

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 1089

(Senators Pipkin and Manno)

Budget and Taxation

**General Assembly - Reduction in Budget Appropriations for Repeat Legislative
Audit Findings**

This bill requires the General Assembly to reduce the budget of a State agency that has three or more repeat audit findings by up to 5% annually until the Office of Legislative Audits (OLA) determines that the agency has satisfactorily addressed the repeat findings.

Fiscal Summary

State Effect: State operating expenditures decrease potentially significantly beginning in FY 2014 to the extent an agency fails to address repeat audit findings and its budget is decreased. Revenues are not affected.

Local Effect: The bill is not expected to materially affect local operations or finances.

Small Business Effect: None.

Analysis

Current Law: At least once every three years, 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.

Background: OLA, within DLS, audits State agencies in the Executive and Judicial branches and other entities as requested by the Maryland General Assembly. OLA reports to the Joint Audit Committee and is responsible for:

- performing fiscal compliance audits of State agencies to evaluate fiscal operations and determine compliance with laws and regulations;
- conducting performance audits to evaluate whether a State agency or program is operating in an economic, efficient, and effective manner;
- conducting performance audits of the financial management practices of local school systems;
- operating a fraud hotline for reporting fraud, waste, and abuse of State resources;
- monitoring the financial reporting practices and financial condition of local governments in Maryland; and
- conducting special reviews and investigations.

When agencies submit required quarterly status reports, OLA subsequently reviews and responds to the agency via correspondence indicating which findings have been addressed as well as the findings for which continued reporting is necessary. Under this process, OLA does not perform any on-site work to verify an agency's representations of the actions taken.

OLA advises that 38 State agencies had three or more repeat findings in their last audit reports, totaling approximately 160 findings.

State Expenditures: OLA can handle the bill's requirements with existing budgeted resources, assuming that on-site work at State agencies is not required. However, State operating expenditures decrease potentially significantly beginning in fiscal 2014 and in future years to the extent agencies fail to address repeat audit findings and the State budget is decreased. Any impact would not occur until the General Assembly takes action on the fiscal 2014 budget submitted in January 2013.

To the extent the bill results in budget reductions, some agencies may not have adequate funding to comply with other federal or State program or funding requirements. Specifically, the Department of Budget and Management notes that reducing the budgets

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of agencies with significant mandated grant or entitlement funding will reduce grant funding for recipients or other benefits for eligible participants. Furthermore, to the extent an audit finding is related to or the result of inadequate resources, the bill may exacerbate the issue and make it more difficult to resolve.

Additional Information

Prior Introductions: None.

Cross File: HB 843 (Delegate Bates, *et al.*) - Appropriations.

Information Source(s): Department Legislative Services – Office of Legislative Audits, Department of Budget and Management, University System of Maryland, Department of Legislative Services

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