

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 352
Appropriations

(Delegate Ghrist, *et al.*)

Budget and Taxation

Office of Legislative Audits - Local School System Audits

This bill establishes a potential exemption to the general requirement that the Office of Legislative Audits (OLA), at least once every six years, conduct an audit of each local school system to evaluate the effectiveness and efficiency of the financial management practices at the local school system. Beginning in fiscal 2017, a local school system is exempt from the audit requirement if the county governing body, the county board of education, and the county delegation to the Maryland General Assembly each submits a letter to the Joint Audit Committee requesting an exemption by November 1, 2016, or by November 1 of the last year of the six-year audit cycle for local school systems. However, a local school system may not be exempt for two consecutive six-year audit cycles. Further, the Joint Audit Committee may direct OLA to conduct an audit of a local school system at any time.

Fiscal Summary

State Effect: General fund expenditures for OLA decrease by up to \$22,000 in FY 2017 and by up to \$53,000 annually thereafter, due to reduced travel expenses. OLA staff resources are reallocated to performance audits, as discussed below. Revenues are not affected.

Local Effect: Minimal. As each school system is typically audited by OLA only once every six years, and also undergoes annual independent audits, local government finances and operations are not materially affected.

Small Business Effect: None.

Analysis

Current Law: OLA must, at least once every six years, conduct an audit of each local school system to evaluate the effectiveness and efficiency of the financial management practices of the local school system. The school system audits are in addition to fiscal/compliance audits of units of State government and other required audits and reviews that OLA must conduct.

The school system audits may be performed concurrently or separately. OLA must provide information regarding the audit process to the local school system before the audit is conducted. The Legislative Auditor must review each local school system's response to OLA's audit and advise the local school system of the results of the review. The Legislative Auditor must advise the Joint Audit Committee when a local school system:

- does not make a response to a recommendation;
- does not indicate action to be taken in response to a recommendation;
- has not taken the action the local school system indicated in its response to a recommendation; or
- responds in a manner that is not considered appropriate to carry out the recommendation.

The Executive Director of the Department of Legislative Services or the Joint Audit Committee may direct the Legislative Auditor to undertake a review to determine the extent to which action has been taken by a local school system to implement a report recommendation. With respect to findings and recommendations made to a local school system, the Joint Audit Committee may make recommendations to the Governor, State Superintendent of Schools, the local school governing board, or local school officials after reviewing a local school system's response to a recommended action.

OLA Access to Local School System Records in the Event of a Deficit

The employees or authorized representatives of OLA must have access to and may inspect the records, including those that are confidential by law, of any local school system that has a deficit or structural deficit in accordance with a request for information. This requirement and the associated provisions are unchanged under the bill.

Background: Chapter 148 of 2004 required OLA to audit each local school system once during the six-year period between July 1, 2004 and June 30, 2010. Chapters 58 and 59 of 2010 repealed the specific date requirement and instead required OLA to audit each local school system at least once every six years.

During the first completed cycle of audits, the 24 school audit reports (1 for each local school system) collectively contained 685 audit report findings in 11 functional areas (all 24 reports included audit coverage in the same 11 areas, such as procurement and disbursement cycle, information technology, and transportation services).

OLA is presently in the second cycle of local school system audits. At this time, 2 of the 24 local school system audits have not yet started (Cecil and Dorchester counties), but are due to start before the second cycle ends in 2016 (OLA advises that the audits will start prior to November 1). For the second cycle of audits, OLA has taken a more focused approach by addressing, based on professional judgment and considerations of risk and significance, the more critical issues within those same 11 functional areas. Consequently, not all issues addressed during the first cycle, including prior audit findings, were subject to review during the subsequent audit. For example, for the second cycle audits completed to date, collectively 69% of the prior findings were followed up on by OLA, and approximately 40% of those reviewed have been repeated as findings in the succeeding audit reports (actual repeat percentages vary between individual school systems; the 40% is a collective average).

State Expenditures: Creating a potential exemption to the general requirement that OLA audit local school systems may reduce general fund expenditures for OLA travel costs. A number of school systems are located in areas in the State that require overnight travel by staff (necessitating State reimbursement for mileage, meals, and hotels). OLA's budgeted travel expenditures for school system audits have averaged \$53,000 annually over the last six years, and the fiscal 2017 budget as enacted includes \$22,000 for travel expenses. Therefore, general fund expenditures for OLA decrease by up to \$22,000 in fiscal 2017 and by up to \$53,000 annually thereafter, depending on the number and location of school systems that become exempt under the bill. As a local school system may not be exempt for two consecutive six-year audit cycles, this estimate may be mitigated to some extent starting with the fourth cycle, which begins in fiscal 2023.

As a result of Chapter 148 of 2004, OLA received nine auditor positions to provide the necessary personnel resources for conducting local school system audits. If the school audit requirement is reduced, as is possible under the bill, OLA advises that it intends to reallocate those presently filled professional positions from the school system audits to performance audits in accordance with a growing volume of legislative requests.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

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