are generally awarded through one of five methods; competitive, formula, pass-through, discretionary, or statutory. See Figure 3 below for a description of these methods.

Figure 3
Common Methods for Awarding State Grants

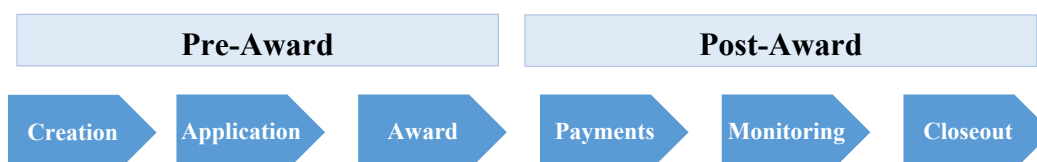
Method	Description
Competitive	Grants are awarded based upon an evaluation of the grant applications and are awarded to the most advantageous applicant. They include grants given for scientific research, technical assistance grants, planning grants, etcetera.
Formula	Grants are awarded through a prescribed methodology (typically established in law or regulation) according to a predetermined formula. Often these grants are allocated automatically based on the factors entered into the formula.
Pass-Through	Grants are awarded based on funding provided by State agencies to local governments for further distribution. The funds can be provided through formulas or a competitive process.
Discretionary	State agencies decide how much money is to be granted to each recipient based upon the merit of the recipient's application which, although not necessarily required, is typically based on a competitive process.
Statutory	Statutory grants receive authority from enacted laws or regulations that require agencies to administer government programs. Some statutes require that an agency issue regulations on a particular grant-related subject, while others leave enforcement decisions to the agency in question. These grants are usually awarded based upon a formula or a predetermine award amount for each grantee.

Source: GGO *Grants Manual* and general internet searches.

Grant Life Cycle

A typical grant life cycle includes pre-award stage and a post-award stage. Since each grant may have different criteria and payment mechanisms, we present examples under each stage that may represent actions taken by the awarding agency of a competitive grant, but may not be applicable to all grants.

Figure 4
Grant Life Cycle



Source: GGO *Grants Manual* and general internet searches including Grants.gov (a federal government website).

Creation

A State agency plans and develops a funding mechanism and then obtains an appropriation in its budget. The agency will publish grant opportunities including critical information to explain the application process, the purpose of the grant, and necessary skills or requirements of prospective respondents.

Application

Prospective respondents complete and submit a grant application to the agency in order to express their interest in obtaining the grant award. The agency reviews and evaluates the applications. The specific processes vary based on the type of grant but generally involve a review panel that assesses and scores each application independently, then convenes to compare the merits of each application.

Award

Based on their assessment of the applications, agencies select the applicant (or multiple applicants) deemed most advantageous to complete the grant's responsibilities (or intended purpose), and notify the applicant of the award. The agency will typically issue a written grant agreement to the applicant with the details of the work to be conducted under the grant, the dollar amount of the grant, and the effective period. The grant agreement, once signed by all parties, is a legal document that binds the agency and grantee to the grant provisions.

Payment

Grantees request payment based on the terms of the grant agreement, such as on a cost reimbursable basis or payments based on defined installments (monthly or quarterly). Grantees may be required to submit documentation to support activities that were performed and costs incurred. This documentation may be reviewed prior to payment, and can be used by the agency for monitoring.

Monitoring

Agencies are responsible for monitoring grant activities to determine that the grant purposes were achieved and the funds were spent appropriately. Agencies may conduct various monitoring procedures such as:

- Reviewing required reports submitted by the grantee (financial and programmatic) and verifying the information provided to ensure performance measures were achieved,
- Conducting site visits to observe program activities and implementation,
- Conducting client surveys to determine if services were provided at a satisfactory level.

Closeout

Typically, the grantee is required to submit final financial and programmatic reports after the grant award expires or is terminated. At times, the grantee may be required to submit audited financial statements to the agency. The agency verifies the reports to ensure compliance with all the grant terms and conditions as well as to ensure costs were appropriate. Certain grants require a settlement process, where the agency pays amounts due or bills the grantee for amounts owed.

Findings and Recommendations

Objective 1 — Guidance and Policies for State Grants

Objective: To determine if the State has comprehensive policies and procedures governing the awarding and administration of State grants, and to assess the adequacy of those policies and procedures.

Methodology

To accomplish our objective, we performed the following procedures.

- We reviewed the Annotated Code of Maryland and State regulations to identify applicable laws and regulations applicable to grants.
- We reviewed grant information on the websites of the key State agencies previously identified in Figure 2.
- We interviewed personnel at several State agencies to determine if comprehensive statewide policies and procedures existed to guide State agencies in awarding and administering grants.
- We reviewed the websites of various federal government agencies and other selected states to identify best practices, comprehensive policies, and procedures that could be applicable to State grants. See Exhibit 4 for a summary of our research.
- We judgmentally selected and obtained grant agreements at five state agencies and tested to determine if they contained critical provisions that we determined to be best practices

Conclusion

We determined that the State lacks comprehensive policies and procedures and standardized grant applications and agreements to ensure grants were properly created, awarded, and administered. Generally, individual State agencies (for example, departments or units and programs within a larger department) are responsible for establishing appropriate records and processes. As a result, we noted inconsistencies in the way State agencies created, awarded, and administered their grants, and critical provisions that were not included in certain grant agreements.

We also determined that the State lacks a statewide grants management system (GMS) to assist in administering and tracking of grant awards and related expenditures. As a result, agencies use a variety of methods and tools, of inconsistent effectiveness in our opinion, to award and monitor grants including

manual records, spreadsheets, databases, and other software. One noteworthy event that occurred during our audit fieldwork, was that the Governor's Grants Office (GGO) recognized the need for a GMS and initiated the procurement of a GMS in order to improve management of grant programs. However, related policies and procedures were not yet finalized during the audit fieldwork, and we found that GGO still lacked formal authority to mandate grant reporting, administration, and monitoring policies and best practices.

Finding 1

The State does not have statewide comprehensive laws, regulations, policies or procedures governing the creation, award, and administration of State grants.

Analysis

The State does not have statewide comprehensive laws, regulations, policies, or procedures governing the creation, award, and administration of State grants. Grants represent a fiscal relationship between the State and the grantee similar to a contract with a vendor. Although there are comprehensive laws and regulations for all aspects of contract procurement and administration, similar laws and regulations were not in place for grants to help safeguard the State's interests, and available guidance was minimal. For example the Comptroller of Maryland's *Accounting Procedures Manual* provides limited direction for establishing controls over grant activity, and the *Manual* does not have specific directions for determining when a State grant is appropriate instead of a State contract for achieving desired results.

We identified certain elements from our past grant-related findings (see Exhibit 1), various grant agreement best practices, and several key criteria that were included in State law and regulations for contracts for which similar criteria did not exist in any statewide policy for grants. We believe that additional guidance regarding these elements and criteria would be useful in establishing appropriate accountability over State grants, including the following examples.

- Public solicitation and award of grants
- Conflict of interest prohibitions
- Requirements for grantee submission of supporting documents of their grant expenditures and deliverables
- Sub-grantee reporting and accountability requirements
- Requirement for use of minority businesses
- Grant performance measurements
- Monitoring requirements (such as site visits, annual reporting, audited financial statements)

In addition, we reviewed several states that had comprehensive laws, regulations, policies, or procedures for awarding and monitoring grants (see Exhibit 4). For example, Texas has policies addressing grant awards, such as requirements to consider minority business vendors in certain instances, as well as sub-grantee requirements. Texas and Arizona both require publishing notice of certain grant awards.

All the states we reviewed had some standard requirements for the award process and generally had more comprehensive requirements and guidelines for monitoring grants than Maryland. For example, Minnesota requires agencies to develop procedures and templates to document their monitoring process, and also requires state agency site visits to grantees for all state grants over \$50,000. Finally, Arizona requires each granting agency to monitor their grantees based on standardized criteria and is required to perform site visits to ensure grant funds are being used as intended. Consequently, we concluded sufficient, third-party evidence existed of best practices that Maryland should emulate to improve its own grant-related policies and processes.

Recommendation 1

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, develop a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants (including the key elements/criteria mentioned above).

Finding 2

The State does not have standardized grant applications and grant agreements. As a result, we noted critical provisions that were not included in certain State agencies' grant agreements.

Analysis

The State does not have standardized grant applications and grant agreements. As a result, we noted what we consider to be critical provisions that were not included in certain agencies' grant agreements. We reviewed a number of grant agreements at five State agencies, certain of which were either agency or an agency's grant specific standardized template, to determine if nine provisions we deemed critical were included in the agreements. These nine provisions are required for State contracts and we believe these provisions are necessary for ensuring the State is protected when awarding grants, in a similar fashion to contracts.

As noted in Figure 5, our review disclosed that each agency lacked one or more of the critical provisions including one agency (MSDE) that lacked 8 of the 9 provisions. A statewide uniform grant application and agreement could aid in establishing consistency, and include standard mandatory grant provisions applicable to all State agencies, as well as an agency-specific section customized to the specifications of each grant program (as deemed necessary). Additionally, separate standardized applications and agreements could be tailored to meet the specific need for different types of grants; for example, grants for capital construction may require different provisions than grants to non-profit organizations.

As previously stated, the GGO and DBM each have a have limited role for State grants, and neither has legal authority over other State agencies' grant activity. We believe that DBM's role in the budget process could be useful in helping to ensure that grant agreements include such language to protect the State's interest. For example, since DBM is responsible for approving operating and capital budgets, including grant activity, it could have policies regarding inclusion of certain critical provisions for grant agreements.

Figure 5
Critical Provisions Missing from Grant Agreements
(Missing provision indicated by "●")

Provisions	State Agency				
	MSDE	DOC	DHS	DGS	MDL
Non-hiring of State Employees	●	●			
Dispute Resolution Procedures		●	●		
Termination Clause for Default	●				
Termination Clause for Convenience	●	●	●		
Political Contribution Disclosures	●				●
Approval for Legal Sufficiency	●	●			
Conflict of Interest	●	●			●
Liquidated Damages	●	●	●	●	
Sub-grantee Requirements	●	●		●	
TOTAL	8	7	3	2	2

Recommendation 2

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, work to develop a uniform grant application and agreement that incorporate critical mandatory provisions (including the provisions mentioned above) and require State agencies to use these documents.

Finding 3

The State did not have a statewide grants management system to help administer and track grant awards and related expenditures.

Analysis

The State did not have a statewide grants management system (GMS) to help administer and track grant awards and related expenditures. A statewide GMS would provide a centralized record of all State grants and could improve statewide grant management by enabling State agencies to record grant awards, various approvals, and grantee monitoring documentation. Consequently, we found agencies were using a variety of methods to award and monitor grants including manual records, electronic spreadsheets, databases, and other software. As highlighted in the audit findings under Objective 2, we believe that certain omissions or deficiencies in these various methods could negatively impact the effectiveness of the monitoring of grants.

