

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 1085 (Delegate Miller)
 Government, Labor, and Elections

Maryland Office of the Inspector General - Establishment (Maryland Government Efficiency and Accountability Act of 2026)

This bill establishes the Maryland Office of the Inspector General (OIG) as an independent unit of the State to investigate complaints of waste, mismanagement, misconduct, abuse, fraud, or corruption in units of the Executive Branch of State Government. The bill also establishes the State Transparency Commission (STC), which must appoint an Inspector General (IG) to supervise and direct OIG. Among other requirements, the IG must conduct an efficiency reconstruction review of units in the Executive Branch under specified circumstances and implement artificial intelligence (AI) technology to flag potential instances of waste, mismanagement, misconduct, abuse, fraud, or corruption within units of the Executive Branch in real time.

Fiscal Summary

State Effect: Net general fund expenditures for OIG increase by \$1.82 million in FY 2027, which represents the costs associated with 32 additional positions beyond the 58 positions transferred from OIG for Education (OIGE) and the OIG for Health (OIGH) to OIG. In total, general fund expenditures for OIG increase by \$6.72 million in FY 2027 and general fund expenditures for OIGE and OIGH decrease by at least \$2.16 million and \$2.74 million, respectively. Federal fund expenditures increase for OIG and correspondingly decrease for OIGH; thus, federal fund expenditures remain unchanged. Future years reflect annualization, inflation, and ongoing costs. Revenues are likely not materially affected.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1.82	0.72	0.77	0.80	0.83
FF Expenditure	0	0	0	0	0
Net Effect	(\$1.82)	(\$0.72)	(\$0.77)	(\$0.80)	(\$0.83)

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

Local Effect: The bill does not materially affect the operations or finances of the circuit courts. Otherwise, the bill does not directly affect local governments.

Small Business Effect: None or minimal.

Analysis

Bill Summary: An efficiency reconstruction review is a holistic review of an Executive Branch unit's organization and operations to identify inefficiencies and areas for improvement.

The bill specifies the members and governance of STC. STC must appoint the IG without regard to political affiliation and may remove the IG as specified. If the IG position remains vacant for more than 180 days, STC must submit a report to the General Assembly on efforts to appoint a new IG and activities of OIG during the vacancy. STC must continue submitting reports every 60th day thereafter the initial report until the vacancy is filled.

The bill specifies the term, qualifications, job responsibilities, and appointment and removal processes for the IG. The IG is entitled to the salary and specified expense reimbursements as provided in the State budget. The IG may establish office space that the State must maintain and equip, and funding for OIG must be as provided in the State budget. The IG may employ staff as specified and the bill outlines their duties and responsibilities.

The IG must receive complaints of waste, mismanagement, misconduct, abuse, fraud, or corruption in units of the Executive Branch and establish a toll-free hotline number and website through which anonymous complaints may be filed.

If the IG receives a complaint, the IG must determine whether the complaint should be investigated. If AI technology used in accordance with the bill flags a potential instance of waste, mismanagement, misconduct, abuse, fraud, or corruption, the IG must determine whether the instance should be investigated.

The IG must establish key performance indicators and annual goals for each unit of the Executive Branch. If a unit fails to meet the goals established for two consecutive years, the IG must conduct an efficiency reconstruction review of the unit and make recommendations to STC regarding measures that could be taken to address the review's findings.

If the IG discovers evidence of criminal activity, the IG must notify the appropriate law enforcement agency. Additionally, the IG may refer matters to the appropriate State or federal enforcement officials as specified.

The IG may investigate as specified and conduct audits and efficiency reconstruction reviews of units in the Executive Branch. The IG must take steps to ensure that a person or unit subject to OIG's jurisdiction is not subject to duplicative investigations or audits. The IG may procure and implement AI technology and must cooperate with investigations by other State or federal agencies. The bill specifies disclosures prohibitions and requirements. An individual who discloses specified protected records is guilty of a misdemeanor and is subject to a fine of up to \$2,000 and/or imprisonment of up to one year.

The IG must review the policies and procedures of units of the Executive Branch and make recommendations to improve them. Units must cooperate fully with the IG as specified.

The IG may serve a subpoena or *subpoena duces tecum* with the approval of a circuit court judge, and the bill specifies the process for issuing and serving subpoenas, along with issuing orders and granting appropriate relief.

