

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 243

(Senator McFadden) (Chairman, Joint Audit Committee)

Budget and Taxation

Appropriations

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**General Assembly - Office of Legislative Audits - Authorized Representatives  
and Authorized Work**

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This bill makes various changes related to the duties and responsibilities of the Office of Legislative Audits (OLA). The changes include allowing an outside consultant to act as an authorized representative of OLA; clarifying the scope of certain work; and providing a process for follow-up of local school system audits.

The bill also requires, the Governor and the Chief Judge of the Court of Appeals to implement processes to monitor the efforts of their respective units to correct audit findings by OLA. Any unit that has five or more repeat audit findings must report quarterly to OLA on the efforts to correct the findings until the actions reported by the agency indicate that satisfactory progress has been made to address all findings. By October 1, 2006, a report to the General Assembly must be made by the Governor and the Chief Judge on the adopted processes for ensuring corrective actions, and an evaluation on the feasibility of establishing an Inspector General within each cabinet-level department and the Judiciary to address audit findings, and ensuring compliance with applicable laws, rules, and regulations.

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**Fiscal Summary**

**State Effect:** General fund expenditures for the Department of Budget and Management (DBM) would increase by \$353,000 in FY 2007 to hire seven auditors to follow-up and report on OLA audit report recommendations. Out-years include annualization and inflation. The FY 2007 budget includes \$508,400 to fund 10 new auditor positions to ensure that State agencies are implementing recommendations of OLA. The funding is not contingent upon enactment of this bill. Revenues would not be affected.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	353,000	426,700	451,100	477,300	505,200
Net Effect	(\$353,000)	(\$426,700)	(\$451,100)	(\$477,300)	(\$505,200)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** This bill authorizes the Legislative Auditor, with the concurrence of the Executive Director of the Department of Legislative Services (DLS), to contract with consultants to assist OLA in performing its authorized duties. It eliminates a provision that OLA conduct an audit of the Maryland-National Capital Park and Planning Commission at the request of either the Prince George’s County Executive or County Council.

The bill establishes a process for the Joint Audit Committee (JAC) to review a local school system’s response to audit recommendations. Specifically, OLA must review the local school system’s response and advise JAC when that response is not satisfactory. DLS’s Executive Director or JAC may direct OLA to undertake a review to determine actions taken by the system to implement audit recommendations. JAC may make recommendations, based on a system audit, to the Governor, the State Superintendent, the local school governing board, or local school officials.

The bill provides that OLA’s access to records and confidentiality requirements apply to all authorized work and authorized representatives. It defines “examination” to include all authorized work and required audits and replaces references to audit and/or review throughout the title with examination.

**Current Law:** OLA performs fiscal/compliance audits of each unit of State government at least once every three years. It also conducts performance audits, financial audits, reviews, and investigations when directed by the Legislative Auditor, the Executive Director of DLS, or JAC.

**State Effect:** DLS could absorb an increase in workload as a result of the bill’s provision allowing the Executive Director of DLS or JAC to direct OLA to perform additional reviews of local school systems. This assumes that such reviews would be limited and

not requested routinely. In the event that such reviews were frequently undertaken, OLA advises that two additional audit positions would be needed at an estimated cost of \$130,000. For the purposes of this bill, it is assumed that reviews will be limited and OLA will be able to schedule reviews in order to utilize existing resources.

General fund expenditures for DBM could increase by an estimated \$353,000 in fiscal 2007, which accounts for the bill's October 1, 2006 effective date. This estimate reflects the cost of hiring six staff auditors and one audit supervisor to follow-up and report on OLA audit report findings. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- OLA issues 70 audit reports, excluding Judiciary audits, per year with an average of five recommendations per audit;
- each staff auditor would be following up on an estimated 59 audit recommendations per year; and
- one audit supervisor should provide sufficient review and management for six staff auditors.

Positions	7
Salaries and Fringe Benefits	\$303,202
Start-up Equipment including Computers	41,000
Operating Expenses	<u>8,775</u>
<b>Total FY 2007 State Expenditures</b>	<b>\$352,977</b>

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. The fiscal 2007 budget includes funding for 10 new auditor positions with a total cost of \$508,432.

### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 210 (Delegate Barkley – Chairman, Joint Audit Committee) – Appropriations.

**Information Source(s):** Department Legislative Services (Office of Legislative Audits), Department of Legislative Services

**Fiscal Note History:** First Reader - January 27, 2006  
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