In addition, although most agencies recorded grant expenditures in the State's Financial Management Information System (FMIS), approximately \$2.6 billion (52 percent) of the \$5.0 billion State grant expenditures we identified previously (see Figure 1 in the Audit Scope, Objectives and Methodology section) were recorded as miscellaneous grants ("1299 - Other Grants"). According to the Comptroller of Maryland *Accounting Procedures Manual*, this code is intended for recordation of costs that cannot be attributed to other more specific object 12 codes (such as, education or health grants).¹ We also identified one State agency (DGS) that in fiscal years 2016 through 2020 incorrectly recorded capital grants totaling approximately \$294.9 million as "1210 – Pension System Grants." Recordation of expenditures in an incorrect sub-object, including significant use of the 1299 sub-object, does not provide the necessary granularity to determine the nature of the grant activity.

Realizing the need for a GMS to manage federal and State grant programs, on October 14, 2020, DoIT, on behalf of GGO, issued a Request for Proposal for

¹ See Exhibit 2 for Comptroller Object Code 12 - Sub-object Definitions and Descriptions.

such a system. The scope of the GMS was to include managing grants in all phases of the grant life cycle; including the pre-award, award, post award, monitoring, and closeout. GGO management advised that they are anticipating a contract award in December 2021.

Based on our research of other states GMS solutions, some of the critical functionality of the future GMS related to Maryland State grants should include:

- interfacing with FMIS and other State information systems;
- creating and disseminating grant award packages, including but not limited to, letter of notice of award, terms and conditions, payment method;
- submitting reports on any aspect of the monitoring phase relevant to the grant, including site visits;
- generating various ad-hoc reports and data mining features on any aspect of grants;
- tracking and monitoring direct and indirect costs;
- monitoring sub-grantees;
- a repository of grant award and monitoring documents (such as, applications, audits, and financial and performance data).

GGO personnel indicated that there are currently no legal requirements for State agencies to use the GMS when it becomes operational. However, the GGO plans on incorporating such a requirement in the Maryland Efficient Grant Application Council recommendations. We were advised by GGO personnel that other states such as Illinois and Arizona use GMS applications to formally manage their federal and State grant programs.

Recommendation 3

We recommend that the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council,

- a. procure and implement a comprehensive GMS;**
- b. take appropriate action to ensure that agencies are required to use the GMS; and**
- c. develop the necessary policies, procedures, and regulations to ensure the GMS is used as intended.**

Objective 2 – State Grant Award and Monitoring Processes at Selected Agencies

Objective: To determine if State agencies had appropriate mechanisms in place when creating, awarding, and administering State grants to ensure adequate accountability.

Methodology

As explained in the Audit Scope, Objectives, and Methodology section on page 7, this audit was initiated by OLA as a result of concerns identified during our routine fiscal compliance audits of state agencies, which reported various findings related to the creating, awarding, and administering of State grants. See Exhibit 1 for a summary of the State grant findings identified in our reports issued during the period July 1, 2015 to December 31, 2020 (excluding State Universities and the Judicial Branch). Our review of these reports disclosed 26 findings primarily related to grant awards and monitoring at 14 State agencies. For example, our *Special Review of the Opioid Operational Command Center (O OCC)* issued on February 7, 2020 disclosed issues with O OCC’s procedures for awarding, monitoring, and accounting for grants and questionable activities relating to grant awards to combat the opioid crisis in Maryland.

To accomplish our objective, we first summarized grant expenditures by State agency as shown in Figure 1. Next, we identified grant programs at these agencies by reviewing financial data in the State budget books, the State’s FMIS, and contacting agency personnel. Based on our determination of the grant activity, types of grants, coverage of these grants during our recent audits of State agencies, and our assessment of risk, we judgmentally selected 40 grants at 6 State agencies for testing. The grant awards selected for testing totaled \$206.8 million and we tested related grant payments totaling \$69.5 million (see Figure 2). We did not always test the award and related expenditures for each grant. For example, if the grant was awarded prior to fiscal year 2015, we only tested the expenditures that have been later paid by the State agency. Our general approach to testing the selected grants included the following procedures.

Pre-Award

We reviewed grant award procedures at selected State agencies to determine if they had formal written procedures and, if so, whether those procedures provide sufficient guidance for the process. For example, we reviewed agency procedures to determine if they required the recipient of capital grant funds to conduct competitive solicitations when subsequently selecting vendors, when applicable. We obtained award documentation from each agency for the grants selected for

testing and determined if the award process was adequate, (that is, the basis of the award was reasonable), advertised, documented, and properly approved. For example, grants are typically approved directly by the legislature or through the budget process, and most capital grants require BPW approval.

Post-Award

We judgmentally selected grant expenditures for our tested grants, and obtained related documentation from the respective State agencies. We discussed grant expenditure payment procedures with the applicable agency personnel and conducted the following steps.

Capital Grants (DGS)

- Reviewed documentation on file to determine if the grantee selected vendors through a competitive method.
- Ensured that signed contracts existed between the grantee and any vendors.
- Confirmed the agency verified that grant payments were made in accordance with the agreement prior to approval for payment.

Operating Grants (DHS, DOC, MSDE, MDL, MDH)

- Determined if the agency adequately monitored the grantee to ensure that goods and/or services were provided in accordance with the related grant agreement.
- Reviewed the grant language to understand the specific deliverables unique to each grant. For example, certain grantees were required to provide qualified personnel to conduct programmatic research and other grantees funded organizations to operate programs, such as campaigns to increase tourism or to teach skills to the workforce. We reviewed the methods used by the respective agency to monitor compliance with the grant agreement and ensure payments were made in accordance with the agreement.

Conclusion

Our testing of 40 grants at 6 State agencies disclosed that State grants were not always adequately advertised, awarded, and administered (similar findings were reported upon at other State agencies during prior fiscal compliance audits, providing further evidence of certain common deficiencies in the grant process). We concluded the following:

- Certain agencies, (DGS, DOC, MDL, and DHS) lacked comprehensive policies and/or procedures over the grant award process resulting in grants awarded without competition. For example, based on our test of 6 capital grants awarded by DGS totaling \$32.3 million, DGS did not require grant recipients to conduct and document competitive solicitations when using grant funds to pay for services from vendors. As a result, recipient sub-awards may not be made in the best interest of the State (that is, State grant funds may not have been spent in the most efficient or effective manner).
- DOC - Office of Tourism Development did not have adequate procedures or guidelines for evaluating discretionary grant applications and determining the award amounts. For two grants tested totaling \$625,000, DOC did not document the methodology used to evaluate the grant applications or document how the grant award amount was determined.
- DGS did not require or ensure that documented site visits were conducted for capital grants. Failure to adequately conduct and document site visits of grantees could expose the State to unnecessary and avoidable litigation², excessive expenditures, overreliance on unverified grantee reporting, and could result in construction delays.
- DGS, DOC, and DHS did not maintain documentation to support grant payments totaling approximately \$22.3 million. In addition, MSDE and DHS made payments totaling \$182,000 and \$37,000, respectively that were not in accordance with the related grant agreements.

Finding 4

Individual agencies awarded certain grants without competition and required documentation was not always available to support the propriety of the award, including one award which was not calculated correctly.

Analysis

DOC, MDL, and DHS awarded grants without ensuring grantees used a competitive procurement to obtain the services of vendors, and documentation was not always available to support the propriety of the original State grant award. In the absence of statewide requirements for competition, we reviewed the award process for certain grants at State agencies selected for testing and found the following conditions at three agencies.

² For example, if site visits were not performed, improper changes to the construction or substitution of materials would not be identified timely and the vendor may have already been paid for related work. In such a case, litigation may be necessary to obtain a remedy.

Department of Commerce (DOC)

DOC did not use a competitive method to award discretionary tourism grants. Rather, DOC management advised us that the awards were based on conclusions reached during internal management meetings. DOC could not provide documentation of these meetings or support how the grantees were selected and award amounts were calculated.

Our test of two discretionary tourism grants totaling \$625,000 disclosed that one grantee submitted a grant application budget for eligible costs totaling \$386,500, but DOC awarded this grantee \$500,000 (\$113,500 more than the amount supported). DOC advised us that it incorrectly included ineligible costs from the application in its determination of the grant award amount. For the other grant totaling \$125,000, DOC could not document how the award amount was determined and the application did not include a list of eligible costs as required.

DOC's written policy for discretionary grants requires grantees to submit an application that includes the purpose of the event, background or history of the event, marketing plan, amount of the request, total budget, and an explanation of how grant funds will be used.

Maryland Department of Labor (MDL)

MDL did not notify all grantees that received Maryland Employment Advancement Right Now (EARN) grant awards of the opportunity to receive supplemental grant funds. MDL policy requires MDL to notify existing grantees of the opportunity to apply for supplemental funds as they become available during the year. Supplemental awards represent the majority of the EARN grant funds awarded. According to MDL's records, during fiscal years 2017 through 2020, \$21.9 million of the \$27.3 million EARN grant funds awarded were supplemental awards.

Our review of supplemental grants awarded in 2019 disclosed that MDL only notified 10 of the then existing 56 EARN grantees of the opportunity to apply for these supplemental funds. According to MDL records, 9 of the 10 grantees that applied received \$2.2 million in 2019.

Department of Human Services (DHS)

Our review of one \$3.0 million grant to provide technical assistance for child welfare strategies disclosed that DHS did not publicly solicit applications for this grant. DHS management advised us that it did not solicit applications because it believed the services provided by its current grantee were exceptional and the vendor is nationally recognized for its expertise in the area of child welfare.

Although there might be justification for such awards, DHS had not documented its rationale or basis for the award, which precluded us from assessing its reasonableness.

Recommendation 4

We recommend that DOC, MDL, and DHS implement comprehensive policies and procedures over the grant award process to include a requirement for public competitive solicitation, if applicable, and prepare and retain all documentation to support the award process.

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 to ensure capital projects funded with State grants were progressing in accordance with the terms of the contract(s) funded by the grants.

Analysis

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 or otherwise require site visits to ensure capital projects funded with State grants were progressing in accordance with the related contract terms. Consequently, there was no assurance that State monies awarded as grants were expended in an economical or efficient manner by the grantees. Our review of the awards process for 6 grants totaling \$32.3 million awarded during fiscal year 2017 through 2019 disclosed the following conditions.

- DGS did not obtain required procurement documentation from grantees to support the basis for selecting vendors working under these grants, thus making it difficult to determine if the vendors were selected via a competitive procurement process. The *DGS Maryland Capital Grants Project Manual* provides that grantees are to provide the basis for the selection of each vendor, including the name, address, bid amount (or score), and any other selection criteria used by the grantee.

Although the *Manual* encourages grantees to use competition, DGS advised us they do not have authority to require grantees to procure services through competition, and would need authorization from BPW or a law change.

- DGS could not document the extent to which it conducted site visits to ensure capital projects funded with State grants were progressing in accordance with the related contracts. DGS advised us that limited site visits were performed for some projects, but could not provide supporting documentation of the visits, the dates the visits were performed, or the related results. DGS management advised us that it did not have a formal policy or process requiring site visits because it does not have the necessary personnel resources to conduct the visits.

Our review of other states' grant processes disclosed that site visits by State oversight agencies were incorporated into several states' grant monitoring process. For example, Minnesota requires grantor agencies to perform site visits for monitoring purposes for all State grants over \$50,000. A comprehensive site visit policy should include criteria regarding the frequency, content and timing of required site visits, documentation of visit results, as well as the process for the grantee to take corrective actions when issues are identified.