The IG may adopt regulations to carry out the bill. The IG must develop an operations manual, make it publicly available on OIG's website, and provide training and education for units in the Executive Branch. IG must annually report to the Governor and the General Assembly as specified and must issue a final report on an investigation, audit, or efficiency reconstruction review completed by OIG as specified, and these reports must be posted on OIG's website.

Employees of units in the Executive Branch who make complaints or provide information to OIG relating to waste, mismanagement, misconduct, abuse, fraud, or corruption are protected under Maryland's Whistleblower Law.

The Governor may transfer positions and appropriate funds for those positions from State agencies, departments, or units of the Executive Branch to OIG, and all transferred employees must be transferred without diminution of their rights, benefits, employment, or retirement status.

Current Law: The Office of Legislative Audits (OLA) operates a fraud hotline and investigates allegations of fraud, waste, and abuse of State resources within the scope of its authority. OIGE and OIGH serve as independent agencies in the State to investigate instances of fraud, waste, and abuse.

Audits Conducted by the Office of Legislative Audits

Generally, OLA must conduct a fiscal/compliance audit of each unit of the State government (except for units of the Legislative Branch) at an interval ranging from three to four years, unless the Legislative Auditor determines, on a case-by-case basis, that more frequent audits are required. Each agency or program may be audited separately or as part of a larger organizational unit of State government. OLA must also conduct performance audits or financial statement audits when authorized by the Legislative Auditor, directed by the Joint Audit and Evaluation Committee (JAEC), or the Executive Director of the Department of Legislative Services (DLS), or otherwise required by law. A report must include OLA's findings, any appropriate recommendations, and any response from the unit subject to the audit.

The Executive Director of DLS or JAEC may direct OLA to undertake a review to determine the extent to which action has been taken by a unit to implement a report recommendation.

Additionally, OLA must maintain a fraud hotline for the reporting of allegations of fraud, waste, and abuse of State resources. OLA may (1) investigate an allegation received from the fraud hotline within the scope of its authority or (2) refer the allegation to the appropriate federal, State, or local agencies responsible for the enforcement or administration of the matter for investigation. Information obtained by OLA in relation to an act or allegation of fraud, waste, or abuse is confidential and may not be disclosed except under specified conditions.

Maryland Office of the Inspector General for Education

OIGE is an independent unit of State government established by Chapter 771 of 2019. The office promotes accountability and transparency in the use of public education funds by examining and investigating matters related to county boards of education, local education agencies (LEA), public schools, and nonpublic schools that receive State funding, as well as the Maryland State Department of Education (MSDE) and the Interagency Commission on School Construction. OIGE receives and investigates complaints involving alleged civil rights violations, compliance with laws governing the prevention and reporting of child abuse and neglect, and potential instances of fraud, waste, and abuse of public funds or property.

With the exception of certain protected, confidential, and privileged documents, the IG must have access to records, data, reports, contracts, correspondence, and other documents of the entities it may investigate. The office may serve a subpoena in the same manner as does a circuit court. Funding for the office, including the IG salary, is as provided in the annual State budget. The office must annually report on its goals and priorities; activities;

the number and nature of incidents it reports to specified State and federal entities; and findings and recommendations related to (1) instances of fraud, waste, and abuse; (2) civil rights violations; and (3) specified policy matters.

Even though OIGE is an independent agency, its budget was initially allocated to MSDE; in fiscal 2026 it began operating under a new, independent budget code.

Maryland Office of the Inspector General for Health

Chapter 70 of 2006 authorized OIG within the Maryland Department of Health (MDH). Chapter 325 of 2021 renamed it to OIGH and made it an independent unit of the State.

Pursuant to the Health-General Article, the IG for Health may investigate fraud, waste, and abuse of departmental funds. The IG must cooperate and coordinate investigative efforts with the Medicaid Fraud Control Unit, departmental programs, and other State and federal agencies to ensure a provider is not subject to duplicative audits. The IG (or a designated assistant IG) may subpoena any person or evidence, administer oaths, and take depositions and other testimony as part of an investigation of (1) fraud, waste, or abuse of departmental funds or (2) behavior in MDH that threatens public safety or demonstrates negligence, incompetence, or malfeasance.

Within 30 business days after receiving a complaint or allegation, the IG, the compliance officer, or a designated assistant IG must respond to the individual who filed the complaint or allegation with (1) a preliminary indication of whether the OIGH is able to investigate the complaint or allegation and (2) if not, the reason for not being able to do so (unless doing so would have a negative impact on or jeopardize a specified investigation) and the contact information for the OLA Fraud Hotline.

