



**Department of Legislative Services
Office of Legislative Audits**

**State Grants
Performance Audit**

Report Dated November 10, 2021

Presentation to Joint Audit and Evaluation Committee

**Gregory A. Hook, CPA
Mark S. Hagenbuch, CPA
James M. Fowler, CFE**

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Report Overview - Audit Scope and Objectives

We conducted a performance audit to assess if comprehensive guidance and/or policies were in place over State grants and whether agencies were properly creating, awarding, and administering the grants. This audit was initiated due to issues identified with State grants during our routine fiscal compliance audits. Between July 1, 2015 and December 31, 2020 our audit reports disclosed 26 findings primarily related to grant awards and monitoring at 14 State agencies.

Our audit had 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.



Report Overview – Background Information

Definition of State Grants

- 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. State regulations further specify that a grant is not a contract.
- Grants are intended to help State agencies fulfill their objectives and missions. Grants are typically originated by formula, a specific allocation in law, or in the annual operating budget act, bond authorizations, or other acts of the legislature.

Audit Scope

Our review focused on grants by Executive Department agencies. Based on our analysis of statewide expenditures, grants subject to this audit totaled approximately \$5 billion during fiscal years 2015 through 2020.

We excluded grants that were federally funded, grants to local municipalities, and grants by State Universities.



Key Findings

Objective 1 – Statewide Policies and Procedures

- The State did not have comprehensive policies and procedures, and standardized grant applications/agreements to ensure grants were properly created, awarded, and administered. 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.
- The State did not have a statewide grants management system to assist in administering and tracking grant awards and related expenditures.

Objective 2 – Grant Practices at Selected Agencies

- State grants tested were not always adequately advertised, awarded, and administered.
- Certain State agencies tested did not always use competition to solicit grants when appropriate; document the award process; conduct site visits to better monitor grantee compliance with the grant provisions; and maintain documentation to support grant payments.



Statewide Policies and Procedures (Finding 1)

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

- The state had no single agency designated or responsible for providing centralized comprehensive oversight and guidance. Generally, individual State agencies (for example, departments or units and programs within a larger department) were responsible for establishing appropriate records and processes.
- We identified certain elements from our past grant-related findings, best practices, and contract criteria from State laws/regulations that would be useful in establishing accountability over State grants. For example, requirements for public solicitation and award of grants as appropriate, conflict of interest prohibitions, performance measures, and formal monitoring requirements.



Statewide Policies and Procedures (Finding 2)

The State did 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.

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

- We reviewed certain grant agreements at 5 agencies to determine if they included 9 provisions we deemed necessary to protect the State.
- The grant agreements at each of the agencies reviewed lacked one or more provision.

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



Statewide Policies and Procedures (Finding 3)

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 accurately and in a comprehensive manner.
- Absent a GMS, State agencies individually used a variety of methods to award and monitor grants (such as manual records, spreadsheets).
- The Statewide procurement process for a GMS began in October 2020 and a contract is estimated to be awarded in December 2021. However, there is currently no legal requirements for State agencies to use the GMS when it becomes operational.



Grant Practices at Selected Agencies (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.

- **Department of Commerce (DOC)** did not use a competitive method to award certain tourism grants, included ineligible costs in one award, and could not document the propriety of another grant award.
- **Maryland Department of Labor (MDL)** did not notify all existing grantees of the opportunity to receive supplemental grant funds for the Employment Advancement Right Now grant awards.
- **Department of Human Services (DHS)** did not publicly solicit applications (or document its rationale for not soliciting applications) for a grant to provide technical assistance for child welfare strategies.



Grant Practices at Selected Agencies (Finding 5)

The Department of General Services (DGS) did not ensure that grantees submitted required documents to explain or support the basis used to select vendors to work on State-funded capital grant projects. DGS also did not perform documented site visits to ensure capital projects were progressing as intended.

- Although its policy encourages grantees to use competition and requires grantees to provide the basis for the selection of each vendor, DGS advised us they do not have authority to require grantees to procure services through competition.
- DGS could not document that it conducted site visits to ensure capital projects were progressing in accordance with the related grants. 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.



Grant Practices at Selected Agencies (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.

Lack of Documentation to Support Grant Payments

- **DGS** could not provide us documentation to support two payments totaling approximately \$21.3 million for a community college capital project.
- **DHS** did not obtain sufficient documentation to support four payments totaling \$661,600 made to two grantees.
- **DOC** did not obtain documentation for a \$373,200 payment to a local government for tourism marketing.

Payments Not in Accordance with Grant Agreements

- **Maryland State Department of Education (MSDE)** advanced \$182,000 to a grantee in violation of the grant agreement.
 - **DHS** paid \$37,000 for individuals to work on a grant who were not authorized in the related agreement.
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Conclusions

The Governor's Grants Office and the Department of Budget and Management should

- develop a statewide framework which encompasses comprehensive laws, regulations, and formal policies and procedures for awarding and administering grants;
- develop a uniform grant application and agreement; and
- implement a comprehensive GMS that agencies are required to use.

State agencies should

- include requirements for public competitive solicitation and maintain documentation to support the award process;
- require capital funded grantees to competitively solicit and submit support for their vendor selection, and establish policies for conducting site visits; and
- ensure required documentation is obtained to support payments to grantees and ensure payments are in accordance with grant agreements.