Recommendation 5

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;**
- b. require grantees to submit support for their vendor selection, as required; and**
- c. in conjunction with the GGO and DBM, establish a comprehensive site visit policy for all State capital grants, which includes requirements for the frequency, content and timing of the visits, documentation of the results, and steps for taking corrective action when issues are identified; and seek additional resources, as necessary to implement the policy.**

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.

Analysis

Certain State agencies (DGS, DHS, and DOC) did not maintain adequate documentation to support the propriety of certain grant payments and two agencies (DHS and MSDE) made payments that were not in accordance with the related grant agreement. We tested 39 grant payments made by 6 agencies

totaling \$69.5 million (primarily during fiscal years 2019 and 2020). Our test and subsequent follow up disclosed the following conditions for 9 payments totaling approximately \$22.5 million.

Department General Services (DGS)

DGS could not provide us documentation to support two payments totaling approximately \$21.3 million made in September 2018 for a community college capital project. In response to our inquiries, DGS obtained the documentation from the grantee in October 2020 (two years after the payments), which we concluded did adequately support the payments. For example, DGS obtained documentation of check payments made by the grantee to pay construction vendors.

Department of Human Service (DHS)

DHS did not obtain sufficient documentation to support four payments totaling \$661,600 made to two grantees in May and June 2020. Under the terms of the agreements, payments to the grantees were primarily based on the actual time spent and the salary costs of the applicable grantee personnel. However, DHS did not obtain approved time records from the grantees, did not compare the billed charges to the grantee's payroll records, even on a test basis, and did not verify the billed rates were in accordance with the related agreements. In addition, we found that DHS paid \$37,000 for 9 individuals who were not named in the grant agreement, and could not provide support that it approved these individuals to work on the grant, as required by the agreement.

Department of Commerce (DOC)

DOC did not obtain documentation for a \$373,200 payment to a local government for tourism marketing (to include print, television, and/or radio advertising) on a fiscal year 2020 grant. DOC awarded a grant to each of the 23 counties, Baltimore City, and Ocean City for the purpose of attracting visitors to the State, and our review of 2 grants to local governments disclosed that DOC reimbursed one of the grantees \$373,200 for television advertisements without obtaining documentation that the advertisements were aired, as required. DOC's *Direct Marketing Organization Grant Guidelines* requires grantees to submit documentation in order to be reimbursed, including the dates of the advertisements and a copy of the advertisements on electronic storage media. DOC advised us that it typically did not obtain such support.

Maryland State Department of Education (MSDE)

Our testing disclosed MSDE made an advanced payment totaling \$91,000 (for a fiscal year 2020 grant) when the grant agreements only allowed for payments on a reimbursable basis. Further review for a similar grant (fiscal year 2021) disclosed

an additional advance payment, bringing the total advanced payments noted to \$182,000. MSDE advised us that it made the advance payments because the grantee had requested the payments in order to provide the necessary services. The two grants totaled \$1.2 million collectively during fiscal years 2020 and 2021.

Recommendation 6

We recommend the aforementioned State agencies

- a. ensure all required documentation is obtained to support all grant payments, including those payments noted above;**
- b. ensure payments are made in accordance with the terms and conditions of the grant agreements; and**
- c. take appropriate corrective action for any grant payments that cannot be supported.**

Exhibit 1 Summary of State Grant Findings in OLA Audit Reports Issued July 1, 2015 to December 31, 2020		Page 1 of 3
Audit Finding		Grant Life Cycle Component
Maryland Energy Administration (MEA) – Report Issued December 16, 2020		
Finding 1 – MEA did not have written policies and procedures for applying grant criteria when evaluating discretionary grant applications and for determining the amounts to be awarded.		Award
Maryland Department of Agriculture (MDA) – Report Issued December 14, 2020		
Finding 1 – MDA had not established comprehensive procedures for Soil Conservation Districts to perform inspections of farms in the Cover Crop Program, did not adequately monitor the inspections, and did not take required action when inspections identified grantees that were noncompliant with the related grant agreement.		Monitoring
Opioid Operational Command Center (OOCC) - Report Issued February 7, 2020		
Finding 1 – OOCC did not have written policies and procedures for the selection of grantees, amounts awarded, and the monitoring of grantees. We noted numerous deficiencies with the grant process that raised questions about the overall integrity of grant awards and related payments.		Award and Monitoring
Finding 2 – OOCC did not have adequate justification for a \$750,000 grant awarded to a nonprofit organization for the purchase of a former country club and golf course.		Award
Finding 3 – OOCC awarded a \$100,000 grant to an out-of-state nonprofit organization that transferred almost all the funds to a for-profit company owned by senior management of the nonprofit; neither of which were registered to conduct business in the State of Maryland. In addition, the payment rate paid to the nonprofit was higher than the rate included in the grant proposal, without a reasonable explanation, and more than half of the required services were not provided.		Award and Monitoring
Finding 4 – OOCC awarded a \$40,959 grant to a nonprofit organization that was not consistent with the related grant proposal. In addition, purchases specified in the grant agreement appeared to have no correlation to the related performance measures, and certain grant expenditures appeared questionable.		Award and Monitoring
Executive Department: Office of the Governor – Report Issued November 12, 2019		
Finding 1 – The Governor’s Office of Crime Control and Prevention did not have a comprehensive methodology for awarding certain Local Law Enforcement grants, and did not verify expenditure and performance data reported by grantees.		Award and Monitoring

Exhibit 1 Page 2 of 3	
Summary of State Grant Findings in OLA Audit Reports Issued July 1, 2015 to December 31, 2020	
Audit Findings	Grant Life Cycle Component
Department of Commerce (DOC) – Report Issued September 4, 2019	
Finding 4 – DOC did not have an established process to ensure that Maryland E-Innovation Initiative Fund recipients secured and deposited required private funding and that the related expenditures were made for qualified purposes.	Monitoring
Finding 5 – DOC had not established effective procedures and controls over the Maryland State Arts Council’s Grants for Organizations program.	Monitoring
Finding 6 – DOC did not have a process to ensure that fund manager agreements included critical details relating to loan underwriting processes.	Monitoring
Finding 7 – DOC did not establish an effective process to verify fund manager compensation.	Monitoring
Finding 8 – DOC did not verify data reported by fund managers relating to their efforts to meet certain specific program lending goals.	Monitoring
Maryland Department of Health: Behavioral Health Administration (BHA) – Report Issued July 9, 2019	
Finding 1 – BHA did not adequately monitor grantees to verify actual performance as required by the grant agreements. In addition, BHA’s monitoring of the grantees did not ensure that the required mental health and substance use disorder services were provided to clients.	Monitoring
Maryland State Department of Education (MSDE) – Report Issued July 2, 2019	
Finding 3 – MSDE did not verify the accuracy of grantee expenditure data and performance reports, and did not conduct comprehensive site visits of grantees.	Monitoring
Department of Disabilities (DOD) – Report Issued June 26, 2019	
Finding 1 – DOD did not include sufficient details in its annual grant agreements with one grantee to enable effective monitoring of the grant and did not document that it verified performance of required work by the grantee.	Monitoring
Department of Human Services: Family Investment Administration (FIA) – Report Issued March 21, 2019	
Finding 7 – FIA did not verify that certain grant funds were spent as intended.	Monitoring
Maryland Health Benefit Exchange (MHBE) – Report Issued October 30, 2018	
Finding 6 – MHBE did not verify the propriety of payroll expenditures reported by one of the seven Connector Program grantees.	Monitoring
Department of Human Services (DHS): Office of the Secretary and Related Units – Report Issued September 12, 2017	
Finding 5 – DHS lacked sufficient procedures and accountability over certain grants.	Monitoring

Exhibit 1 Page 3 of 3	
Summary of State Grant Findings in OLA Audit Reports Issued July 1, 2015 to December 31, 2020	
Audit Finding	Grant Life Cycle Component
Maryland Department of Aging (MDOA) – Report Issued March 9, 2017	
Finding 1 – MDOA lacked a comprehensive policy and did not adequately document annual financial reviews of Area Agencies on Aging (AAAs) it conducted to ensure the appropriate use of State grant funds.	Monitoring
Finding 2 – MDOA did not conduct all required site visits of AAAs to monitor Senior Assisted Living Group Home Subsidy and Senior Care program activity, and there was a lack of evidence that deficiencies noted during site visits conducted were communicated to the applicable AAAs for corrective action.	Monitoring
Finding 3 – MDOA did not ensure that administrative costs incurred by AAAs for the Senior Care grant program were within the required spending limits.	Monitoring
Maryland Department of Transportation (MDOT): Secretary’s Office – Report Issued February 1, 2016	
Finding 1 – MDOT did not establish an adequate process to verify that Washington Metropolitan Area Transit Authority operating and capital grant award amounts were properly calculated, and had not audited the grants provided beyond fiscal year 2009.	Award and Monitoring
Department of Housing and Community Development (DHCD) – Report Issued November 16, 2015	
Finding 2 – DHCD did not maintain complete documentation of the proposal evaluation process for certain Home Owners Preserving Equity and Neighborhood Conservation Initiative (NCI) grants.	Award
Finding 3 – DHCD lacked written procedures for performing and documenting program compliance monitoring of NCI grants.	Monitoring
Department of Commerce (DOC) (formerly the Department of Business and Economic Development) – Report Issued October 9, 2015	
Finding 10 – Procedures and controls over the award and disbursement of program grants were not adequate.	Award and Monitoring
Maryland Health Benefit Exchange (MHBE) – Report Issued October 2, 2015	
Finding 3 – MHBE had not verified the propriety of grant expenditures for the Connector Program paid with State general funds and federal funds.	Grant Monitoring

Comptroller Object Code 12 - Sub-object Definitions and Descriptions

Sub-object Code	Definition	Description	Included in Audit Scope
1201	Social Security Contributions Grants	To record the grant for non-State employees for the employer's share of social security payments based on effective rate and base as provided by federal law.	No
1202	Aid To Political Subdivisions	Subsidies, gratuities, and other aid paid by a State agency to a political subdivision.	No
1203	Health And Insurance Grants	To record employer's share of the health insurance subsidy payable to the health insurance carrier on non-State employees enrolled in the health insurance program.	No
1204	Educational Grants	Payments distributed to persons designated and covered under an educational grant.	No
1205	Inmate Payments	Payments to inmates who are not paid under salaries and wages.	No
1206	Grants Other State Government Programs/Agencies	Grants given to various State agencies by another State agency acting as a grantor.	No
1207	Grants To Non-Governmental Entities	Grants given to non-governmental entities in which the State agency acts as a grantor.	Yes
1208	Statewide Cost Allocation	All indirect costs including fringe benefits, departmental management support and central services such as central payroll, accounting, and personnel administration costs chargeable to State agencies receiving federal, special, and non-budgeted funds.	No
1209	Employees' Retirement System Grants	To record employer's contributions on non-State employees enrolled in the Employees' Retirement System.	No
1210³	Employees' Pension System Grants	To record employer's contributions on non-State employees enrolled in the Employees' Pension System.	Yes
1211	Teachers' Retirement System Grants	To record contributions on non-State employees enrolled in the Teachers' Retirement System.	No
1212	Teachers' Pension System Grants	To record contributions on non-State employees enrolled in the Teachers' Pension System.	No

³ We identified one State agency that incorrectly recorded capital grant expenditures totaling approximately \$294.9 million in sub-object 1210. Therefore, we included expenditures from this sub-object in our audit scope.

