

HB 760.OLA audits and responses to findings SENATE

Uploaded by: John Woolums

Position: FAV

BILL: House Bill 760
TITLE: Office of Legislative Audits - Local School Systems - Report
DATE: March 20, 2024
POSITION: SUPPORT
COMMITTEE: Education, Energy, and the Environment
CONTACT: John R. Woolums, Esq.

The Maryland Association of Boards of Education (MABE) supports the approach taken by this legislation to provide enhanced engagement and accountability through school system responses to the findings and recommendations of the audits conducted by the Office of Legislative Audits (OLA). Therefore, AMBE requests a favorable report on House Bill 760 as amended in the House.

Fiscal accountability is provided in myriad ways through the local board’s annual, public and transparent, budget process; the oversight provided by MSDE and the General Assembly; each local government funding authority’s budget process; and numerous system-wide and programmatic audits. Among these many audits are those conducted on a 6-year cycle by the Office of Legislative Audits (OLA). For the committee’s benefit, MABE has provided an outline of the types of local school system audits already conducted under longstanding state and federal law (see reverse).

Academic accountability for our school systems, individual schools, and all students, is rigorously supported through state and federal assessment programs; and Maryland has long been recognized as one of the highest performing statewide systems of public education in the nation. Today, the Blueprint for Maryland’s Future is attracting national attention to the visionary and comprehensive reforms spanning from prekindergarten to dual enrollment and career and technical education. The Blueprint reflects the fact that school system fiscal accountability is imperative to maintaining the public’s trust and confidence in the investments of the state and local government revenues in our public schools.

House Bill 760, as amended, would require a local school system to submit to the Joint Audit and Evaluation Committee a report on the status of any corrective actions to address repeat findings identified by OLA. MABE believes that establishing this interim reporting requirement will aid in maintaining ongoing engagement with OLA, and the Joint Audit Committee, on the status of school system responses to repeat audit findings. In addition, based on a review of recent OLA audit reports, MABE is quite concerned with the unredacted summaries of findings, including findings relating to cyber-security. MABE urges the legislature’s favorable consideration of this bill with the sponsor’s amendments to clarify this and other issues.

For these reasons, MABE requests a favorable report on House Bill 760 as amended.

Examples of audits of local school systems in Maryland:

- Annually - independent audit conducted by a Certified Public Accounting firm that produces audited financial statements and Audit Communications. Due to MSDE by September 30. This audit is required by state law.
- Annually - compliance audit and audit of Schedule of Expenditures of Federal Awards in compliance with OMB Circular A-133. Due to MSDE by December 31. This audit is required by state law.
- Annually - MSDE program reviews ranging from Title I, to special education, Medicaid, to food services - most of which are on-site reviews performed by MSDE program staff. Reports are filed by MSDE staff and any findings require a corrective action plan that must be approved by MSDE staff.
- Bi-annually - Maryland State Department of Education (MSDE) audit of major state aid programs and enrollment verification audit. MSDE Auditors are typically on site for approximately two (2) weeks and they audit two years' worth of data in that time period. A report is issued and any financial findings must be repaid to MSDE and corrective actions must be taken to ensure compliance with recommendations.
- Tri-annually - audit performed by a Certified Public Accountant firm hired by the Maryland State Retirement System (MSRS) to audit payments made annually by the local public school systems to the MSRS. This audit is required by state law.
- Every five (5) years - Public School Construction Program audit performed by the Interagency Commission (IAC) for School Construction auditors. They audit major school construction projects and compliance with Minority Business Enterprise requirements. Typically on site for three (3) days.
- Periodically (at random) - audits of federal funds by federal auditors. Typically of major federal programs such as Medicaid billing, Title I, and food services. These audits are extensive and generally involve the respective Federal Department's Office of the Inspector General.

In addition to the audits described above, current state law provides for a county governing body, the Office of Legislative Audits, or the State Superintendent to require an audit and/or a corrective action plan from a public school system under the following conditions:

- Education Article, section 5-110, provides for a county governing body to contract for a performance audit of their local public school system at any time. The cost of the audit is to be shared equally by the county governing body and the school system.
- Education Article, section 5-114(d)(5), provides for the State Superintendent and the Office of Legislative Audits to request any financial information from a local school system pertaining to a deficit or structural deficit of the system and obtain a copy of a corrective action cost containment plan developed by the local school system.
- Failure to comply with the auditors and MSDE could result in the withholding of state funds. The State Superintendent has the authority to direct the Comptroller to withhold 10% of the next and ensuing state aid installments until compliance is reached.

