

**OFFICE OF THE INSPECTOR GENERAL
CITY OF BALTIMORE**



**Isabel Mercedes Cumming
Inspector General**

**Investigative
Report Synopsis**

OIG Case # 20-0027-I

Issued: September 22, 2020



OFFICE OF THE INSPECTOR GENERAL
Isabel Mercedes Cumming, Inspector General
City Hall, Suite 635
100 N. Holliday Street
Baltimore, MD 21202



September 22, 2020

Dear Citizens of Baltimore City,

The Office of the Inspector General (OIG) initiated an investigation into the Master Lease Agreement (MLA) between the City of Baltimore (City) and Grant Capital Management, Inc., (GCM) after receiving multiple complaints, including from City Council President Brandon Scott, following the indictment of former Mayor Catherine Pugh by a federal grand jury, made public on November 20, 2019 by the United States Department of Justice (DOJ).

The investigation stemmed from revelations that from January 2016 to October 2016, James Preston Grant, or J.P. Grant (Grant), owner and chief executive officer of GCM, illegally funneled \$170,000 to Pugh through two of her companies, Healthy Holly, LLC and 2 Chic Boutique, LLC. Pugh used the payments to fund the purchase of a home, to make illegal straw donations to her 2016 mayoral campaign, and to pay for other personal and business expenses. On November 21, 2019, Pugh pleaded guilty to DOJ's charges and was sentenced to three years in a federal prison in Alabama, where she is currently serving time.

The OIG investigation found that the monetary transactions from Grant to Pugh as described by DOJ are accurate. In its Stipulation of Facts and Government's Sentencing Memorandum, filed on February 13, 2020, (Sentencing Memorandum), DOJ detailed the payments Grant made to Pugh; Grant's knowledge that payments violated Maryland Election Law; and Grant's attempt to hide the true purpose of the payments. Grant, through his attorney, confirmed to the OIG that the payments to Pugh indeed took place and did not refute Grant's understanding of how Pugh would use the money as outlined in the Sentencing Memorandum.

The OIG found that the City has had the MLA with GCM since 2003 via a continuous contract with no end date.¹ The review revealed that from 2003 until around 2016, only one other company competed with GCM for financing deals under the MLA. However, since 2016, GCM has been the City's sole option to provide lease financing under the MLA. The most recent lease financing deal awarded to GCM was approved by the Board of Estimates (BOE) on December 11, 2019.

In December 2017, the Bureau of Procurement (BOP) published a Request for Proposal (RFP) for a new MLA. GCM was the sole company awarded the contract by the BOE in December 2018. However, because the final terms of this new MLA between the City and GCM have not yet been finalized, the MLA contract awarded to GCM in 2003 is still in effect. Thus, any lease financing completed after GCM's award of the new MLA in 2018 has been under the 2003 MLA.

¹ In 2003, the MLA was awarded to First Municipal Credit Corporation (FMCC), a company owned by Grant. FMCC is no longer an active business and GCM's website refers to FMCC as its "predecessor firm." For the purposes of this report, when applicable, references to GCM incorporate FMCC.

REPORT FRAUD, WASTE AND ABUSE

HOTLINE: 443-984-3476/800-417-0430 **EMAIL:** OIG@BALTIMORECITY.GOV **WEBSITE:** OIG.BALTIMORECITY.GOV

The OIG investigation found that GCM should not have been considered for the 2018 MLA award because it was not a responsible bidder due to its failure to comply with the terms of the MLA solicitation and, relatedly, by submitting a false affidavit with its bid. Specifically, the OIG found that neither GCM, Grant, nor any of GCM's other officials have ever filed a campaign finance disclosure for persons doing business with a public entity as required by both Maryland Election Law and the terms of the MLA solicitation, yet GCM filed an affidavit falsely claiming it had made these disclosures.