Comptroller Object Code 12 - Sub-Object Definitions and Descriptions

Sub-object Code	Definition	Description	Included in Audit Scope
1213	Opt Retirement/ Pension System Grants	To record employer's contributions on non-State employees enrolled in the Teacher Insurance Annuity Association (TIAA) Retirement System, the TIAA tax deferred retirement system, the TIAA pension system, and the TIAA tax deferred pension system.	No
1214	Public Assistance Payments	To record all payments to persons receiving public assistance.	No
1288	Taxable Agricultural Payments 1099g	Payment taxable agricultural payments.	Yes
1291	Energy Efficiency Improvement Rebates	Payments for energy rebates.	No
1294	Grants To Individuals / Taxable 1099MISC	Payments for individual/taxable 1099MISC.	Yes
1295	Corporate Purchasing Cards	Credit card expenses – Other.	No
1296	Grants For Subsidized Rents	This sub-object is to be used by the Department of Housing and Community Development.	Yes
1297	Grants To Health Providers	Any grants, subsidies, or contributions paid to health related organizations (excluding hospitals).	Yes
1298	Taxable Grants, Contributions 1099g	Any grants, subsidies, or contributions made to individuals, sole proprietors, or partnerships which are considered as taxable income for such entities.	Yes
1299	Other Grants, Subsidies & Contributions	Any other grants, subsidies, and contributions costs which cannot be specifically identified to another sub-object. The Department of Budget and Management's Office of Budget Analysis should be consulted before using this sub-object code.	Yes

Source: Comptroller of Maryland *Accounting Procedures Manual*

Exhibit 3

Page 1 of 6

Major Grant Programs at Selected State Agencies in Figure 1 Expenditures from Fiscal Year 2015 to Fiscal Year 2020

(amounts in millions)

Expenditures	Description of Major Grant Programs
1. Department of the Environment (MDE)	
\$772.4	Bay Restoration Fund (Wastewater) - Grants for upgrading, operating, and maintaining Maryland's wastewater treatment plants with enhanced nutrient removal technology.
\$55.1	Bay Restoration Fund (Septic) - Grants to replace old septic tanks with improved systems.
\$45.5	Other - Miscellaneous grant programs.
\$873.0	
2. Maryland State Department of Education (MSDE)	
\$249.0	Public Libraries and Library Network - Grants to help fund operations and improvements at Maryland's libraries. Effective July, 1, 2017, the State created the Maryland State Library Agency (MSL) to award and monitor these grants (see comments below under agency number 14 MSL).
\$132.8	Maryland School for the Blind - Grant to fund the operations which provide enhanced services for blind students who have other severe disabilities.
\$90.0	SEED School of Maryland - Grant to fund Baltimore City's residential boarding school.
\$42.7	Students with Disabilities - Grants to support the placement of students in nonpublic special education programs when the State nor local agencies can provide an appropriate program. Funding for the Autism Waiver Program which provides services to children with autism spectrum disorder. Funding for the Maryland Infants and Toddlers Program which directs a family-centered system of early intervention services for young children with developmental delays and disabilities and their families.
\$39.8	Early Childhood Development - Grants to improve early education in Maryland so that young children are well prepared for school.
\$37.3	State Aided Institutions - Provides annual grants to nonprofit organizations to provide enriching educational programs that cannot be replicated in the classroom.
\$31.5	Healthy Families America - Home visiting program designed to promote health and development to the families throughout the communities.
\$140.8	Other miscellaneous grant programs.
\$763.9	
3. Department of General Services (DGS)	
\$315.0	Capital Projects (Various) - Grants for various projects funded through a Legislative Bond Initiative, an administration initiative as part of the Maryland Consolidated Capital Bond Loan (MCCBL), or in the Governor's budget.
\$193.7	The Community College Construction Grant Program - Administers grant funds to local and regional community colleges to assist with the building process to include acquisition, design, construction/renovation, and furniture.
\$2.4	Other miscellaneous grant programs.
\$511.1	
4. Department of Natural Resources (DNR)	
\$165.6	Program Open Space - Grants to develop and grow State parks and forests through new land purchases. Assists local governments in purchasing a developing recreational land and open space areas.
\$104.8	Program Development and Operation - Grants for planting trees along riversides, building wetlands, and reforesting open fields.
\$81.4	Chesapeake and Atlantic Coastal Bays - Grants provide financial assistance for Maryland's progress in restoring the Chesapeake Bay and other waterways.

Exhibit 3

Page 2 of 6

Major Grant Programs at Selected State Agencies in Figure 1 Expenditures from Fiscal Year 2015 to Fiscal Year 2020 (amount in millions)

Expenditures	Description of Major Grant Programs
\$81.0	Rural Legacy Program - Grants to preserve large, contiguous tracts of land and to enhance natural resource, agricultural, forestry, and environmental protection while supporting a sustainable land base for natural resource based industries.
\$18.6	Community Parks and Playgrounds - Grants to provide assistance to rehabilitate, expand or improve existing parks, create new parks, develop environmentally oriented parks and recreation projects, or purchase and install playground equipment in older neighborhoods and intensely developed areas throughout the State.
\$11.9	Waterway Improvement Fund - Grants for projects which improve and promote the recreational and commercial capabilities, conditions, and safety of Maryland's waterways for the benefit of the general boating public.
\$26.5	Other miscellaneous grant programs.
\$489.8	
5. Department of Commerce (DOC)	
\$109.3	Maryland State Arts Council - Encourages and invests in advancement of the arts for all Marylanders. Its grant funded programs support artists and arts organizations in their pursuit of artistic excellence, ensure the accessibility of the arts to all citizens, and promote statewide awareness of arts resources and opportunities.
\$61.1	Maryland Economic Development Assistance Fund - Capital - Funds grants, loans, and investments to support economic development initiatives in priority funding areas of the State.
\$38.3	Small, Minority, Women-Owned Business (SMWOB) - Grants to eligible fund managers who provide investment capital and loans to SMWOBS in Maryland.
\$34.3	Maryland E-Innovation Initiative Fund - Offers funds to support Maryland's nonprofit institutions of higher education for research endowments in scientific and technical fields.
\$25.3	The Maryland Tourism Board - Tourism grants, for example funds to Destination Marketing Organizations for the purpose of attracting visitors to the State.
\$38.1	Other miscellaneous grant programs.
\$306.4	
6. Maryland Higher Education Commission (MHEC)	
\$294.4	Aid to Non-Public Institutions of Higher Education - This program provides funds to eligible community colleges and independent institutions.
\$5.9	Other miscellaneous grant programs.
\$300.3	
7. Maryland Department of Labor (MDL)	
\$215.8	Various Horse Racing Grants - MDL's Division of Racing is responsible for distributing funds to promote and support the horse racing industry, as required in State law. For example, funds to help increase the purse sizes for thoroughbred and standard bred horse racing.
\$26.5	Racetrack Facility Renewal Account - Funds for racetrack facility capital construction and improvement.
\$24.1	Maryland Employment Advancement Right Now (EARN) - Grant funds are awarded to support regional strategic industry partnerships in implementing workforce training plans designed to address industry workforce skill gaps and employ or advance workers within a targeted region or sector.
\$7.3	Literacy Works - Provides funding for adult education and literacy service programs.
\$8.5	Other miscellaneous grant programs.
\$282.2	
8. Maryland Department of Agriculture (MDA)	
\$163.5	Conservation Grants - MDA provides conservation grants to help farmers offset the cost of installing best management practices on their farms to protect natural resources and comply with federal, State, and local environmental requirements. The Cover Crop program is the most material grant under Conservation Grants.
\$24.8	Maryland Agricultural and Resource Based-Industry Development Corporation - Provides assistance to owners of qualified farms and rural businesses in securing affordable capital and credit for equipment, commercial facilities, and real estate purchases, and assists with rural land preservation.

Exhibit 3

Page 3 of 6

Major Grant Programs at Selected State Agencies in Figure 1
Expenditures from Fiscal Year 2015 to Fiscal Year 2020
(amounts in millions)

Expenditures	Description of Major Grant Programs
\$27.1	Maryland Agricultural Cost-Share Program - Provides financial assistance to Maryland farmers for installing nationally recognized best management practices that reduce soil and nutrient runoff from farmland.
\$16.5	The Maryland Agriculture Education and Rural Development Assistance Fund - Grant funding provides capacity-building funds to rural nonprofit service providers.
\$16.5	Resource Conservation Operations - This program provides financial and technical assistance as well as staffing support to the State's 24 soil conservation districts in their promotion of soil and water quality programs at the local level and implement conservation practices and programs that balance crop and livestock production with the need to protect natural resources.
\$12.4	Marketing and Agriculture Development - The Marketing Program assists Maryland farmers and other agricultural entrepreneurs to develop markets for their products. The Program provides market research, identifies marketing opportunities, and provides a centralized source of business development information for farmers, small agribusinesses and large agriculture-related businesses.
\$7.8	Maryland Agriculture Fair Board - Gives financial aid to qualifying organizations for premium awards to exhibitors of agricultural displays.
\$2.4	Animal Waste Technology Fund - Provides grants to vendors, businesses, and individuals offering technologies that demonstrate innovative, economically feasible animal waste projects.
\$7.3	Other miscellaneous grant programs.
\$278.3	
9. Department of Housing and Community Development (DHCD)	
\$80.6	Neighborhood Programs - Funding for various programs such as the Home Owners Preserving Equity Program - intended to help homeowners with free housing counseling and mortgage assistance. Also these programs included the Creating Opportunities for Renewal and Enterprise grant, of which the main focus is the demolition and stabilization of vacant and blighted properties in Baltimore City.
\$44.3	Special Loan Programs - Expenditures related to such program as the Lead Hazard Reduction program, Indoor Plumbing Program, and Housing Rehab Programs. These are loans and/or grant programs.
\$21.0	The Strategic Demolition Fund - Funds for certain economic development and job production activities including demolition of derelict structures, site acquisition, development, and construction for projects that improve the State's economy.
\$18.6	Community Legacy - The program provides local governments and community development organizations with funding for essential projects aimed at strengthening communities through activities such as business retention and attraction, encouraging homeownership, and commercial revitalization.
\$15.3	Energy Loan Program - Multifamily Energy Efficiency and Housing Affordability loan program. The purpose of the program is to increase energy efficiency of multifamily homes of low and moderate income households.
\$13.2	Baltimore Regional Neighborhood Initiative - Program to provide strategic investment in local housing and businesses to provide healthy, sustainable communities with a growing tax base and enhanced quality of life.
\$12.0	Transitional Housing Program - The Shelter and Transitional Housing Facilities Grant Program provides grants to improve or create transitional housing and emergency shelters. The purpose of the program is to reduce homelessness in the State. Grants may be provided to 501(c)(3) nonprofit organizations and local governments.
\$30.7	Other miscellaneous grant programs.
\$235.7	
10. Maryland Department of Health (MDH)	
\$139.3	Family Health and Chronic Disease - Various grants - the most material portion of these expenditures are related to the State's operational funding for the University of Maryland Medical System. These grants also include Cancer Research - awarded to certain entities for the purpose of enhancing cancer research activities.
\$27.2	Maryland Health Resource Commission - Grants to Maryland health facilities to expand the accessibility of these facilities in underserved areas.
\$20.7	The Maryland Health Care Commission - Grants to trauma centers supported by the Maryland Trauma Physicians Fund and to the Shock Trauma Center.
\$33.9	Other miscellaneous grant programs.

