

Audit Report

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

March 2023



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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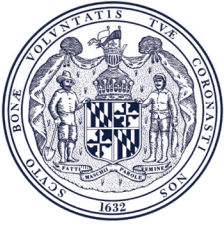
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

March 14, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation 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, 2018 and ending July 31, 2022. IAC is an independent commission within the Maryland State Department of Education that oversees and provides funding for public school construction in Maryland.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge IAC's efforts to satisfactorily address the finding contained in our preceding report. We also wish to acknowledge the cooperation extended to us during the audit by IAC.

Respectfully submitted,

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. In fiscal year 2022, IAC had 41 authorized positions and is governed by a nine-member committee including the State Superintendent of Schools, the Secretary of Planning, the Secretary of General Services, two members of the public appointed by the Governor, two members of the public appointed by the President of the Senate, and two members of the public appointed by the Speaker of the House of Delegates.

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 State records, during fiscal year 2022, IAC disbursed approximately \$381.3 million in capital funds for 366 projects, (primarily for public school construction), and its operating expenditures totaled approximately \$3.2 million.

Built to Learn Act

The Built to Learn (BTL) Act, effective February 12, 2021, allows for the Maryland Stadium Authority (MSA) to issue up to \$2.2 billion in revenue bonds to fund school construction projects. Eligible BTL projects address existing buildings, new construction, and relocatable classrooms. As required by the Act, IAC and MSA entered into a memorandum of understanding effective July 23, 2021, to establish responsibilities for each party. MSA is required to manage school construction projects, which must be approved for funding and scope by IAC. Additionally, the Act includes the following:

- Creates the Public School Facilities Priority Fund, which uses the results of the Statewide Facilities Assessment required by State law to prioritize funding to schools with the highest needs;
- Makes design and other project expenses eligible for State participation;
- Mandates an increase to Enrollment Growth and Relocatable Classroom funding beginning in fiscal year 2026; and

- Extends the Healthy School Facility Fund, which provides allocation for local education agencies to improve school conditions.

IAC advised us that MSA had issued revenue bonds for BTL projects totaling \$699.3 million as of August 2022. According to IAC records, as of August 2022, it had budgeted BTL funds for 29 projects totaling approximately \$750 million and its BTL expenditures totaled approximately \$2.2 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated March 6, 2019. We determined that IAC satisfactorily addressed this finding.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of IAC's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A finding that did not warrant inclusion in this report was separately communicated to IAC.

A draft copy of this report was provided to IAC. Since there are no recommendations in this report, a written response was not necessary.

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 (MSDE), for the period beginning July 1, 2018 and ending July 31, 2022. 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 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 certain payroll functions not performed by MSDE for IAC's benefit. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include a review of certain support services provided to IAC by MSDE. These support services (such as payroll, maintenance of certain accounting records, and related fiscal functions) are included within the scope of our audit of MSDE.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2018 to July 31, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of IAC operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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). The 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 IAC's construction project accounting system for the purpose of testing certain areas, including capital project transactions, 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 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to IAC, were considered by us during the course of this audit.

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.

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