

Department of Legislative Services  
Maryland General Assembly  
2009 Session

FISCAL AND POLICY NOTE

House Bill 623  
Ways and Means

(Allegany County Delegation)

Budget and Taxation

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**Local School Systems - Biannual Financial Status Report Requirement - Repeal**

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This bill repeals the requirement that local school systems file biannual financial status reports with the Maryland State Department of Education (MSDE).

The bill takes effect July 1, 2009.

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**Fiscal Summary**

**State Effect:** State expenditures are not materially affected. Revenues are not affected.

**Local Effect:** Local school system expenditures may decrease minimally due to repealing the biannual financial status reporting requirement. Revenues are not affected.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The State Superintendent of Schools and MSDE must monitor the financial status of each local school system and report their findings on a biannual basis to the Governor and the General Assembly. Each local superintendent of schools must file a biannual report on the financial status of the local school system with the State Superintendent and county governing body and attest to the accuracy of each biannual report when the report is submitted. The reports must be submitted by April 30 and December 31 of each fiscal year.

Local boards of education must provide for annual audits of their financial transactions and accounts by certified public accountants. Within three months after the close of the fiscal year, the results of the annual audit must be submitted to the State Superintendent; county

fiscal authority; Joint Audit Committee of the General Assembly; Senate Budget and Taxation Committee; Senate Education, Health, and Environmental Affairs Committee; House Appropriations Committee; and House Committee on Ways and Means. The county commissioners or county council may conduct an audit of the local school system using auditors employed by the county. In addition, performance audits, semi-annual fiscal status reports, and other reporting requirements are specified in statute.

**Background:** Chapter 148 of 2004 established procedures to ensure fiscal accountability of local school systems by requiring biannual financial reports, prohibiting school budget deficits, and providing for legislative audits. These procedures were developed after it was revealed in 2004 that two local school systems had deficits in their operating budgets. An audit of the Baltimore City School System showed an accumulated deficit of \$58 million in fiscal 2003, and the Prince George's County School System reported ending fiscal 2003 with a \$15.3 million deficit that was carried over into fiscal 2004.

Beginning with the period ending November 30, 2004, local school systems have been submitting the unaudited financial reports twice each year. MSDE reports the biannual financial status reports have not disclosed any evidence of fiscal instability and there have been no general fund deficit balances disclosed in the last four fiscal years. MSDE advises that filing biannual financial reports is burdensome to local school systems and that submitting the required annual audited financial statements provides appropriate oversight.

**Local Expenditures:** Local school system expenditures may decrease minimally due to repealing the biannual financial status reporting requirement. Actual decreases in expenditures are dependent on local school system staffing distributions.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 448 (Senator Edwards) - Budget and Taxation.

**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2009  
ncs/mwc

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