Illegal Campaign Contributions and Possible Payments for Influence

On November 20, 2019, Pugh was indicted by a federal grand jury on charges of fraud and tax evasion in connection with the sale of children's books to various organizations, including some organizations doing business with the City, through her business, Healthy Holly, LLC. On November 21, 2019, Pugh pleaded guilty to four counts of conspiracy and tax evasion and on February 13, 2020, the DOJ filed its Sentencing Memorandum. The Sentencing Memorandum identifies Grant as having paid Pugh \$170,000 between January 2016 and October 2016, while Pugh was a member of the Maryland General Assembly and concurrently campaigning to become mayor of Baltimore City.

DOJ stated that Grant gave Pugh money on three separate occasions during her mayoral campaign. The first payment occurred in late January 2016 at a café near Pugh's consignment shop, 2 Chic Boutique. As summarized in the Sentencing Memorandum, Pugh propositioned Grant for money to fund her campaign. However, according to the Sentencing Memorandum, Grant had already reached the \$6,000 maximum contribution to Pugh's campaign. To circumvent Maryland Election Law, and conceal the true intent of the payment, Grant agreed to write Pugh a check for \$20,000 made payable to 2 Chic Boutique. The Sentencing Memorandum notes that Grant had his wife, Judy Grant, sign the check in her name to further the concealment. DOJ states in the Sentencing Memorandum that Grant gave the money to Pugh with the knowledge that it violated Maryland Election Law. DOJ stated that Pugh laundered the money through 2 Chic Boutique, using it to fund straw donations to her campaign and pay various business expenses.

The second payment occurred in March 2016, when Pugh again asked Grant to provide financial assistance to her campaign. According to the Government's Stipulation of Facts, the document in support of Pugh's guilty plea that outlines the offenses and actions Pugh agreed had occurred, "PUGH asked Grant for \$50,000 to purchase books for BCPS [Baltimore City Public Schools] students. Grant understood that PUGH would use the money to produce and distribute the Healthy Holly books, with the balance of money going toward her mayoral campaign." The DOJ noted that none of the money went to produce books for students; instead, most of it was used to fund additional straw donations to Pugh's campaign. This is the second example of Grant's knowing circumvention of Maryland Election Law.

The third, and final, known payment by Grant to Pugh was also the largest. The Sentencing Memorandum states that in October 2016, Pugh again approached Grant with a request for funds, but this time she specified the funds would be used to purchase a new home "befitting a mayor"—a home later revealed to be in the Ashburton neighborhood of Baltimore City. According to the Sentencing Memorandum, Pugh asked Grant to make another "book donation" as he had back in

REPORT FRAUD, WASTE AND ABUSE

March 2016, “which Grant again understood to mean that Pugh would use the net profit from the book sale to help pay for the house.” Grant issued a check to Healthy Holly, LLC in the amount of \$100,000 with “book donation” noted on the check.

The OIG finds that while the first two payments by Grant to Pugh were made prior to the 2016 primary elections, the \$100,000 payment came after Pugh had become the Democratic nominee, when there existed a high degree of probability that Pugh would be the next mayor, given that every Democratic primary winner since 1967 has gone on to win the general election. Given Grant’s position as a City contractor subject to the Board of Estimates (BOE) purview, and that Pugh was positioned to exercise controlling authority over the BOE (by virtue of her authority to appoint two of its voting members), Grant’s payments appear to have been made with the intent to buy political influence and/or in direct exchange for political influence.

Grant told *The Baltimore Sun* he received no documentation on how Pugh used the money he gave her.² On the contrary, however, according to the Sentencing Memorandum, Grant understood that at least a portion of the \$100,000 he gave Pugh would be used to purchase a new home. Tellingly, Grant neglected to mention the additional \$70,000 he gave Pugh during her 2016 mayoral campaign, which Grant understood would be illegally used to fund Pugh’s campaign and for Pugh’s personal expenses. It was not until November 21, 2019, when the Stipulation of Facts was filed—facts which Pugh agreed to and which supported her guilty plea—that the public became aware of the entirety of Grant’s actions.³

During his OIG interview, Grant, with his attorney present, declined to answer questions related to his payments to Pugh, citing ongoing legal issues. However, Grant did state that the payments he made to Pugh were atypical and maintained that he has never made illegal payments or provided illegal benefits to any other City elected official or employee. Grant also claimed that none of the payments he made to Pugh were intended to influence an outcome related to business that Grant or GCM had, or desired to have, with the City.

