

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 189
Appropriations

(Delegate DeBoy, *et al.*) (Chair, Joint Audit Committee)

Budget and Taxation

Office of Legislative Audits - Auditing Local School Systems

This bill requires that the Office of Legislative Audits (OLA) conduct an audit of each local school system to evaluate the effectiveness of the financial management practices at least once every six years, rather than once during the six-year period ending June 30, 2010.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: No resources beyond those budgeted will be needed; however, auditors evaluating the effectiveness of the financial management practices of local school systems will not be available to conduct OLA's other duties. Revenues are not affected.

Local Effect: To the extent that OLA identifies better financial management practices, school system operations may become more efficient.

Small Business Effect: None.

Analysis

Current Law: During the six years between July 1, 2004, and June 30, 2010, OLA must conduct an audit of each local school system to evaluate the effectiveness of the financial management practices of the local school system.

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. The biannual reporting requirement was repealed during the 2009 session (Chapter 544) because the reports had not disclosed any evidence of fiscal instability during the five years that they were required, and because the reports were burdensome to local school systems.

OLA reports that, as of January 2010, it has issued audit reports on 18 of the 24 local school systems. The audits contain over 300 recommendations addressing issues in 11 operational areas, such as procurement, information systems security, facility management, and transportation services. Audits for five other school systems are in progress, and the audit of the one remaining school system will be initiated during spring 2010.

If the audits are continued, OLA reports it will begin the next cycle shortly after the July 1, 2010 effective date. OLA may adjust the audit scope and approach based on its experience with the current cycle. Any changes would be presented to the Joint Audit Committee, which approved the original audit approach.

State Expenditures: No resources beyond those budgeted will be needed; however, auditors evaluating the effectiveness of the financial management practices of local school systems will not be available to conduct OLA's other duties. Since 2004 OLA has hired nine auditors to audit local school systems and to evaluate the effectiveness of their financial management practices. Auditors have completed audits on 18 of the 24 local school systems, and OLA anticipates it will complete audits on the remaining 6 local school systems by July 1, 2010.

Under current law, the auditors assigned to the local school system audits will be reassigned to OLA's other duties, which include conducting fiscal and compliance audits of all agencies of the Executive and Judicial branches of the State government at least once every three years; conducting financial statements audits, performance audits, and special reviews of selected agencies as requested or required by law; and reviewing the audit reports of local government units in the State. OLA advises that it conducted 88 audits during 2009 and that all auditors currently evaluating the effectiveness of local school systems' financial management systems could be used to complete its other audits more quickly.

Additional Information

Prior Introductions: None.

Cross File: Senate Bill 323 - (Senator Jones)(Chair, Joint Audit Committee) - Budget and Taxation.

Information Source(s): Prince George's County, Maryland State Department of Education, Department of Legislative Services (Office of Legislative Audits)

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