For information on AI in the State, see the **Appendix – Artificial Intelligence**.

State Expenditures: The bill authorizes positions to be transferred from State agencies, departments, or units of the Executive Branch to OIG. The fiscal 2027 budget as introduced appropriates \$2.9 million of general funds, including funding for 16 positions, to OIGE. Additionally, the fiscal 2027 budget as introduced contains \$3.6 million of general funds and \$2.4 million of federal funds for 42 permanent positions and 3.5 contractual positions at OIGH. This analysis assumes both OIGE and OIGH funds and positions are transferred to OIG on the bill's effective date of October 1, 2026. Thus, general fund expenditures for OIGE decrease by \$2.2 million, reflecting three-fourths of a year. Likewise, OIGH general fund and federal fund expenditures decrease by \$2.7 million and \$1.8 million, respectively, reflecting three-fourths of a year, as a result of transferring the unit to OIG. Future years reflect annualization and projected growth in the units.

The bill requires OIG to ensure that Executive Branch agencies are not subject to duplicative investigations or audits. As OLA already is responsible for conducting audits of all Executive Branch agencies, operating a fraud hotline, and investigating accusations of waste, fraud, and abuse, this analysis assumes that OIG requires limited additional resources beyond those transferring from OIGE and OIGH to carry out its duties without duplicating OLA’s work. In addition to the 58 regular positions and 3.5 contractual positions transferring from OIGE and OIGH, this analysis therefore assumes that OIG requires only an additional 32 positions, for a total of 90 regular positions, to carry out its duties with respect to other Executive Branch agencies.

Thus, general fund expenditures increase by at least \$6,715,890 and federal fund expenditures increase by at least \$1,807,899, totaling \$8,523,789 for OIG, in fiscal 2027, which accounts for the bill’s October 1, 2026 effective date. This estimate reflects the cost of hiring 90 employees to staff OIG, which includes 58 positions transferred from OIGE and OIGH and 32 additional positions. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. This represents a net increase of \$1,815,789 in general funds above the amounts transferred from OIGE and OIGH.

Positions	90.0
Salaries and Fringe Benefits	\$7,701,121
Operating Expenses	<u>822,668</u>
Total FY 2027 State Expenditures	\$8,523,789

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

Other State agencies may incur additional expenses to support OIG. However, any additional costs cannot be estimated absent experience under the bill.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Office of the Attorney General; Judiciary (Administrative Office of the Courts); Maryland State’s Attorneys’ Association; Maryland State Department of Education; Department of Budget and Management; Maryland Department of Health; Department of Legislative Services

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Appendix – Artificial Intelligence

Artificial Intelligence – Generally

Artificial intelligence (AI) is a broad field of computer science that deals with the creation of “intelligent” systems that can reason, learn, and act autonomously. There are many different branches of AI, each with its own focus and set of techniques, such as machine learning, neural networks, robotics, expert systems, fuzzy logic, and natural language processing. AI research has been successful in developing algorithms for solving a wide range of problems, from game playing to conversation simulation.

AI use has expanded significantly in recent years. Many of the largest technology companies have each developed their own AI systems and have integrated the systems into their respective companies’ products and services. AI’s ability to quickly synthesize and summarize vast amounts of data and apply the results have made it a useful tool in modern society while also raising questions about its use. The following list briefly describes a few of the impacts of and issues surrounding AI.

- Related to education, AI may have potential benefits to help tutor or otherwise provide additional resources to assist students in their studies. However, some students use AI to cheat on their schoolwork;
- Related to energy use, the significant power draw necessary to run the data systems that host AI systems has contributed to localized energy shortages and increased energy costs;
- Regarding environmental issues, these data centers require a significant amount of water for cooling and increasingly have been using freshwater resources for this purpose;
- Related to criminal justice, AI image and video generation systems can be used to make “deep fake” pictures and videos that may be difficult or impossible to differentiate from actual events;
- AI’s reliance on information from the internet has raised concerns regarding the accuracy of AI-generated content as well as copyright infringement and data privacy.
- Related to health, AI is being used to assist doctors in developing medical diagnoses, but is also being used by insurance companies to screen requests for care and claims;
- Related to labor and employment, the expansion of AI has led to concerns about employees being replaced by AI systems as a means to save money on labor costs.

