

BILL: House Bill 760
TITLE: County Boards of Education - Annual Financial Audits - Alterations
DATE: February 14, 2024
POSITION: SUPPORT WITH AMENDMENTS
COMMITTEE: Ways and Means
CONTACT: John R. Woolums, Esq.

The Maryland Association of Boards of Education (MABE) supports the approach taken by this legislation to provide enhanced engagement and accountability through school system responses to the findings and recommendations of the audits conducted by the Office of Legislative Audits (OLA).

Fiscal accountability is provided in myriad ways through the local board's annual, public and transparent, budget process; the oversight provided by MSDE and the General Assembly; each local government funding authority's budget process; and numerous system-wide and programmatic audits. Among these many audits are those conducted on a 6-year cycle by the Office of Legislative Audits (OLA). For the committee's benefit, MABE has provided an outline of the types of local school system audits already conducted under longstanding state and federal law (see reverse).

Academic accountability for our school systems, individual schools, and all students, is rigorously supported through state and federal assessment programs; and Maryland has long been recognized as one of the highest performing statewide systems of public education in the nation. Today, the Blueprint for Maryland's Future is attracting national attention to the visionary and comprehensive reforms spanning from prekindergarten to dual enrollment and career and technical education. The Blueprint reflects the fact that school system fiscal accountability is imperative to maintaining the public's trust and confidence in the investments of the state and local government revenues in our public schools.

House Bill 760, as proposed to be amended by the bill sponsor, would require a local school system to submit to the Joint Audit and Evaluation Committee a report on the status of any corrective actions to address repeat findings identified by OLA. MABE believes that establishing this interim reporting requirement will aid in maintaining ongoing engagement with OLA, and the Joint Audit Committee, on the status of school system responses to repeat audit findings. In addition, based on a review of recent OLA audit reports, MABE is quite concerned with the unredacted summaries of findings, including findings relating to cyber-security. MABE urges the legislature's favorable consideration of this bill with the sponsor's amendments to clarify this and other issues.

For these reasons, MABE requests a favorable report on House Bill 760 with the sponsor amendments described above.

Examples of audits of local school systems in Maryland:

- Annually - independent audit conducted by a Certified Public Accounting firm that produces audited financial statements and Audit Communications. Due to MSDE by September 30. This audit is required by state law.
- Annually - compliance audit and audit of Schedule of Expenditures of Federal Awards in compliance with OMB Circular A-133. Due to MSDE by December 31. This audit is required by state law.
- Annually - MSDE program reviews ranging from Title I, to special education, Medicaid, to food services - most of which are on-site reviews performed by MSDE program staff. Reports are filed by MSDE staff and any findings require a corrective action plan that must be approved by MSDE staff.
- Bi-annually - Maryland State Department of Education (MSDE) audit of major state aid programs and enrollment verification audit. MSDE Auditors are typically on site for approximately two (2) weeks and they audit two years' worth of data in that time period. A report is issued and any financial findings must be repaid to MSDE and corrective actions must be taken to ensure compliance with recommendations.
- Tri-annually - audit performed by a Certified Public Accountant firm hired by the Maryland State Retirement System (MSRS) to audit payments made annually by the local public school systems to the MSRS. This audit is required by state law.
- Every five (5) years - Public School Construction Program audit performed by the Interagency Commission (IAC) for School Construction auditors. They audit major school construction projects and compliance with Minority Business Enterprise requirements. Typically on site for three (3) days.
- Periodically (at random) - audits of federal funds by federal auditors. Typically of major federal programs such as Medicaid billing, Title I, and food services. These audits are extensive and generally involve the respective Federal Department's Office of the Inspector General.

In addition to the audits described above, current state law provides for a county governing body, the Office of Legislative Audits, or the State Superintendent to require an audit and/or a corrective action plan from a public school system under the following conditions:

- Education Article, section 5-110, provides for a county governing body to contract for a performance audit of their local public school system at any time. The cost of the audit is to be shared equally by the county governing body and the school system.
- Education Article, section 5-114(d)(5), provides for the State Superintendent and the Office of Legislative Audits to request any financial information from a local school system pertaining to a deficit or structural deficit of the system and obtain a copy of a corrective action cost containment plan developed by the local school system.
- Failure to comply with the auditors and MSDE could result in the withholding of state funds. The State Superintendent has the authority to direct the Comptroller to withhold 10% of the next and ensuing state aid installments until compliance is reached.