

Audit Report

**Maryland State Department of Education
Interagency Commission on School Construction**

March 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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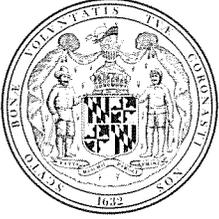
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

March 6, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Interagency Commission on School Construction (IAC) for the period beginning July 1, 2015 and ending June 30, 2018. IAC is an independent commission within the Maryland State Department of Education that oversees and provides funding for public school construction in Maryland. Prior to June 1, 2018, IAC was known as the Interagency Committee on School Construction, which had been established under the Board of Public Works.

Our audit disclosed that IAC did not always obtain required corrective action plans from local education agencies (LEA) to address maintenance deficiencies found by IAC during periodic inspections. We reviewed the fiscal year 2016 IAC maintenance inspection results from one LEA that identified deficiencies at 34 schools and found that IAC could not document that it had received corrective action plans for all identified deficiencies at 28 of the schools. These corrective action plans can address critical issues. For example, 10 of the 28 schools had been rated less than adequate in the category of fire and safety.

Our audit also included a review to determine the status of the three findings contained in our preceding audit report dated June 15, 2016. We determined that IAC satisfactorily addressed these findings.

IAC's response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit Committee of any outstanding issues that we cannot resolve with IAC.

We wish to acknowledge the cooperation extended to us during the audit by IAC, and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, prominent initial "G".

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Interagency Commission on School Construction (IAC) is an independent commission within the Maryland State Department of Education (MSDE). The purpose of IAC is to develop and approve policies, procedures, guidelines, and regulations on State public school construction allocations to local jurisdictions in an independent and merit-based manner. IAC prepares projections of school construction and capital improvement needs, approves school construction and capital improvement projects based on these projections, and provides associated financial aid to the counties and Baltimore City for approved projects. According to its records, during fiscal year 2018, IAC disbursed approximately \$352.4 million in capital funds for public school construction projects, and its operating expenditures totaled approximately \$1.9 million.

Law and Name Change

Chapter 14, Laws of Maryland 2018, effective June 1, 2018, made comprehensive changes to public school construction funding, management, and approval processes. Prior to this legislation, IAC was known as the Interagency Committee on School Construction, which had been established under the Board of Public Works (BPW). Under Chapter 14, BPW's authority to adopt regulations and grant final approval for public school construction projects has been transferred to IAC. Furthermore, IAC's membership was expanded to include four additional public members. As presently configured, the nine-member committee consists of the State Superintendent of Schools (as the Chair), the Secretary of Department of Planning, the Secretary of Department of General Services (or their respective designees), and six public members—two appointed by the Governor, two appointed by the President of the Senate, and two appointed by the Speaker of the House.

Recovery of State Funds

IAC has made recent progress toward resolving a longstanding matter involving an \$890,277 debt that was to be assumed by a local jurisdiction in 2008 for a school building that was no longer being used for school purposes. As disclosed in our two preceding audit reports, the local jurisdiction closed a school in February 2007 and declared the building as surplus. On February 13, 2008, BPW approved the school closure and the transfer of the building to the local jurisdiction, to be used as a training facility for police and firefighters, under the

condition that the local jurisdiction assume the school's outstanding debt of \$837,820. The outstanding debt was later revised to \$890,277, consisting of \$814,346 in principal and \$75,931 in interest. We were advised that, after the transfer, the State continued the debt payments and fully satisfied the debt in 2011.

On May 2, 2017, IAC submitted a property transfer agreement to the local jurisdiction to resolve this outstanding debt service. The local jurisdiction approved the payment of the outstanding debt on March 14, 2018 pending the final execution of the property transfer agreement by the BPW. However, because of the length of time that had passed since its 2008 approval of the school closure and transfer of the building to the local jurisdiction, the BPW did not sign the agreement. As previously mentioned, the June 1, 2018 law change removed BPW from IAC's oversight and, accordingly, IAC management advised us that BPW's approval of the property transfer agreement is no longer required, rendering the agreement invalid. IAC management advised us that, as of December 2018, it had submitted a redrafted agreement to the local jurisdiction and payment had not been received as of February 1, 2019.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated June 15, 2016. We determined that IAC satisfactorily addressed these findings.

Findings and Recommendations

Public School Maintenance Inspections

Finding 1

The Interagency Commission on School Construction (IAC) did not always obtain required corrective action plans from local education agencies to address deficiencies identified during annual IAC maintenance inspections.

Analysis

IAC did not always obtain a corrective action plan from each local education agency (LEA) to address deficiencies identified during annual IAC school maintenance inspections. In accordance with State regulations, each fiscal year, IAC conducts maintenance inspections for a selection of schools from each LEA, which include 35 categories consisting of critical building components (such as

mechanical, plumbing, fire safety, and electrical systems, plus the condition of the roof) as well as the physical structure itself. These 35 categories were determined by IAC to be important as they generally relate to the health and safety of students and staff. Within 30 days from the issuance of a maintenance inspection report that includes one or more individual deficiencies rated as “not adequate” or “poor” (deemed to be deficient), State regulations require an LEA to submit to IAC a plan of how and when any deficient category will be corrected. In addition to rating each category, the facility itself is given an overall rating by IAC, using the same terms. According to IAC records, as of September 7, 2018, there were 1,381 public school facilities in Maryland.

