

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1341 (Delegate A. Washington)  
Ways and Means

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Maryland Public School Transparency and Accountability Act

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This bill requires that if a local school system receives 10 or more repeat findings in an audit conducted by the Office of Legislative Audits (OLA), the county's governing body must establish an Office of the Inspector General (IG) that is independent of the local school board or superintendent.

The bill takes effect July 1, 2017.

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Fiscal Summary

**State Effect:** None. The bill pertains only to local school systems. It is assumed that any increase in requests for subpoenas is minimal and that the Judiciary (circuit courts) can handle any increase with existing resources.

**Local Effect:** Expenditures increase for local school systems that have at least 10 repeat audit findings to establish an IG's office. If the bill affects existing audit findings that predate the bill's effective date, at a minimum the local school systems in the following counties are affected: Allegany, Harford, Prince George's, Queen Anne's, Somerset, and Talbot. No effect on revenues. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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Analysis

**Bill Summary:** The IG is appointed by the following local officials: Mayor of Baltimore City; the county executive in charter counties (the county council if the jurisdiction does

not have a county executive); the county council or county commissioners in code counties; and the county commissioners in commission counties. The IG's term is four years beginning July 1 after his or her appointment, except that the IG continues to serve until a successor is appointed. If a vacancy occurs, an interim IG is appointed to complete the remainder of the term. The Office of the IG must remain in place until OLA conducts the next audit and at least five of the repeat findings have been resolved.

The IG must (1) examine and investigate the management and affairs of the local school system concerning mismanagement, misconduct, abuse, fraud, waste, and corruption; (2) receive complaints related to those matters; and (3) establish a method that allows for anonymous complaints. The IG decides if a complaint should be investigated.

The bill specifies the IG's authority to carry out investigations and the procedures to be followed during such investigations. Before issuing specified subpoenas, the IG must obtain approval from the circuit court, as specified in the bill.

On or before January 1 of each year, the IG must report to the local school board and the General Assembly specified information about the reports and investigations made during the preceding year. The summary report may not include any confidential or identifying information about the subjects of the reports and investigations.

**Current Law:** In general, OLA must conduct an audit of each local school system at least every six years to evaluate the effectiveness and efficiency of the system's financial management practices. Beginning in 2017 (the third six-year audit cycle of school system audits), a local school system may be exempt from an audit if the county's governing body, local school board, and delegation to the General Assembly each submit a letter to the Joint Audit Committee (JAC) requesting an exemption. A local school system may not be exempt for two consecutive cycles, and JAC may direct OLA to conduct an audit of a local school system at any time.

**Background:** OLA is nearing completion of the second six-year audit cycle for local school systems. The final three audits of the cycle (for Cecil, Dorchester, and Worcester counties) have been completed, but the results have not yet been published. For the third cycle, Caroline, Charles, Dorchester, Garrett, Somerset, Talbot, and Worcester counties have been exempted from the audit requirement as allowed under current law.

IGs differ from internal audit offices in that they are typically independent of the local school board and, therefore, have more authority to investigate without external pressures or influence. Generally, IGs perform financial and performance audits and investigations to improve operations and identify/deter fraud and waste. A [2015 report](#) by Montgomery County's Office of Legislative Oversight determined that no local school systems in the

State had IGs. Nine local school systems in the State, including Montgomery, Carroll, Howard, and Prince George's counties and Baltimore City, have internal audit offices. The report found that 7 of the 20 largest school systems in the country have IGs at an annual cost ranging from \$400,000 to over \$7 million primarily depending on the number of employees. Montgomery County has an IG for all county offices with an annual budget of approximately \$1.0 million.

**Local Fiscal Effect:** Local school system expenditures increase to establish IG offices. As discussed above, costs depend on the level of resources, primarily the number of auditors and investigators, allocated to IG offices by the affected school systems. These amounts cannot be reliably estimated but may be significant.

OLA advises that, based on the second audit cycle results to date, six local school systems would be required to establish IG offices: Allegany, Harford, Prince George's, Queen Anne's, Somerset, and Talbot counties. The Department of Legislative Services advises that it is not clear whether the bill applies to these audit results or only to audits conducted after the bill's effective date. If it only applies prospectively to audits conducted in the third cycle, the seven local school systems that have already been exempted do not confront the possibility, at least immediately, of having to establish an IG's office, including Somerset and Talbot counties, which would qualify if the bill applies to audits completed during the second cycle. (JAC may require an audit of any school system under current law, even those exempted.) It is also not clear whether the bill applies to the three local school systems (Cecil, Dorchester, and Worcester) whose audits have been completed but whose audit reports may not be released until after the bill's effective date, depending on the number of repeat findings reported in their audits.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore City; Montgomery County; Judiciary (Administrative Office of the Courts); Maryland State Department of Education; Department of Legislative Services (Office of Legislative Audits); Department of Legislative Services

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