Exhibit 3

Page 4 of 6

Major Grant Programs at Selected State Agencies in Figure 1 Expenditures from Fiscal Year 2015 to Fiscal Year 2020 (amounts in millions)

Expenditures	Description of Major Grant Programs
\$221.1	
11. Maryland Energy Administration (MEA)	
\$60.1	Renewable and Clean Energy Programs and Initiative - Funding for renewable and clean energy initiatives, energy-related public education and outreach, and climate change programs.
\$44.8	Energy Efficiency and Conservation Programs, Low and Moderate Income Resident Sector - Funding for energy efficiency and conservation programs, projects, or activities, and demand response programs targeted to the low income residential sector at no cost to the participants and the moderate income residential sector with minimal cost to the participants.
\$26.5	Energy Efficiency and Conservation Programs, All Other Sectors - Funding for energy efficiency and conservation programs, projects, or activities, and demand response programs.
\$0.3	Other miscellaneous grant programs.
\$131.7	
12. Maryland Technology Development Corporation (TEDCO)	
\$55.7	Stem Cell Research Fund - Supports stem cell research and development at Maryland's research universities and private sector research corporations.
\$21.9	Maryland Innovation Initiative - The program is designed to promote commercialization of research conducted in the partnership universities, encourage qualifying universities to partner on commercialization and other activities, and facilitate transfer of technology from university to commercial industries.
\$19.8	Technology Development - Supports technology and product development by start-up companies often deemed too early in their development to gain the interest of traditional venture capital investments.
\$11.6	Enterprise Investment Fund (Capital) - Funds provided for emerging high-technology businesses which are either located in or relocating to the State. Investments are based on the market potential of the technology.
\$12.5	Other miscellaneous grant programs.
\$121.5	
13. Maryland Department of Transportation (MDOT)	
\$84.7	MDOT Headquarters - Grants primarily to fund various capital projects, including amounts provided to local governments, and transportation related projects.
\$10.4	Maryland Transit Administration - Various transportation related grants, which primarily related to operating, capital and technical assistance for Local Operating Transit Systems.
\$5.8	State Highway Administration - Various payments for costs for work performed on highway projects.
\$10.7	Other MDOT Transportation Business Units
\$111.6	
14. Maryland State Library Agency (MSL)	
\$90.6	State Aid to Public Libraries - Grants to help fund operations and improvements at Maryland's libraries. (Prior to fiscal year 2018, this program was under MSDE – see comments under agency number 2 MSDE).
\$90.6	
15. Department of Human Services (DHS)	
\$37.1	Office of Grants Management - The majority of these expenditure were grant to purchase and distribute healthy nutritious foods to Marylanders in need through feeding Maryland and School Pantry and Pantry on the Go programs. In addition, grants to provide home delivered, medically-tailored meals and nutrition services to persons living with HIV/AIDS, cancer, and other life challenging illnesses.
\$14.2	Child Welfare Services - Grant for child welfare services.
\$5.3	General Administration - Grants primarily for technical assistance.
\$13.6	Other miscellaneous grant programs.
\$70.2	

Exhibit 3

Page 5 of 6

Major Grant Programs at Selected State Agencies in Figure 1
Expenditures From Fiscal Year 2015 to Fiscal Year 2020
(amounts in millions)

Expenditures	Description of Major Grant Programs
16. Board of Public Works (BPW)	
\$37.0	State Grants to Non-Profits - BPW receives an appropriation for various grants included in the budget bill language each fiscal year.
\$0.5	Other miscellaneous grant programs.
\$37.5	
17. Maryland Health Benefit Exchange (MHBE)	
\$30.7	MHBE Connector Entities - Grant funds for entities to provide in-person application, enrollment, renewal, and retention assistance to individuals seeking to enroll in health care coverage through the Maryland Health Connection.
\$30.7	
18. Maryland Department of Planning (MDP)	
\$19.3	The Maryland Historical Trust's Historic Preservation Capital Grant - Grants to promote preservation of historic properties in Maryland that serve a high public purpose. The Program offers assistance to non-profit organizations, local jurisdictions, business entities, and private citizens. The programs seek to promote the acquisition and rehabilitation of historic properties by providing low-interest loans, tax credits, or grants, depending on the program.
\$5.5	Maryland Historical Trust and African American Preservations grants - Provides capital grants to assist in the preservation of buildings, sites, or communities of historical and cultural importance to the African American experience in Maryland.
\$5.6	Other miscellaneous grant programs.
\$30.5	
19. Department of Public Safety and Correctional Services (DPSCS)	
\$8.7	Criminal Injuries Compensation Board - Payments to reimburse innocent victims of crime who have suffered a physical injury and sustained a financial loss. (Also see agency number 22 Executive Department Boards, Commissions, and Offices).
\$3.6	Officer's Death Benefits - One-time payment of death benefits to the beneficiary of individuals who died as a result of performing assigned duties for a qualified Maryland Public Safety Organization.
\$1.0	Supporting Ex-Offenders in Employment Training and Transitional Service - Payments to serve formerly incarcerated individuals.
\$3.9	Other miscellaneous grant programs
\$17.2	
20. Maryland State Police (MSP)	
\$10.2	Vehicle Theft Prevention Program - Program costs for prevent vehicle theft and other vehicle-related crimes
\$2.1	Other miscellaneous grant programs.
\$12.3	
21. Office of the Attorney General (OAG)	
\$12.1	Mortgage Loan Servicing Practice Settlement - Payments related to a mortgage loan servicing practice agreement.
\$12.1	
22. Executive Department Boards, Commissions, and Offices	
\$3.7	Criminal Injuries Compensation Board - The Criminal Injuries Compensation Board transferred to Executive Department Boards, Commissions, and Offices during fiscal year 2019. (See agency number 19 DPSCS).
\$3.5	Victims of Crime Act - Grants to improve the treatment of victims of crime by providing victims with the assistance and services necessary to aid their restoration after a violent criminal act, and to support and aid them as they move through the criminal justice process.

Exhibit 3

Page 6 of 6

Major Grant Programs at Selected State Agencies in Figure 1
Expenditures from Fiscal Year 2015 to Fiscal Year 2020
 (amounts in millions)

Expenditures	Description of Major Grant Programs
\$3.5	Victims of Crime Act - Grants to improve the treatment of victims of crime by providing victims with the assistance and services necessary to aid their restoration after a violent criminal act, and to support and aid them as they move through the criminal justice process.
\$1.2	Community Sexual Assault Awareness - Funds to provide financial support to the State's rape crisis and recovery centers for prevention education and awareness in the community.
\$2.2	Other miscellaneous grant programs.
\$10.6	
23. Other Miscellaneous Departments	
\$16.9	Includes the Maryland Institute for Emergency Medical Services Systems, Department of Juvenile Services, Department of Aging, Department of Disabilities, Military Department, Office of the Comptroller, Department of Veterans Affairs, State Board of Elections, and the Canal Place Preservation and Development Authority.
\$16.9	
\$4,995.2	

Note: Numbers may not sum to totals due to rounding.

Source: State Financial Management Information System records, agency records, and discussions with agency personnel.

<div> <div>Exhibit 4</div> <div>Page 1 of 3</div> </div> <div>Summary of Grant Guidance and Practices Implemented by the Federal Government and Certain Other States⁴</div>	
Government	Office of Legislative Audits (OLA) Comments
Federal	<p>The Federal <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (commonly called "<i>Uniform Guidance</i>") was implemented in December 2014. The <i>Uniform Guidance</i>, a streamlined government-wide framework for grants management, is an authoritative set of rules and requirements for Federal awards that aims to provide standards, reduce the administrative burden on award recipients and, help prevent waste and misuse of federal funds through focused auditing efforts. As a result of the <i>Uniform Guidance</i>, Office of Management and Budget (OMB) implemented the following requirements related to grants:</p> <ul style="list-style-type: none"> • Agencies must use OMB-approved forms for applications and information collection; • Recipients must disclose in writing potential conflicts of interest to the awarding agency; • Awarding agencies must conduct a pre-award review of potential applicants' financial risk; and • Agencies must publish all awards and required information on the website "USAspending.gov". <p>Additionally, the <i>Grant Reporting Efficiency and Agreements Transparency (GREAT) Act</i>, effective December 2019, directs federal agencies to modernize and improve grantee reporting. When fully implemented, the application of data standards in the GREAT Act is intended to help provide decision-makers with critical information about grantee performance and ensure grantees can spend less time on reporting and more time delivering services that benefit society. The <i>Act</i> requires improvements to grant data, such as requirements for data to be fully searchable and machine-readable.</p>

⁴ During our discussions with State personnel we were advised of certain federal grant practices and laws designed to improve controls over federal grants. We were also advised of select states that have implemented certain grant guidance. We conducted an internet search and summarized some of the best practices, guidance and related laws that may be a resource to serve as a guide for the State to improve its current practices. We noted that these states typically have one agency that is responsible for most grant activity and that provides oversight of the grant processes.

<div> <div>Exhibit 4</div> <div>Page 2 of 3</div> </div> <div>Summary of Grant Guidance and Practices Implemented by the Federal Government and Certain Other States</div>	
Government	Office of Legislative Audits (OLA) Comments
Arizona	<p>Arizona has one designated agency (Office of Grants and Federal Resources) responsible for maintaining a grants clearinghouse, as well as a comprehensive grants management manual. The manual provides specific directives on managing the entire life-cycle of grants; including monitor grantees based on standardized criteria and perform required site visits. One of the primary purposes of the agency is to simplify the grant processes. Finally, Arizona implemented a statewide grants management system.</p>
Illinois	<p>The Illinois Grant Accountability and Transparency Act (GATA), effective July 16, 2014, established uniform administrative requirements, cost principles, and audit requirements for State and federal pass-through grant awards to non-federal entities. GATA is intended to comply with the Illinois legislature’s directives to</p> <ul style="list-style-type: none"> • develop a coordinated, non-redundant process for the provision of effective and efficient oversight of the selection and monitoring of grant recipients, thereby ensuring quality programs and limiting fraud, waste, and abuse, and • define the purpose, scope, applicability, and responsibilities in the life cycle of a grant and establish uniformity and guidance for all grant-making agencies. <p>According to the 2019 annual GATA report, certain practices were implemented – centralized grant portal; uniform grant application; and codification of grant management administrative rules. Illinois also recently implemented a statewide grants management system which provides a list of all grant opportunities available and connects potential applicants to a uniform, statewide grant application protocol.</p>
Minnesota	<p>Minnesota has one designated agency (Office of Grants Management) to standardize, streamline and improve State grant-making practices, as well as to increase public information about State grant opportunities. This agency provides guidance for grant applications, and has implemented a statewide policy with specific requirements for monitoring grants. For example, agencies are required to perform site visits for monitoring purposes for all State grants over \$50,000. The agency maintains a website with guidance over certain practices for granting agencies to implement internal controls and recordkeeping, such as an internal control checklist agencies may use to evaluate grantees.</p>

**Summary of Grant Guidance and Practices Implemented by the
Federal Government and Certain Other States**

Government	Office of Legislative Audits (OLA) Comments
North Carolina	North Carolina has one designated agency (Office of State Budget and Management) responsible for maintaining a grants clearinghouse, as well as a comprehensive grants management manual. Grant information is tracked and reported through a grants management system. The agency also maintains a public website displaying all State expenditures, with a separate section pertaining to grants. State law establishes standardized responsibilities for agencies as well as recipients. For example, agencies are required to develop and implement a monitoring plan for the terms of the grant. The law also establishes requirements for recipients of amounts of at least \$500,000 to obtain an independent audit of the grant, and specifies mandatory terms to be included in the written grant agreements.
Texas	Texas has one designated agency (Comptroller of Public Accounts) for providing uniform grant management standards to promote the efficient use of public funds. These standards require risk assessments prior to each award greater than \$25,000 to determine if a higher level of monitoring is required if the award is made. The agency maintains a website for posting grant applications and awards for State grants, however agencies are encouraged rather than required to use this site. The agency also provides a mandatory set of financial management procedures in order to ensure consistency among accountability for the expenditure of public funds.

