HB 1473

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 1473 (Delegate Morhaim)
Appropriations

State Government - Repeat Audit Findings - Report of Corrective Actions

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This bill requires any unit of State government that has two or more repeat audit findings to report to the Office of Legislative Audits (OLA) within nine months of the most recent audit report on (1) the corrective actions taken for each finding in the audit report; or (2) a schedule for when specific corrective actions will be implemented for each audit finding. Following the initial report, the unit must continue to submit the reports on a quarterly basis until the agency's actions indicate that satisfactory progress has been made to address all findings. Under current law, a unit must have five or more repeat audit findings before having to comply with these specified reporting requirements.

Fiscal Summary

State Effect: General fund expenditures increase by $174,700 in FY 2013 for OLA to meet the bill's requirements. Future years reflect annualization and inflation. Revenues are not affected.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	$0	$0	$0	$0	$0
GF Expenditure	174,700	222,700	238,100	249,000	260,500
Net Effect	($174,700)	($222,700)	($238,100)	($249,000)	($260,500)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: At least once every three years, the Office of Legislative Audits (OLA) must conduct a fiscal/compliance audit of each unit of the State government, except for units in the Legislative Branch. Performance audits or financial statement audits must be conducted when authorized by the Legislative Auditor, when directed by the Joint Audit Committee or the Executive Director of the Department of Legislative Services (DLS), or when otherwise required by law. OLA has the authority to conduct a separate investigation of an act or allegation of fraud, waste, or abuse in the obligation, expenditure, receipt, or use of State resources. OLA may audit any county officer or unit that collects State taxes.

Within nine months of the issuance of an audit report, any agency with five or more repeat audit findings must report quarterly to OLA on (1) the corrective actions taken; or (2) a schedule for when corrective actions will be implemented. Subsequently, quarterly status reports must be submitted until satisfactory progress has been made to address the findings.

State Expenditures: General fund expenditures increase by $174,706 in fiscal 2013, which accounts for the bill's October 1, 2012 effective date. This estimate reflects the cost of hiring one legislative manager and one auditor to handle the increased workload generated by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	$164,911
Operating Expenses	9,795
Total FY 2013 State Expenditures	**$174,706**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

OLA advises that since 2006, when the mandatory reporting statute for repeat audit findings was originally enacted, agencies typically have had to submit 6-7 quarterly reports (an average of 6.5 per agency). Reporting concludes either because the agency satisfactorily addressed all findings or the next audit started. According to OLA, reducing the number of repeat audit findings needed to trigger the mandatory reporting requirement from 5 to 2 would increase the number of agencies subject to the follow-up process from 12 to 62. As a result, the average number of quarterly reports OLA would be required to review would increase from 78 (12 x 6.5) to 403 (62 x 6.5) over a three-year audit cycle.

Within OLA, the responsibility for reviewing the quarterly reports, contacting agencies to obtain clarification or additional information, and concluding on the progress made by agencies, resides at the management level. In addition, other audit staff are involved with preparing and issuing OLA's correspondence reminding agencies of the reporting requirements, following up on delinquent or incomplete reports, and advising agencies regarding the results of OLA's review of the quarterly reports. OLA estimates that each quarterly report requires 2 days of personnel time. As a result, the bill would require 650 additional days of OLA personnel time over an audit cycle (3 years) to review and process the quarterly reports from 50 additional agencies subject to mandatory reporting on repeat audit findings as a result of the bill (50 agencies x 6.5 reports per agency x 2 days per report). In order to handle this increased workload, OLA will require one manager and one auditor.

OLA and agencies affected by repeat audit findings may experience efficiencies and savings if agencies address problem areas sooner and need to submit fewer reports on corrective actions to OLA as a result of the bill. The extent to which this will occur cannot be reliably predicted at this time.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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