IAC inspected a total of 460 schools during fiscal years 2016 and 2017. Our review of the inspection ratings for those schools found that, in 23 LEAs, while certain of the schools inspected had deficiencies in one or more of the 35 categories that required corrective action, all of the schools inspected in those LEAs for both years received overall ratings of “adequate” or better. However, three schools from the remaining LEA received an overall rating of “not adequate” in 2016. Consequently, we reviewed the maintenance inspections for all of the 35 schools inspected during fiscal year 2016 in that specific LEA to determine IAC’s efforts to obtain corrective action plans.

Our review disclosed that IAC did not ensure that required corrective action plans were prepared and submitted by the LEA. For 34 of the 35 schools inspected, IAC identified deficiencies that required corrective action and requested the LEA provide individual corrective action plans. However, IAC did not have corrective action plans on file for all identified deficiencies for 28 of the 34 schools, and could not document that it had followed up with the LEA to obtain the required corrective action plans. Each of those 28 schools had between 1 and 14 deficient categories for which a corrective action plan had not been received. For example, 10 schools had been rated less than adequate in the category of fire and safety concerns. IAC advised us that its staff followed up with the LEA through phone conversations and email correspondence, but, due to turnover, IAC could not provide us with evidence of these follow-up efforts. With respect to the three schools from this LEA that received an overall rating of “not adequate,” while IAC did not have corrective action plans on file for all deficient categories, we did note that IAC conducted follow-up inspections of two of these schools to assess the status of the corrective action. The third school was not re-inspected, as at the time it was undergoing a renovation.

Recommendation 1

We recommend that IAC obtain corrective action plans from LEAs, as required, and take appropriate follow-up action to provide assurance that deficiencies identified during maintenance inspections were adequately addressed by the LEAs.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Interagency Commission on School Construction (IAC), an independent commission within the Maryland State Department of Education, for the period beginning July 1, 2015 and ending June 30, 2018. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine IAC's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included capital funds used to finance the cost of public school construction and renovation projects, public school maintenance inspections, construction project closeout procedures, cash receipts, and payroll. We also determined the status of the findings included in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of IAC's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Statewide Personnel System (SPS) for the purpose of testing related payroll transactions, and we extracted data from IAC's construction project accounting system and maintenance inspection system for the purpose of testing certain areas, including capital project transactions, maintenance inspections, and IAC's monitoring efforts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

IAC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

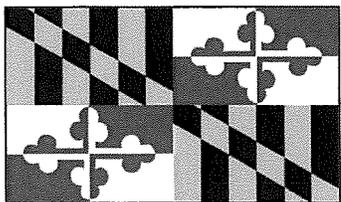
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect IAC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This condition is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to IAC that did not warrant inclusion in this report.

IAC's response to our finding and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise IAC regarding the results of our review of its response.

APPENDIX

INTERAGENCY COMMISSION ON SCHOOL CONSTRUCTION



LARRY HOGAN
GOVERNOR

KAREN SALMON, PhD.
CHAIRPERSON

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February 26, 2019

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

We have received and reviewed the draft audit report dated February 8, 2019 pertaining to the fiscal compliance audit conducted for the period July 1, 2015 through June 30, 2018.

As requested, we are providing you with the agency response to the recommendation made.

If you have any questions, please contact Kim Spivey, Director of Fiscal Services (410) 767-0742

Sincerely

A handwritten signature in black ink, appearing to read "R. Gorrell".

Robert Gorrell
Executive Director

Maryland State Department of Education
Interagency Commission on School Construction

Agency Response Form

Background Information

Recovery of State Funds

IAC management advised us that, as of December 2018, it had submitted a redrafted agreement to the local jurisdiction and payment had not been received as of February 1, 2019.

Agency Response	
Analysis	
Please provide an update on the status of the Recovery of State Funds as noted above.	As of February 11, 2019 the status remains the same.

Maryland State Department of Education
Interagency Commission on School Construction

Agency Response Form

Public School Maintenance Inspections

Finding 1
The Interagency Commission on School Construction (IAC) did not always obtain required corrective action plans from local education agencies to address deficiencies identified during annual IAC maintenance inspections.

Recommendation 1
We recommend that IAC obtain corrective action plans from LEAs, as required, and take appropriate follow-up action to provide assurance that deficiencies identified during maintenance inspections were adequately addressed by the LEAs.

Agency Response	
Analysis	Factually Accurate
Please explain any concerns with factual accuracy.	
Recommendation 1	Agree Estimated Completion Date:
Please provide details of corrective action or explain disagreement.	The IAC is implementing procedures to record and review LEA responses to the deficiencies identified during maintenance inspections.

AUDIT TEAM

Bekana Edossa, CPA, CFE
Audit Manager

Edward J. Welsh, CFE
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