Source: General internet searches including Grants.gov.



APPENDIX

Governor's Grants Office
100 Community Place
Crownsville, MD 21032
(410) 697-9689

November 3, 2021

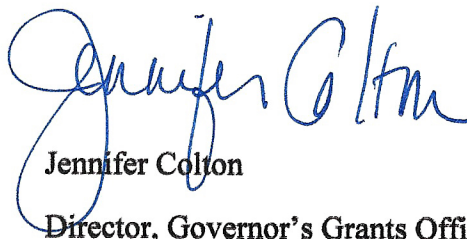
Mr. Gregory Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street,
Baltimore, MD 21201

Dear Mr. Hook:

Attached please find the responses, prepared by the Governor's Grants Office regarding OLA's State Grants Performance Audit. The responses are consistent with those presented in the draft report and discussed with your staff throughout this process.

Thank you for the opportunity to respond to the draft audit report. If you or your staff has any questions concerning the responses, please do not hesitate to contact me.

Sincerely,



Jennifer Colton
Director, Governor's Grants Office

State Grants

Agency Response Form

Finding 1

The State does not have statewide comprehensive laws, regulations, policies or procedures governing the creation, award, and administration of State grants.

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, develop a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants (including the key elements/criteria mentioned above).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>The Governor's Grants Office (GGO) agrees there should be a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants. As stated in the audit report, there currently is no State entity that has the legal authority to develop, implement or enforce agency compliance with such rules and guidelines for awarding and administering grants.</p> <p>The Maryland Efficient Grant Application Council ("MEGAC") has been tasked with studying and making recommendations to GGO, the Department of Budget and Management (DBM), and the General Assembly for a statewide centralized grants management and accountability system. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with DBM, GGO will work to implement the recommendations made by the MEGAC.</p> <p>Additional legislation or actions will be required in order to establish authority to fully accomplish the audit recommendation.</p>		

State Grants

Agency Response Form

Finding 2

The State does not have standardized grant applications and grant agreements. As a result, we noted critical provisions that were not included in certain State agencies' grant agreements.

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, work to develop a uniform grant application and agreement that incorporate critical mandatory provisions (including the provisions mentioned above) and require State agencies to use these documents.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	GGO agrees that the State does not have standardized grant applications or agreements, but it does not opine on the provisions that were or were not included in the grant agreements reviewed.		
Recommendation 2	Agree	Estimated Completion Date:	2024
Please provide details of corrective action or explain disagreement.	<p>The MEGAC is tasked with studying and making recommendations regarding the grants life cycle, including the creation of a uniform grant application form, uniform financial controls and reporting requirements, uniform performance progress reporting requirements, and regulations that should be established. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1)(i) and (ii). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with DBM, GGO will work to implement the recommendations made by the MEGAC.</p> <p>As stated in the audit report, there currently is no State entity that has the legal authority over other State agencies' grant activity. Additional legislation or actions will be required in order to establish authority to fully accomplish the audit recommendation, especially to require State agencies to use a uniform grant application and agreement.</p>		

State Grants

Agency Response Form

Finding 3

The State did not have a statewide grants management system to help administer and track grant awards and related expenditures.

We recommend that the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council,

- a. procure and implement a comprehensive GMS;
- b. take appropriate action to ensure that agencies are required to use the GMS; and
- c. develop the necessary policies, procedures, and regulations to ensure the GMS is used as intended.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	<p>The Governor's Grants Office, in conjunction with the Departments of Information Technology and Budget and Management, have prioritized the implementation of an Enterprise Grants Management System (EGMS) through the states' Major IT Development Project (MITDP) fund. An RFP for a SaaS solution to be used by all grant-making agencies across the state closed in December 2020. The submission of the proposed vendor will be made to the BPW as part of the December 1, 2021 agenda. A project team has been hired for this endeavor, including a project manager, business analysts, Grant Policy SME, as well as a project coordinator, and is being managed by the GGO with the assistance of DoIT's EPMO.</p>		
Recommendation 3b	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>The Governor's Grants Office (GGO) agrees with the recommendation that State agencies should use a statewide grants management system. The project team referenced above are actively engaged with grant-making agencies across the State to gather requirements and prepare for vendor onboarding, so that the EGMS can be implemented state-wide in a phased approach in alignment with the EGMS project schedule and state needs.</p> <p>The Maryland Efficient Grant Application Council ("MEGAC") has been tasked with studying and making recommendations to GGO, the Department of Budget and Management (DBM), and the General</p>		

State Grants

Agency Response Form

	<p>Assembly for a statewide centralized grants management and accountability system. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with DBM, GGO will work to implement the recommendations made by the MEGAC.</p> <p>As mentioned by the auditors, there are currently no legal requirements for State agencies to use the EGMS when it becomes operational. Additional legislation or actions will be required in order to establish authority to accomplish the audit recommendation.</p>		
Recommendation 3c	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>The Governor's Grants Office (GGO) agrees with the recommendation that there should be policies, procedures, and regulations to ensure the EGMS is used as intended.</p> <p>A policy and procedure document is under development for use of the EGMS. It will be available on the GGO Website upon completion of the EGMS.</p> <p>The Maryland Efficient Grant Application Council ("MEGAC") has been tasked with studying and making recommendations to GGO, the Department of Budget and Management (DBM), and the General Assembly for a statewide centralized grants management and accountability system, that may include recommendations for policies and regulations related to use of the EGMS. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with DBM, GGO will work to implement the recommendations made by the MEGAC.</p> <p>Additional legislation or actions will be required in order to establish authority to fully accomplish the audit recommendation, especially with establishing policies and regulations related to the use of EGMS.</p>		



LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

November 2, 2021

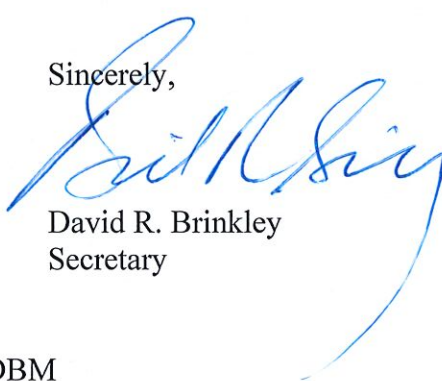
Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

The Department of Budget & Management (DBM) has reviewed your draft performance audit report on State Grants. As you are aware, DBM does not directly issue or is not responsible for monitoring or overseeing any State grants. As requested, attached are our responses to Findings 1-3 in the report.

If you have any questions or need additional information, you may contact me at 410-260-7041 or Joan Peacock, Audit Compliance Unit Manager, at 410-260-7079.

Sincerely,


David R. Brinkley
Secretary

cc: Marc Nicole, Deputy Secretary, DBM
Brent Bolea, Principal Counsel
Teresa A. Garraty, Executive Director, Office of Capital Budgeting, DBM
Jonathan Martin, Executive Director, Office of Budget Analysis, DBM
Joan Peacock, Manager, Audit Compliance Unit, DBM

Department of Budget and Management
Response to Legislative Audit Findings
State Grants Performance Audit
November 2021

Finding 1

The State does not have statewide comprehensive laws, regulations, policies or procedures governing the creation, award, and administration of State grants.

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, develop a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants (including the key elements/criteria mentioned above).

Agency Response			
Analysis			
Recommendation 1	Agree	Estimated Completion Date:	
	<p>DBM agrees there should be a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants with the intention of the recommendation. As stated in the audit report, there currently is no State entity that has the legal authority to develop, implement or enforce agency compliance with such rules and guidelines for awarding and administering grants.</p> <p>The Maryland Efficient Grant Application Council (“MEGAC”) has been tasked with studying and making recommendations to the Governor’s Grants Office (GGO), DBM, and the General Assembly for a statewide centralized grants management and accountability system. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with GGO, DBM will work to implement the recommendations made by the MEGAC.</p> <p>Additional legislation or actions will be required to establish authority to fully accomplish the audit recommendation.</p>		

Department of Budget and Management
Response to Legislative Audit Findings
State Grants Performance Audit
November 2021

Finding 2

The State does not have standardized grant applications and grant agreements. As a result, we noted critical provisions that were not included in certain State agencies' grant agreements.

We recommend the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council, work to develop a uniform grant application and agreement that incorporate critical mandatory provisions (including the provisions mentioned above) and require State agencies to use these documents.

Agency Response			
Analysis			
Recommendation 2	Agree	Estimated Completion Date:	
.	<p>The MEGAC is tasked with studying and making recommendations regarding the grant life cycle, including the creation of a uniform grant application form, uniform financial controls and reporting requirements, uniform performance progress reporting requirements, and regulations that should be established. <i>See</i> Md. Code, State Finance and Procurement Article §§ 2-210(b)(1)(i) and (ii). The report and recommendations are due on or before July 1, 2024. <i>See id.</i> at § 2-210(c). In conjunction with GGO, DBM will work to implement the recommendations made by the MEGAC.</p> <p>As stated in the audit report, there currently is no State entity that has the legal authority over other State agencies' grant activity. Additional legislation or actions will be required to establish authority to fully accomplish the audit recommendation, especially to require State agencies to use a uniform grant application and agreement.</p>		

Department of Budget and Management
Response to Legislative Audit Findings
State Grants Performance Audit
November 2021

Finding 3

The State did not have a statewide grants management system to help administer and track grant awards and related expenditures.

We recommend that the GGO and DBM, under the direction of the Maryland Efficient Grant Application Council,

- a. procure and implement a comprehensive GMS;
- b. take appropriate action to ensure that agencies are required to use the GMS; and
- c. develop the necessary policies, procedures, and regulations to ensure the GMS is used as intended.

