

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 760
Ways and Means

(Delegates Palakovich Carr and Hornberger)

Education, Energy, and the Environment

Office of Legislative Audits - Local School Systems - Report

This bill requires each local school system to submit a report to the Joint Audit and Evaluation Committee on the status of the implementation of corrective actions to address repeat findings and recommendations identified by the Office of Legislative Audits (OLA) in the most recent six-year audit. This report is due by November 1 of the third year of a six-year audit cycle. Each local school system must publish the report on its website with any cybersecurity findings redacted in a manner consistent with auditing best practices. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: None. The bill is directed at local school systems.

Local Effect: Local expenditures may increase by a minimal amount to address repeat audit findings. Local revenues are not affected.

Small Business Effect: None.

Analysis

Current Law: Each local board of education must provide for an annual audit of its financial transactions and accounts. The audit must be made by a certified public accountant or partnership of certified public accountants who are licensed by the State Board of Public Accountancy and approved by the State Superintendent of Schools. The results of the audit, including the letter of recommendation of the auditor, are a matter of public record. Results must be reported within three months after the close of the fiscal year of the local board on the form and in the manner required by the State Board to the State

Superintendent of Schools, the county fiscal authority, the Joint Audit and Evaluation Committee of the General Assembly, the Senate Budget and Taxation Committee, the Senate Education, Energy, and the Environment Committee, the House Appropriations Committee, and the House Ways and Means Committee.

Office of Legislative Audits

OLA must conduct an audit of each local school system to evaluate the effectiveness and efficiency of the financial management practices of each local school system at least once every six years. These audits may be performed concurrently or separately, and OLA must provide information regarding the audit process to local school systems in advance of conducting the audit. Local school systems may be exempt from an audit at the request of that county's delegation as specified in statute. Independent of the audits required every six years, the Joint Audit and Evaluation Committee may direct OLA to conduct an audit of a local school system at any time.

Generally, OLA conducts its local school system audits to evaluate whether a local school system's procedures and controls are effective in accounting for and safeguarding its assets and to evaluate whether its policies provide for the efficient use of financial resources. In completing its audits, OLA reviews applicable State laws and regulations, reviews local policies and procedures, interviews personnel at local school systems, inspects documents and records, tests transactions and, to the extent practicable, directly observes local school system operations.

Maryland Office of the Inspector General for Education

The Inspector General (IG) is responsible for examining local boards of education, local school systems, and public schools; nonpublic schools that receive State funds; the Maryland State Department of Education (MSDE), and the Interagency Commission on School Construction. The IG may employ specified staff and receive and investigate complaints or information concerning:

- fraud, waste, and abuse involving the use of public funds and property;
- violations of the civil rights of students and employees;
- whether policies and procedures governing the prevention and reporting of child abuse and neglect comply with federal and State law; and
- compliance with other federal and State law.

With the exception of certain protected, confidential, and privileged documents, the IG must have access to records, data, reports, contracts, correspondence, and other documents of the entities it may investigate. The office may serve a subpoena in the same manner as

does a circuit court. The office must annually report on its goals and priorities, activities, the number and nature of incidents it reports to specified State and federal entities, and findings and recommendations related to (1) instances of fraud, waste, and abuse; (2) civil rights violations; and (3) specified policy matters.

Performance Audit

MSDE, at the request of a county government and in the absence of an agreement between a county government and local school board, must contract for a performance audit of a local school system. A performance audit covers an assessment of a school system's practices to determine whether the school system or a school program is operating economically and efficiently and whether corrective actions for improving its performance are appropriate. MSDE must make reasonable efforts to ensure that a performance audit is completed, and the results of the audit are made available to the local board in time to be considered by the local board in preparation of its budget for the next fiscal year.

The costs of the performance audit must be shared equally between the county governing body and the local board of education.

A performance audit conducted on this condition (1) must be conducted in accordance with generally accepted government auditing standards and (2) may not include an assessment or evaluation of a local board's efforts to meet the standards of the Maryland School Performance Program. However, a local governing body and local school board may make an agreement to perform or contract for a performance audit of school board functions, including an agreement involving the scope of the performance audit or the responsibility of the funding of the performance audit.

Local Expenditures: Local school expenditures may increase by a minimal amount to the extent a local school system must address repeat audit findings. The exact level of additional expenditures depends on the scope of the repeat audit findings being addressed and the existing capacity of local school systems and their hired auditors to address those findings. Local school systems can redact cybersecurity findings in a manner consistent with auditing best practices from such reports using existing resources.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland State Department of Education; Anne Arundel County Public Schools; Montgomery County Public Schools; Prince George's County Public Schools; Department of Legislative Services - Office of Legislative Audits

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