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TO: Members of the State Board of Education
FROM: Dr. Nancy S. Grasmick *Nancy*
DATE: September 21, 2009
SUBJECT: Update on Financial Reporting Requirements

PURPOSE

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

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



State Aid for Education payments are made in six equal installments, beginning in July and ending in May of each fiscal year. The first payment that could be affected by noncompliance with this year's reporting deadlines is November 2009.

DISCUSSION

Local school systems (LSSs) are required to submit current year annual budgets and prior year audited basic financial statements, by September 30. LSSs must also submit a copy of a management letter, if applicable. The single audit reports are due by December 31. These reports are collected by the Audit Office and the Local Finance Reporting Office.

In FY 2009, the State was required to withhold 10% from the November State Aid payments for Allegany County Public Schools and St. Mary's County Public Schools due to failure to comply with statutory reporting requirements. Both school systems submitted all required reports prior to the January State Aid payment.

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.