Agency Response			
Analysis			
Recommendation 3a	Agree	Estimated Completion Date:	2025
	<p>The Governor's Grants Office, in conjunction with the Departments of Information Technology and Budget and Management, are working together to procure and implement the Enterprise Grants Management System (EGMS) through the states' Major IT Development Project (MITDP) fund. The contract to procure a vendor for this project is scheduled to be submitted to the Board of Public Works as part of the December 1, 2021 agenda.</p>		
Recommendation 3b	Agree	Estimated Completion Date:	
	<p>DBM agrees with the intention of the recommendation that State agencies should use a statewide grants management system. The GGO and project team referenced above are actively engaged with grant-making agencies across the State to gather requirements and prepare for vendor onboarding, so that the EGMS can be implemented state-wide in a phased approach in alignment with the EGMS project schedule and state needs.</p> <p>The Maryland Efficient Grant Application Council ("MEGAC") has been tasked with studying and making recommendations to GGO, the DBM, and the General Assembly for a statewide centralized grants management and accountability system. See Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. See id. at § 2-210(c). In conjunction with DBM, GGO will work to implement the recommendations made by the MEGAC.</p>		

Department of Budget and Management
Response to Legislative Audit Findings
State Grants Performance Audit
November 2021

	<p>As mentioned by the auditors, there are currently no legal requirements for State agencies to use the EGMS when it becomes operational. DBM does not have the legal authority to develop comprehensive laws, regulations, policies, or procedures on behalf of the State for awarding and administering grants nor requiring agencies to utilize the EGMS.</p> <p>Additional legislation or actions will be required to establish authority to accomplish the audit recommendation.</p>		
Recommendation 3c	Agree	Estimated Completion Date:	
	<p>DBM agrees with the intention of the recommendation that there should be policies, procedures, and regulations to ensure the EGMS is used as intended but does not have the legal authority to develop comprehensive laws, regulations, policies, or procedures on behalf of the State for awarding and administering grants nor requiring agencies to utilize the EGMS.</p> <p>Per GGO, a policy is under development for use of the EGMS. It will be available on the GGO Website upon completion of the EGMS.</p> <p>The Maryland Efficient Grant Application Council (“MEGAC”) has been tasked with studying and making recommendations to GGO, the DBM, and the General Assembly for a statewide centralized grants management and accountability system, that may include recommendations for policies and regulations related to use of the EGMS. See Md. Code, State Finance and Procurement Article §§ 2-210(b)(1), (c). The report and recommendations are due on or before July 1, 2024. See id. at § 2-210(c). In conjunction with GGO, DBM will work to implement the recommendations made by the MEGAC.</p> <p>Additional legislation or actions will be required to establish authority to fully accomplish the audit recommendation, especially with establishing policies and regulations related to the use of EGMS.</p>		



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce
Signe Pringle | Deputy Secretary of Commerce

November 2, 2021

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
301 W Preston Street
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed is the Maryland Department of Commerce's response to the performance audit assessing the State's policies and guidance for the advertising, awarding, and monitoring of State-funded grants during fiscal years 2015 through 2020.

If you have any questions, please contact David McDaniels, Chief Internal Auditor. His phone number is 410-767-6294 and email is david.mcdaniels@maryland.gov.

Sincerely,

Kelly M. Schulz
Secretary

Enclosure

OFFICE OF THE SECRETARY

World Trade Center | 401 East Pratt Street | Baltimore, MD 21202 | 410-767-6301 | 888-246-6736

commerce.maryland.gov

State Grants

Agency Response Form

Finding 4

Individual agencies awarded certain grants without competition and required documentation was not always available to support the propriety of the award, including one award which was not calculated correctly.

We recommend that DOC, MDL, and DHS implement comprehensive policies and procedures over the grant award process to include a requirement for public competitive solicitation, if applicable, and prepare and retain all documentation to support the award process.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>This was the 2018 DOC sponsorship for the event, Maryland Fleet Week, to Historic Ships - the event producer. The producer of the event did supply a grant application; however, the grant agreement forwarded to Historic Ships included \$113,500 in administrative costs that should have been eliminated from the grant agreement.</p> <p>The \$125,000 was for a grant to Visit Baltimore as a partner with the American Bus Association (ABA) to host the annual ABA Marketplace in 2020. Exhibit A that described the activities associated with the event was provided to the auditors. The agreement between DOC and Visit Baltimore was discussed between the parties to determine which activities would be covered in the grant agreement.</p>		
Recommendation 4	Agree	Estimated Completion Date:	Done (9-21)
Please provide details of corrective action or explain disagreement.	<p>Office of Tourism Development has corrected this and developed an application that is standard across all platforms. OTD has developed a policy, which requires grantees to submit an application that includes the purpose of the event, background or history of the event, marketing plan, amount of the request, total budget, and an explanation of how grant funds will be used. This should ensure that grant agreements align with grant applications and intent of the funds granted to the grantee. Competitive awards of grants may not always be possible as many grants are awarded to unique and/or event organizer owned events such as Maryland Fleet Week and CIAA.</p>		

State Grants

Agency Response Form

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.

We recommend the aforementioned State agencies

- a. ensure all required documentation is obtained to support all grant payments, including those payments noted above;
- b. ensure payments are made in accordance with the terms and conditions of the grant agreements; and
- c. take appropriate corrective action for any grant payments that cannot be supported.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>The Ocean City grant is part of the Tourism Promotion Act of 2008 that requires that all official Destination Marketing Organizations be granted a portion of \$2.5 million for promotional and marketing expenses. The \$373,200 invoice from Ocean City was for the total amount that the county is eligible for through the grant agreement.</p> <p>Advertising has expanded beyond print, radio, and television, which have systems of supporting documentation including tear sheets and broadcast affidavits. Digital advertising does not have a formal affidavit process, and advertising proof of performance is verified through the digital media outlets' invoicing system.</p>		
Recommendation 6a	Agree	Estimated Completion Date:	Done (9-21)
Please provide details of corrective action or explain disagreement.	Office of Tourism Development staff has been instructed to ensure that all required documentation as outlined in the Grant Agreement and the Grant Guidelines must be obtained from Grantee prior to payment processing. However, documentation will be limited, as digital advertising does not have an affidavit process as radio and television does, and print with its tear sheets, to demonstrate that the advertising did appear on digital media outlets.		
Recommendation 6b	Agree	Estimated Completion Date:	Done (9-21)
Please provide details of corrective action or explain disagreement.	OTD staff has been instructed to ensure that all payments are made in accordance with the terms and conditions as required as outlined in the Grant Agreement and the Grant Guidelines.		

State Grants

Agency Response Form

Recommendation 6c	Agree	Estimated Completion Date:	(2-22)
Please provide details of corrective action or explain disagreement.	OTD staff has been instructed to ensure that all payments are made in accordance with the terms and conditions of the grant agreements. In the instance of non-supported payments, OTD will work with the Attorney General to determine how to best recapture the funds.		

November 2, 2021

Mr. Gregory A. Hook
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Hook:

Please find enclosed the Department of Human Services' (DHS) response to the draft Legislative Performance Audit Report on State Grants.

If there are questions regarding the response, please contact the Inspector General, Marva Sutherland of my staff at 443-378-4060 or marva.sutherland@maryland.gov.

Sincerely,

A handwritten signature in blue ink that reads "Lourdes R. Padilla". The signature is written in a cursive, flowing style.

Lourdes R. Padilla
Secretary

Enclosures:

cc:

Gregory James, Deputy Secretary, Operations
Netsanet Kibret, Deputy Secretary, Programs
Samantha Blizzard, Chief of Staff
Michelle L. Farr, Executive Director, SSA
Stafford Chipungu, Chief Financial Officer
Marva M. Sutherland, Inspector General, OIG
Keonna Wiley, Assistant Inspector General – Audits, OIG



State Grants

Agency Response Form

Finding 4

Individual agencies awarded certain grants without competition and required documentation was not always available to support the propriety of the award, including one award which was not calculated correctly.

We recommend that DOC, MDL, and DHS implement comprehensive policies and procedures over the grant award process to include a requirement for public competitive solicitation, if applicable, and prepare and retain all documentation to support the award process.

Agency Response	
Analysis	Not Factually Accurate
Please provide additional comments as deemed necessary.	<p>DHS respectfully disagrees with the analysis. DHS's current Grant policies and procedures manual outlines the instructions and guidance for the development and processing of grants by Department staff. Section .05(A) of the manual states that there is no requirement for competition in the award of grants as well as procedures determining whether there are restrictions or requirements associated with the grant that may require, for example, a competitive process or award to specific grantees based on the source of the grant funds. The grant in question did not have a requirement that it be publicly solicited or competitively bid.</p> <p>In addition, the grant in question supports the ability for DHS to have access to national child welfare experts and is a continuation of an agreement that began three years prior. Changing the grantee at the end of the original grant period would have been disruptive to DHS's ongoing child welfare transformation efforts including the implementation of new child welfare legislation passed in 2018, which dramatically altered the federal financing structure for child welfare programming. While the review procedures undertaken may not be fully documented, the \$3 million grant identified in the analysis was included in DHS's approved budget, which outlined the services to be rendered and identified the grantee.</p>

State Grants

Agency Response Form

Recommendation 4	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	DHS has a comprehensive grant policy, and all grants are reviewed for legal sufficiency by the Office of the Attorney General. DHS notes that in many instances, a competitive grant award process would not be consistent with the delivery of critical services. DHS will ensure that it documents the basis for selecting a competitive or non-competitive award process, as well as the basis for award.		

Auditor's Comment: DHS' response disagreed with our analysis and recommendation. DHS states that it has a comprehensive grant policy and that there is no requirement for competition in the award of grants. We continue to believe that a policy requiring a competitive award process is in the best interest of the State. Further, for the specific grant tested, even though DHS presents several reasons in its response for not using a competitive award process, we determined that DHS did not document its rationale for the award. DHS did acknowledge that it will take steps to ensure proper documentation is maintained for the basis of selection.

State Grants

Agency Response Form

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.

We recommend the aforementioned State agencies

- a. ensure all required documentation is obtained to support all grant payments, including those payments noted above;
- b. ensure payments are made in accordance with the terms and conditions of the grant agreements; and
- c. take appropriate corrective action for any grant payments that cannot be supported.

Agency Response			
Analysis	Factually Inaccurate		
Please provide additional comments as deemed necessary.	<p>DHS respectfully disagrees with the analysis. DHS received sufficient and appropriate documentation to ensure that DHS received the services identified in the grant and that payments were appropriate. The documentation received included expenses for each staff person charged to the grant, the number of hours worked on the grant, and documentation to support other direct service costs. These documents are available and were provided to the auditors when requested. The background analysis also noted that of the four payments tested, DHS paid \$37,000 for 9 individuals who were not named in the grant agreement, and DHS could not provide support that it approved these individuals to work on the grant, as required by the agreement. However, DHS explained that any changes to staffing were discussed with the contract monitor in advance of staffing modifications during regular contract monitoring meetings. In addition, only three of the staff changes that occurred were key personnel on the grant and these changes were documented in the minutes from the regular contract monitoring meetings which were shared with the auditors.</p>		
Recommendation 6a	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>DHS respectfully disagrees with this recommendation as DHS already has procedures in place to ensure all required documentation is obtained to support all grant payments. DHS reviewed all the necessary documentation to approve the payments noted in the analysis to ensure all payments were made in accordance with the terms and conditions of the grant agreements.</p> <p>Nonetheless, the Department is always willing to explore opportunities to strengthen our control environment, and therefore, we are determining</p>		

State Grants

Agency Response Form

	the cost benefit of incorporating in our review, on a test basis, the additional documents referenced by the auditor.		
Recommendation 6b	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	DHS respectfully disagrees with this recommendation. DHS's current process to ensure payments are made in accordance with the terms and conditions of the grant agreements includes the review of the invoice along with the supporting documentation, which includes expenses for each staff person charged to the grant, the number of hours worked on the grant, and the direct costs. DHS will continue to ensure that all payments are made in accordance with the terms and conditions of the grant agreements. DHS/SSA has reviewed the invoices referenced in the finding and has determined that payments were made in accordance with the terms and conditions of the grant.		

