MARYLAND STATE DEPARTMENT OF EDUCATION
Preparing World-Class Students

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TO: Members of the State Board of Education

FROM: Lillian M. Lowery, Ed.D. LMLowery

DATE: September 25, 2012

SUBJECT: Update on Financial Reporting Requirements

PURPOSE:

To brief the State Board on the status of audit reports of local school systems and to authorize the State Superintendent to withhold funds from local school systems that are not in compliance with the provisions of §5-114 of the Education Article.

BACKGROUND:

Senate Bill 894, the Education Fiscal Accountability and Oversight Act of 2004, codified at §5-114, strengthens the authority of the State Superintendent and the State Board to monitor the fiscal health of local school systems and provides for the enforcement of the requirements through the withholding of funds.

§5-114(f) of the Education Article states:

> "If a local school system fails to comply with the requirements of this section, the State Superintendent, with the approval of the State Board of Education, shall notify the State Comptroller, who shall withhold 10% of the next installment and each subsequent installment due the local school system from the general State school fund until the State Superintendent notifies the Comptroller that the local school system is in full compliance with the requirements of this section."

The requirements of §5-114 include the following:

- Timely submission of the annual audit report or submission within 10 days after notification that the report is late (§5-114(d));
- Submission of a corrective action cost containment plan within 15 days of notification by the State Superintendent of a deficit situation (§5-114(e)(2)(i); and
- Submission of monthly status reports on actions taken to close the deficit (§5-114(e)(2)(ii).

DISCUSSION:

As of this time, based on audits filed, no systems demonstrate a deficit as defined by §5-114, so none are required to submit a corrective action plan or monthly status reports.

All but one school system have filed their fiscal 2013 approved budgets as required by §5-102(e).

ACTION:

The State Board of Education is requested to authorize the State Superintendent to notify the Comptroller to withhold 10% of the November State aid payment and each subsequent installment for any system that is not in full compliance with §5-114 of the Education Article.