Governance at the State Level

The State defines AI as a machine-based system that (1) can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments; (2) uses machine and human-based inputs to perceive real and virtual environments and abstracts those perceptions into models through analysis in an automated manner; and (3) uses model inference to formulate options for information or action. At the State level, AI is governed primarily by the Department of Information Technology (DoIT) and the Governor's AI Subcabinet. This governance structure was established by Chapter 496 of 2024 and, broadly speaking:

- requires DoIT to adopt policies and procedures, in consultation with the Governor's AI Subcabinet, concerning the development, procurement, deployment, use, and ongoing assessment of systems that employ high-risk AI by a unit of State government;
- prohibits units of State government from procuring or deploying a new system that employs AI unless the system complies with the policies and procedures adopted by DoIT;
- requires each unit of State government to conduct a data inventory to identify data that meets criteria established by the Chief Data Officer and that is (1) necessary for the operations of the unit or otherwise required to be collected as a condition to receive federal funds or by federal or State law and (2) in a form prescribed by the Chief Data Officer, including when the data is used in AI; and
- requires each unit of State government to conduct an inventory of systems that employ high-risk AI.

Most recently, DoIT and the subcabinet have released the [2025 Maryland AI Enablement Strategy & AI Study Roadmap](#), which includes plans for studying opportunities, risks, and next steps associated with the use of AI in State services. Additionally, in November 2025, the Governor's Office announced a [State partnership](#) with two AI companies to integrate certain AI systems into a portion of the State's workforce.

Other Recent State Laws and Policies

In addition to the direct governance effectuated by Chapter 496, various other laws and policies address some of the issues posed by AI.

Chapter 105 of 2025 established the Workgroup on AI Implementation to monitor issues and make recommendations related to AI, including (1) the regulation of AI used in decisions that significantly impact the livelihood and life opportunities of individuals in the State; (2) deployer and developer obligations related to labor and employment and

protection of individual privacy rights; (3) protection of consumer rights; (4) current private sector use of AI; (5) general AI disclosures for all consumers; (6) enforcement authority for the Office of the Attorney General's Consumer Protection Division; and (7) the impact of the use of AI in the determination of government benefits. The first report from the workgroup is due July 1, 2026.

Chapter 747 of 2025 requires a carrier (*i.e.*, insurance company or another organization that provides health benefit plans), pharmacy benefits manager, or a private review agent that uses AI, algorithms, or other software tools for utilization review (including working through an entity that uses such tools) to ensure that such tools are used in a specified manner. Notably, the Act specifies that an AI, algorithm, or other software tool may not deny, delay, or modify health care services and that carriers must submit in their quarterly appeals and grievance reports whether an AI, algorithm, or other software tool was used in making an adverse decision.

Chapter 17 of the 2025 special session established an AI Evidence Clinic Pilot Program in the Administrative Office of the Courts to provide expertise in AI to the circuit courts and the District Court in the form of expert testimony on the authenticity of electronic evidence that a court determines may have been created or altered using AI.

Regarding education, the Maryland State Department of Education has begun an [AI initiative](#) to develop policies and procedures for AI use by students and teachers. Additionally, Chapter 237 of 2025 specifies that, for school years 2025-2026 through 2027-2028, certain requirements for the procurement and use of digital tools to assure equivalent access to technology for students with disabilities do not apply to digital tools that use AI.

Federal Action

The National Artificial Intelligence Initiative Act of 2020 became law on January 1, 2021. The aim of the Act is to promote U.S. leadership in AI research and development with the goal of accelerating the nation's economic prosperity and national security through the development and use of trustworthy AI in the public and private sectors and preparation of the workforce for the inevitable integration of AI systems. This multi-agency initiative has included work by the U.S. Department of Energy, in consultation with the National Institute of Standards and Technology, to develop the AI Risk Management Playbook as a reference guide to support responsible and trustworthy AI use and development. Though not a binding document, the playbook addresses common AI risks and steps that AI leaders, practitioners, and procurement teams can take to manage data privacy and bias risks.

Other Executive Orders guiding and governing AI use of the federal level signed during the previous administration were revoked under the current administration. Moreover, an

[Executive Order signed in December 2025](#) generally expresses the federal government's attempt to preempt State AI laws and regulations, directs certain federal agencies to penalize states that are found to not be in compliance with the preemption, and directs certain federal entities to prepare a legislative recommendation establishing a uniform federal policy framework for AI that preempts state AI laws.