Auditor's Comment: DHS' response disagreed with certain aspects of our analysis and related recommendations. While DHS states that it received documentation from the grantee such as the number of hours each employee worked on the grant, DHS did not receive time records from the grantees and did not compare the billed charges to the grantee's payroll records as stated in our analysis. DHS did commit to determining if such comparisons recommended in the audit report will be implemented in some fashion.

Recommendation 6c	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	DHS agrees with the recommendation and is performing a quality assurance review of the related grant payments to further confirm that they are adequately supported accordingly.		

Maryland Department of Labor
Division of Workforce Development and Adult Learning
Statewide Review of State Grants
July 1, 2015 and ending June 30, 2020

Agency Response Form

Maryland Employment Advancement Right Now (EARN) Grants

Finding 4

Individual agencies awarded certain grants without competition and required documentation was not always available to support the propriety of the award, including one award which was not calculated correctly.

We recommend that DOC, MDL, and DHS implement comprehensive policies and procedures over the grant award process to include a requirement for public competitive solicitation, if applicable, and prepare and retain all documentation to support the award process.

Agency Response			
Background / Analysis	Factually accurate		
Please explain any concerns with factual accuracy.	In 2019, Labor awarded nearly \$4.5 million through the Letter of Intent process. On May July 12, 2018, and May 20, 2019, all grantees were notified of the opportunity to apply for CY2019 funds via a Letter of Intent opportunity (see Attachment A, Attachment B).		
Recommendation	Agree	Estimated Completion Date:	June 2021
Please provide details of corrective action or explain disagreement.	Labor's standard practice is to notify all existing grantees of the opportunity to apply for funds through the Letter of Intent process. Attachment C includes two examples of LOI announcements, in both 2020 and 2021, in which all grantees were notified of the opportunity to apply for funds. The Department has updated its policies and procedures over the grant award process. For instance, the Department now has a set schedule for releasing Letter of Intent opportunities (see Attachment D, Excerpt of <i>EARN Maryland Policies and Procedures</i>). In addition, an independent reviewer will review each award process to ensure grants are awarded with competition, and supporting documents are prepared and retained to support the grant award process.		

Auditor's Note: The Maryland Department of Labor did not submit a cover letter to accompany the above response. MDL's formal response to the audit report included a number of additional documents that in our opinion are not directly related to its position on the factual accuracy of the report finding and its agreement or disagreement with the related recommendations. Consequently, we have declined to include those documents as an appendix to this report.

Larry Hogan
Governor

Boyd K. Rutherford
Lt Governor



Ellington E. Churchill, Jr.
Secretary

Nelson E. Reichart
Deputy Secretary

OFFICE OF THE SECRETARY

November 8, 2021

Mr. Gregory A. Hook, CPA
Department of Legislative Services
Office of Legislative Audits
301 W. Preston Street
Room 1202
Baltimore, MD 21201

Dear Mr. Hook:

In your letter dated October 18, 2021, the Office of Legislative Audits (OLA) requested that the Department of General Services (DGS) specifically respond to Finding 5 and Finding 6 in the draft audit report on State Grants.

In accordance with the OLA request, the responses have been electronically transmitted, via email.

Should you have any additional questions or concerns, please feel free to contact me, at 410.767.4956, or at nelson.reichart@maryland.gov

Sincerely,

A handwritten signature in black ink that reads "Nelson E. Reichart".

Nelson E. Reichart
Deputy Secretary

Cc: Ellington E. Churchill, Secretary



**DGS CAPITAL GRANTS OFFICE AUDIT/PERFORMANCE REVIEW
RESPONSES TO FINDINGS 5 & 6**

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 to ensure capital projects funded with State grants were progressing in accordance with the terms of the contract(s) funded by the grants.

We recommend that DGS

- a. require grantees to submit support for their selection of vendors performing work on capital projects, as required; and
- b. establish a comprehensive site visit policy for all State capital grants, which includes requirements for the frequency, content and timing of the visits, documentation of the results, and steps for taking corrective action when issues are identified.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	N/A		
Recommendation a	Disagree	Estimated Completion Date:	N/A
Please provide details of corrective action or explain disagreement.	<p>As noted in the response to Finding #2 above, 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 to DGS by executive fiat - not by statute or reg - DGS has no authority to enact this recommendation.</p> <p>The CGL Booklet that is provided to all new grantees, provides guidance to the grantees <u>suggesting</u> they make an effort to get as much competition as possible when hiring a contractor. It does not require the grantees to follow any particular process, or to justify to DGS why they did what they did when choosing a contractor. The exact wording from the online CGL Booklet is "The State <u>encourages</u></p>		

**DGS CAPITAL GRANTS OFFICE AUDIT/PERFORMANCE REVIEW
RESPONSES TO FINDINGS 5 & 6**

	grant recipients to use competition to obtain the best value for the dollar.”(emphasis added). Unless something is worded with <u>must</u> or <u>shall</u> , we as administrators can only request it, and if the grantee does not comply, there is no way for DGS to enforce the request or to penalize the grantee for not complying.
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Auditor’s Comment: DGS’ response indicated disagreement. However, the response did not consider all the information included in the report or address each of the audit recommendations. Specifically, the response stated that DGS has no authority to enact the recommendation because authority over the Capital Grants Program is vested in the BPW and administration of the Program has only been delegated to DGS by executive fiat, not by statute or regulation. The audit report draft provided to DGS acknowledges this condition and states that DGS would need authorization from BPW or a law change to implement the related recommendation. Accordingly, we formally recommended that DGS work in conjunction with BPW to obtain the necessary authority to require grantees to conduct competitive solicitations for their selection of vendors performing work on capital projects.

The DGS’ response makes no mention of OLA previously disclosing this condition and does not address this recommendation, and thus is not an accurate reflection of the audit report finding. Therefore, the reader is referred to Finding 5 in the body of the audit report for the correct analysis and recommendations that OLA provided to DGS in draft form for response. Nevertheless, as the recommendation disregarded by DGS in its response does address the apparent basis for the aforementioned area of disagreement, we will further pursue the matter in our audit report follow-up process.

Recommendation b	Agree	Estimated Completion Date:	3/31/22
Please provide details of corrective action or explain disagreement.	As the entity with authority over the Capital Grants 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. However, DGS agrees that there should be a policy put in place to govern the various aspects of site visits/inspections of on-going grant funded projects, and specifying what documentation is required for the project file.		

**DGS CAPITAL GRANTS OFFICE AUDIT/PERFORMANCE REVIEW
RESPONSES TO FINDINGS 5 & 6**

Finding 6

Certain State agencies did not maintain documentation to support grant payments totaling approximately \$22.5 million and made payments that were not in accordance with the related grant agreement.

We recommend the aforementioned State agencies

- a. ensure all required documentation is obtained to support all grant payments, including those payments noted above,
- b. ensure payments are made in accordance with the terms and conditions of the grant agreements, and
- c. take appropriate corrective action for any grant payments that cannot be supported.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	N/A		
Recommendation a	Agree	Estimated Completion Date:	March 31, 2022
Please provide details of corrective action or explain disagreement.	<p>As the authority over the Capital Grants Program is held by the Board of Public Works, where DGS is only providing administrative support, any recommendations concerning policies and laws are more properly directed to them.</p> <p>DGS concurs that grants must be correctly monitored, especially concerning the funds and what the funds are used for after they are received by the grantee, and adequate oversight provided during the review of expenditures submitted to support a request for reimbursement. As the review and approval for payment process in connection with the Capital Grant Program involves the Comptroller's Office as well as DGS, a logical next step would be to do a review of the Comptroller's Office and how they process the matching grant requests for funds. Any policy put into place would need to encompass the entire Capital Grant process, not just the discreet piece handled by DGS.</p>		

**DGS CAPITAL GRANTS OFFICE AUDIT/PERFORMANCE REVIEW
RESPONSES TO FINDINGS 5 & 6**

Recommendation b	Agree	Estimated Completion Date:	March 31, 2022
Please provide details of corrective action or explain disagreement.	Same as the answer above in Finding 6(a).		
Recommendation c	Agree	Estimated Completion Date:	March 31, 2022
Please provide details of corrective action or explain disagreement.	<p>DGS concurs that for payments made improperly or without proper documentation, appropriate corrective actions should be taken. However, as the authority over the Capital Grants Program is held by the Board of Public Works (BPW), specifically SF&P §8–127 (the key points are highlighted):</p> <p>(a) Except as provided in § 8-129 of this subtitle, the proceeds of a sale of State bonds may be used only in the manner and for a project or program that is specified in an enabling act authorizing the issuance of State bonds.</p> <p>(b) (1) Except as provided in § 8-129 of this subtitle, the proceeds of a sale of State bonds may be used only for a capital improvement unless: (i) the enabling act specifically provides otherwise; or, (ii) in an emergency, the Board unanimously grants a temporary exception.</p> <p>(2) The Board shall determine whether the object of an expenditure is a capital improvement. The standard for this determination is whether the useful life of the object equals or exceeds the life of the State bonds.</p> <p>(c) The Board shall enforce the provisions of this section.</p> <p>Any recommendations and/or decisions concerning appropriate corrective actions are more properly directed to the BPW, and if they choose to, they can request DGS to collaborate on what would be appropriate and how to go about implementing the corrective action.</p>		



Mohammed Choudhury
State Superintendent of Schools

October 26, 2021

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

Enclosed please find the Maryland State Department of Education (MSDE) response to Finding 6 of the State Grants audit. We certainly appreciate the efforts of your audit staff to help improve our controls and the cooperative relationship with your office.

Should you have any questions, please contact Ms. Channel Sumpter at 410-767-0104 or Mr. Richard McElroy at 410-767-8856.

Again, thank you for your assistance.

Sincerely,

Mohammed Choudhury
State Superintendent of Schools

Enclosures

c: Channel Sumpter, Director of Audits
Richard C. McElroy, Internal Auditor Supervisor

State Grants

Agency Response Form

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.

We recommend the aforementioned State agencies

- a. ensure all required documentation is obtained to support all grant payments, including those payments noted above;
- b. ensure payments are made in accordance with the terms and conditions of the grant agreements; and
- c. take appropriate corrective action for any grant payments that cannot be supported.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	Not applicable
Please provide details of corrective action or explain disagreement.	While the DEC agrees with the recommendation it wants to note that documentation was obtained from the grantee and was on file during the audit to support all reimbursed expenditures, including the two advance payments, for the two reviewed grants. DEC has and will continue to obtain documentation to support all grant payments.		
Recommendation 6b	Agree	Estimated Completion Date:	September 1, 2021
Please provide details of corrective action or explain disagreement.	The DEC agrees that payments should be made in accordance with the terms and conditions of the grant agreement and will do so in the future. To address the advance payment issue, the following will be added to the current terms and conditions of grants issued by the DEC: “A 15% advancement of the grant award amount will be issued upon request and all supporting receipts will be required.”		
Recommendation 6c	Agree	Estimated Completion Date:	Not applicable

State Grants

Agency Response Form

Please provide details of corrective action or explain disagreement.	While the DEC agrees with the Recommendation it wants to note that it had obtained and reviewed documentation to support all reimbursed expenditures including the two advance payments for the two reviewed grants. Consequently, no amount needs to be recovered.
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AUDIT TEAM

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