Gifts Not on Financial Disclosures

According to the Sentencing Memorandum, much of the money Grant paid to Pugh was used for Pugh’s personal expenses, such as the purchase of a new house, which could be considered gifts from Grant to Pugh. The investigation revealed that Pugh did not disclose any of Grant’s payments to her on her City financial disclosure forms. The City’s Ethics Code defines a “gift” as “the transfer of anything or any service of economic value, regardless of form, without adequate, identifiable, and lawful consideration.”⁴ The Ethics Code requires public servants to disclose any “significant gifts,” which are defined as “any gift with a value of more than \$20; and a series of gifts with a cumulative value of \$100 or more given by or on behalf of the same person during the reporting period.”⁵ The Code makes an exception for campaign contributions that are reported

² *Businessman JP Grant says he paid \$100,000 to Baltimore Mayor Pugh's Healthy Holly LLC in 2016*, The Baltimore Sun, April 3, 2019, available at: <https://www.baltimoresun.com/maryland/bs-md-ci-grant-healthy-holly-20190403-story.html>

³ Criminal penalties for violations of Maryland Election Law have a three-year statute of limitations. The payments Grant made to Pugh took place in 2016.

⁴ Baltimore City Code, Article 8, § 2-17.

⁵ Baltimore City Code, Article 8, § 7-23

REPORT FRAUD, WASTE AND ABUSE

HOTLINE: 443-984-3476/800-417-0430 **EMAIL:** OIG@BALTIMORECITY.GOV **WEBSITE:** OIG.BALTIMORECITY.GOV

under state election law.⁶ Although a portion of Grant's payments to Pugh were used as campaign contributions, albeit through illegal straw donations, his \$100,000 to her for the purchase of a home clearly qualifies as a significant gift that should have been disclosed.

The OIG reviewed each of Pugh's three financial disclosure forms required by the Ethics Code, the first filed while Pugh was a candidate, and the other two while she was mayor. Pugh filed a disclosure form on January 11, 2016, which seemingly covered calendar year 2015, the year in which she filed for candidacy. Pugh then filed two financial disclosure statements as mayor, the first on July 31, 2017, which covered calendar year 2016. On this form, Pugh did not make any mention of monetary gifts by Grant in 2016. However, she did report that Grant gifted a \$50 German chocolate cake. It appears that Pugh did not report any gifts received prior to December 7, 2016, the day after she was sworn-in as mayor. The OIG did not find any financial disclosures by Grant, but because each payment by Grant was made prior to Pugh's swearing in, Grant was not required to register as a lobbyist, as he would have been if he made the payments after Pugh was sworn-in.⁷

Pugh also failed to report her business, Healthy Holly, LLC, on her state financial disclosure forms during her time in the Maryland General Assembly. The Office of the State Prosecutor charged Pugh with perjury for concealing the existence of the business and Pugh subsequently pleaded guilty and was sentenced to six months of incarceration, which will be served concurrently with her federal incarceration.

2003 Master Lease Agreement with GCM

The City's MLA is administered through the Department of Finance (Finance), Bureau of Treasury Management (Treasury). According to current and former employees of Treasury, the MLA is a useful and efficient way for the City to purchase large scale and expensive items, such as vehicles, telecommunications systems, and lighting systems. The MLA preserves the City's cash flow by spreading payment installments out over several years instead of requiring the City to pay the full cost of such items at once. According to Treasury employees, the MLA gives the City financial flexibility that it might not otherwise have. The City has financed 41 deals via the MLA since 2004, with each separate deal referred to as a "schedule."