Delegate Palakovich Carr Testimony - HB 760 - OLA

Uploaded by: Julie Palakovich Carr

Position: FAV



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB 760
Office of Legislative Audits - Local School Systems - Report

An essential part of government accountability is audits. This bill would improve transparency of financial management practices of public school districts by requiring reporting of a district's corrective actions to deficiencies identified in a state audit.

Under state law, school districts are audited by the Office of Legislative Audits (OLA) every six years. In the most recent round of audits performed by the State, OLA identified 171 repeat findings for school districts.¹ Notably, every one of the 24 public school systems had at least one repeat finding. Only three districts had fewer than five repeat findings. Worse yet, five districts had more than 10 repeat findings.

These repeat audit findings cover a broad array of categories, from breaking state procurement laws to financial mismanagement to cybersecurity vulnerabilities. Given the severity of the repeat findings, as well as the large number of repeat findings, OLA has highlighted the need for more transparency and monitoring of repeat audit findings for school systems. The Maryland State Department of Education agrees that there should be more transparency and accountability from local school systems about the actions they are taking to address repeat audit findings.

Failing to address the deficiencies found in audits means that public schools are not managing public funds to the best of their ability and are vulnerable to cyber attacks.

This bill aims to shine a brighter light on how school districts are complying with OLA's audit findings. Districts would have to report mid-audit cycle on the corrective actions they are taking to address deficiencies in their financial management practices. Any cybersecurity findings would be redacted in accordance with auditing best practices. School systems would be required to publish the report on their website and send it to the Joint Audit and Evaluation Committee.

¹ <https://www.ola.state.md.us/umbraco/Api/ReportFile/GetReport?fileId=63da63ada1ce580484db6d11>

HB0760-EEE_MACo_SWA.pdf

Uploaded by: Brianna January

Position: FWA



House Bill 760

Office of Legislative Audits - Local School Systems - Report

MACo Position: **SUPPORT**
WITH AMENDMENTS

To: Education, Energy, and the Environment
Committee

Date: March 20, 2024

From: Brianna January

The Maryland Association of Counties (MACo) **SUPPORTS HB 760 WITH AMENDMENTS**. This bill requires county boards of education to address repeat findings and recommendations presented in financial and other audits from various oversight authorities. **Counties support the bill's pursuit of transparency and accountability but seek to strengthen the bill with clarification of its enforcement mechanism.**

School funding is the largest portion of nearly all 24 county governments' operating budgets, with several counties dedicating over 60 percent of their total operating budget to public K-12 education. With this great public investment comes the critical responsibility to responsibly and effectively appropriate school funds.

Counties are particularly dedicated to transparency and accountability as state and local budgets invest historic taxpayer dollars under the Blueprint for Maryland's Future. It is for this reason that Maryland's 24 counties have empowered MACo to pursue greater public transparency in education spending as one of its four 2024 legislative initiatives: SB 1026/HB 1115 - County Boards of Education - Budgets - Notice (Transparency in Education Spending Act). Counties view HB 760 as a philosophically consistent complement to MACo's initiative and an important step in promoting efficiencies, balancing school budgets, and effectively investing in Maryland's public schools.

The subtitle HB 760 would amend has an enforcement mechanism, but it's not a fit for what the bill envisions, as it is clearly directed toward inter-category spending. The usual backstop for the audit process is the budget process; however, because state funding comes via formula and county funding comes via mandate, that element of accountability is largely lacking for these kinds of audits. **As such, counties seek an amendment to add some follow-through mechanism should a school system fail to correct fundings from the audit process, as required under HB 760.**

Counties support HB 760's efforts to increase transparency and accountability in Maryland's school spending but are concerned that the current law's enforcement mechanism is poorly suited to this new provision and should be clarified. For those reasons, MACo urges a **FAVORABLE WITH AMENDMENTS** report on HB 760.