

**Maryland General Assembly
Joint Audit Committee
2016 Interim
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MARYLAND GENERAL ASSEMBLY
JOINT AUDIT COMMITTEE

December 6, 2016

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Audit Committee respectfully submits the report of its activities during the 2016 interim. The committee's work covered the following principal areas of activity:

Review of Selected Legislative Audit Issues

The committee met on August 3 and December 6 to review several legislative audits in accordance with the authority granted to it by Section 2-1224 of the State Government Article. The committee reviewed the audits listed below:

- Board of Liquor License Commissioners for Baltimore City;
- Maryland State Department of Education;
- Resource Sharing Lease Agreements: Special Report;
- Comptroller of Maryland – Revenue Administration Division; and
- Department of Health and Mental Hygiene – Developmental Disabilities Administration.

Budget Actions on Repeat Audit Findings

Since 2013, the *Joint Chairmen's Report* (JCR) has annually included budget bill language restricting appropriations for agencies with four or more repeat audit findings until corrective action has been taken. In 2015, the JCR included fund restrictions for seven agencies with four or more repeat audit findings, including four agencies for which funds were not previously released. The seven agencies collectively addressed 13 of 22 repeat audit findings. As a result, the restricted funds for four agencies were fully released, and funds for one agency were partially released. Funds for the remaining two agencies were not released.

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The 2016 JCR required two agencies to take corrective actions for repeat audit findings. A portion of the administrative appropriations for fiscal 2017 has been withheld from these agencies until the Office of Legislative Audits (OLA) submits a report to the budget committees on the status of corrective actions for repeat audit findings. One agency has submitted a report to OLA stating that the findings have been corrected. The remaining report is due in January 2017.

OLA will review the agency reports. OLA conclusions regarding the corrective actions taken on the nine repeat audit findings will be reported to the budget committees within 45 days prior to the end of fiscal 2017.

Summary and Follow-up Audit Reports

The audit reports issued by OLA from December 1, 2015, to June 30, 2016, including those proposed for committee monitoring, were reviewed by the committee at the August 3 meeting. The reports issued by OLA from July 1, 2016, to November 30, 2016, also including those proposed for committee monitoring, were reviewed by the committee at the December 6 meeting.

The summary analyses of items in fiscal compliance audits as of June 30, 2016, were reviewed by the committee at the December 6 meeting. Agencies with five or more repeat audit findings are required to provide status reports to OLA on corrective actions taken on all findings within nine months of the related audit reports.

Review of the follow-up audit process from 2006 through June 2016 revealed the following:

- Thirty agencies have submitted one or more quarterly reports on the status of corrective actions for five or more repeat audit findings. Since October 2010, only four audit reports have had five or more repeat findings.
- The status report process has concluded for 41 audit reports with five or more repeat findings.
- The percentage of repeat audit findings in State agencies has decreased from 40% to 23%. Since 2013, the percentage of repeat findings has remained virtually unchanged.

Local School System Audits

Chapter 261 of 2016 establishes a voluntary exemption process from the requirement that OLA, at least once every six years, conduct an audit of each local school system. In practice, OLA

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audits each school system once per six-year audit cycle. The next audit cycle for local school systems will begin in the second half of fiscal 2017.

As required by Chapter 261, for a local school system to be exempt from the upcoming cycle, the county governing body, the county board of education, and the county delegation to the Maryland General Assembly were each required to submit a letter to the committee requesting an exemption by November 1, 2016.

The committee received complete requests from Caroline, Charles, Dorchester, Garrett, Somerset, Talbot, and Worcester counties. The committee reviewed summary information provided by OLA related to the prior audits of the school systems and approved each waiver request at its December 6 meeting. While these school systems are exempt from the upcoming audit cycle, Chapter 261 prohibits school systems from being exempt from two consecutive audit cycles.

The committee also approved changes to the overall scope of upcoming local school system audits. There were 34 audit objectives established in the original audit scope approved by the committee in 2004, which were used for two six-year audit cycles. As part of an effort to focus on the most critical financial management areas, the number of objectives was decreased to 18. This is anticipated to reduce time demands on both OLA and local school system personnel while still allowing OLA to address high-risk areas and provide an objective and meaningful assessment of each system's major financial operations.

Respectfully submitted,



Senator Guy Guzzone
Senate Chair



Delegate C. William Frick
House Chair

GG:CWF/HED/kmb

cc: Mr. Warren G. Deschenaux
Ms. Carol L. Swan
Mr. Ryan Bishop
Mr. Thomas J. Barnickel III