The OIG found that from around 1995 to 2003, prior to its agreement with GCM, the City had an MLA with General Electric Government Finance, Inc. (GE). Treasury handled the entire procurement process and the MLA with GCM was approved by the Board of Finance on August 25, 2003 and by the Board of Estimates on September 10, 2003. No current or former Treasury employees could definitively recall if the City put out the MLA for bid in 2003. According to Grant, he tried for years to become part of the MLA, finally succeeding after receiving a solicitation for an MLA from the City in 2003. Treasury did not provide any of Grant's alleged solicitation or bid documents from this time period.

⁶ Baltimore City Code, Article 8, § 7-23(a)(2)(ii).

⁷ Baltimore City Code, Article 8, § 8-6.

The investigation found that the MLA awarded to GCM in 2003 was open ended, meaning there was no contract termination date. According to both Grant and Treasury officials, this arrangement was not unusual. Finance and Treasury officials told the OIG that the MLA under which GE operated was also open ended, and that, because the original MLA with GCM was processed through Treasury as a “professional services” contract, Treasury would not have been required to follow certain procurement guidelines, such as rebidding the contract. The last schedule awarded to GCM was executed in January 2020. According to Treasury, there have been no subsequent schedules awarded to GCM and all future business between the City and GCM is on hold.

Award of New Master Lease Agreement

In December 2017, nearly two years after GE exited the picture, BOP issued a solicitation for a new MLA. According to Finance, the MLA was put out for bid because the agency realized GCM had no competition after GE left in 2016. Unlike GCM’s MLA award in 2003, which was processed through Treasury, the agency decided that BOP should process the award this time around. According to the Deputy Finance Director, BOP was chosen to conduct the solicitation process to increase transparency in the contracting process.

According to the City’s procurement database, of the 146 companies that were sent the MLA solicitation, only GCM and Banc of America Public Capital Corp., Inc. (BOA) responded. On June 6, 2018, the Law Department, after being asked by BOP to review only BOA’s bid, found BOA to be non-responsive to the solicitation because BOA attempted to change the terms of the City’s solicitation and submitted a non-binding bid. The OIG found the opinion submitted by the Law Department to be legitimate and without undue influence.

Grant told the OIG it was sometime around this time that he discussed the MLA with Pugh. Grant said he had reviewed BOA’s bid and knew BOA would be disqualified—and thus GCM would win the award—because BOA took exceptions with the terms of the City’s solicitation. However, because he believed the award process was taking longer than usual, Grant asked Pugh about the status of the contract during a time he was “with the mayor.” Grant said that after Pugh checked on the status of the award, she told him, “I think we’re going to move forward...but sit tight and see.” Grant told the OIG he eventually received a call from the Deputy Finance Director, who informed Grant the City was going to award the MLA to GCM. The Deputy Finance Director told the OIG that he was not involved in the procurement process other than being kept in the loop on the status of the procurement.

Thereafter, according to the Law Department, negotiation of the terms of the new MLA awarded to GCM began around April 2019. However, it was during this time that Pugh’s involvement in the Healthy Holly book scandal became public. On April 3, 2019, *The Baltimore Sun* published an article based on an interview with Grant in which he said he gave \$100,000 to Pugh’s company Healthy Holly, LLC, and received one book in return.⁸ After the financing relationship between Pugh and Grant was revealed, the City put the negotiation of the MLA’s final terms on hold.

⁸

Businessman JP Grant says he paid \$100,000 to Baltimore Mayor Pugh's Healthy Holly LLC in 2016, *The Baltimore Sun*, April 3, 2019, available at: <https://www.baltimoresun.com/maryland/bs-md-ci-grant-healthy-holly-20190403-story.html>.

REPORT FRAUD, WASTE AND ABUSE

HOTLINE: 443-984-3476/800-417-0430 **EMAIL:** OIG@BALTIMORECITY.GOV **WEBSITE:** OIG.BALTIMORECITY.GOV

To secure additional lease financing opportunities, BOP and the Law Department began negotiations with BOA for a new MLA—a separate process from that in which BOA was found non-responsive and which GCM ultimately won—which resulted in an agreement approved by the BOE. The negotiations with BOA were not made public until the proposed contract appeared on the BOE’s July 22, 2020 agenda. However, two days earlier—on July 20—Grant informed the OIG that he had already been aware of the City’s negotiation with BOA. Grant stated that the Deputy Finance Director had personally called to tell him about the BOA negotiation.

Grant’s assertion belies the Deputy Finance Director’s own statements to the OIG during two separate interviews. The OIG noted that the Deputy Finance Director lacked candor during both interviews. During the first interview, the Deputy Finance Director told the OIG, “I haven’t really dealt with him [Grant/GCM] directly since I left down there [Treasury].” The Deputy Finance Director said he left Treasury to become Deputy Director of Finance in 2014 and indicated he had not been in direct contact with Grant or GCM since then.

After learning from Grant that the Deputy Finance Director had informed him of the City’s negotiations with BOA, the OIG interviewed the Deputy Finance Director a second time. During his second interview, the Deputy Finance Director was asked if he knew Grant had been aware of the City’s negotiations with BOA. The Deputy Finance Director said he knew Grant was aware of the negotiations because Grant asked the Deputy Finance Director about the purpose of the City’s negotiation. However, the Deputy Finance Director never indicated to the OIG that he was the one who had made Grant aware of the BOA negotiations. There appears to be no legitimate reason for the Deputy Finance Director to disclose information to Grant related to the City’s negotiation with BOA, especially considering that it was not part of a public bid, and that BOA is a direct competitor to GCM.

Furthermore, during his first interview, the Deputy Finance Director was questioned directly on his relationship with Grant, but he made no mention of any recent communication between the two, and no mention at all of any text communications. However, Grant informed the OIG that he exchanged text messages with the Deputy Finance Director’s personal phone. During his second OIG interview, the Deputy Finance Director acknowledged that he does exchange text messages with Grant, but that he only uses his personal phone when Grant sends the message to that number. The Deputy Finance Director said that his communications with Grant are all work-related and that the content of such text messages were “nothing of consequence.”

Campaign Finance Disclosures

The OIG investigation found that GCM did not fully comply with the terms of the MLA solicitation for which it was awarded the contract on December 19, 2018. The investigation also found that GCM submitted a signed affidavit certifying the accuracy of information that GCM knew or should have known was false. Accordingly, for the reasons explained below, the OIG found that GCM should not have qualified as a responsible bidder and its bid should have been rejected.

On April 3, 2018, GCM submitted its bid package for the City’s MLA. In its solicitation, the City included eleven form affidavits, each requiring a signature under penalties of perjury, that each bidder was to execute in order to certify that it complied with the requirement set forth in the

affidavit. GCM's vice president signed the affidavits indicating that GCM complied with the requirements, one of which was compliance with the State Election Law.

Title 14 of the Maryland Election Law Article requires persons doing business with a public entity, including a municipality, to file a disclosure with the Board of Elections indicating political contributions given to each candidate for political office in a cumulative amount of \$500 or more.⁹ Under the Election Law, any contributions to political candidates by Grant and GCM's vice president are attributable to GCM, because both individuals are considered "officers" of GCM.¹⁰ The Board of Elections website allows users to digitally search its database for the filed business disclosures mandated by Election Law.¹¹ However, after a thorough search of the Board of Elections business disclosure database, the OIG could not find even one disclosure for GCM.

Under Title 14 of the Election Law, GCM had two separate obligations to disclose its relevant campaign contributions to the Board of Elections. The first requires any person doing business with a public entity as of December 31, 2014 to file a semi-annual disclosure statement.¹² The MLA awarded to GCM in 2003 has been in effect since September 10, 2003, meaning, at a minimum, that GCM should have been reporting any contributions attributable to itself, Grant, GCM's vice president, or any other officers, between December 31, 2014 to present. GCM's required semi-annual disclosures should have included any campaign contributions made to Pugh by Grant—including Grant's 2016 campaign contributions outlined in the Sentencing Memorandum—as well as any contributions he made to other candidates.

The Board of Elections campaign contribution database indicates that between December 21, 2014 and August 14, 2020, GCM itself made more than \$30,000 in contributions to candidates for elected office, Grant contributed more than \$62,700, and GCM's vice president contributed \$19,200. The OIG did not find any evidence that GCM reported any of these contributions on business contribution disclosures as required by Election Law.¹³

The second obligation under Title 14 of the Election Law requires persons doing business with a public entity to file a campaign finance disclosure covering attributable contributions made in the 24 months preceding an award.¹⁴ The BOE awarded GCM the new MLA on December 19, 2018; however, the OIG did not find any disclosures filed by GCM covering the preceding 24 months despite the Board of Elections contribution database indicating that between December 19, 2016 and December 19, 2018, GCM contributed \$11,000 to candidates for elected office, Grant contributed more than \$33,700, and GCM's vice president contributed \$5,700.

Grant and GCM's vice president knew or should have known about these disclosure requirements under Maryland's Election Law. The MLA solicitation provides that the contractor shall comply with Title 14 of the Maryland Election Law Article, gives specifics on how and where to file the disclosure, and states that the City expects compliance. In his OIG interview, Grant stated that he read over the solicitation. However, when asked if he filed the required disclosures, he stated "I

⁹ Md. Election Law Code Ann. § 14-104

¹⁰ Md. Election Law Code Ann. § 14-105(a).

¹¹ <https://businessdisclosure-elections.maryland.gov/PublicViewFiledReports>

¹² Md. Election Law Code Ann. § 14-104(b)(2).

¹³ Grant did not claim any exemption to the disclosure requirements given by the Board of Elections.

¹⁴ Md. Election Law Code Ann. § 14-104(b)(1)

REPORT FRAUD, WASTE AND ABUSE

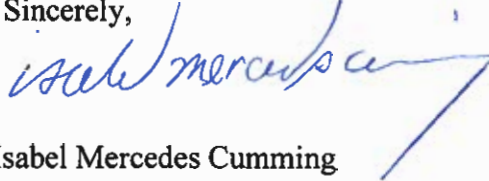
don't remember doing that." Grant said someone else in his office may have been responsible for filing the disclosures.

The OIG asked Grant and his attorney to provide any disclosures filed by GCM, but none were ever produced. Nonetheless, the OIG investigation found that GCM, in its MLA bid submission, submitted an affidavit attesting to its compliance with Maryland Election Law Article 14. GCM's vice president signed the affidavit under penalties of perjury. The MLA solicitation provides that, "[t]he City may determine that a Bidder/Offeror who makes a false statement on this or any other Affidavit is not a responsible Bidder/Offeror, which may result in rejection of the submitted Bid/Proposal."

Response from the Law Department

After being informed of the results of the OIG investigation, the Law Department submitted a response on behalf of the Mayor and City Council President. The response is attached to this letter.

Sincerely,



Isabel Mercedes Cumming
Inspector General

Cc: Hon. Bernard C. "Jack" Young, Mayor of Baltimore City
Hon. Brandon M. Scott, City Council President
Hon. Joan M. Pratt, Comptroller of Baltimore City
Honorable Members of the City Council
Dana P. Moore, Acting City Solicitor

REPORT FRAUD, WASTE AND ABUSE

HOTLINE: 443-984-3476/800-417-0430 EMAIL: OIG@BALTIMORECITY.GOV WEBSITE: OIG.BALTIMORECITY.GOV