

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 858

(Senator Hettleman, *et al.*) (By Request - Joint Audit and Evaluation Committee)

Budget and Taxation

Government, Labor, and Elections

Department of Budget and Management - Audit and Finance Compliance Unit - Establishment

This bill establishes an Audit and Finance Compliance Unit (AFCU) in the Department of Budget and Management (DBM) to monitor the efforts of Executive Branch departmental units to correct audit findings reported by the Office of Legislative Audits (OLA). AFCU must assist Executive departmental units with resolving audit findings as specified and may provide guidance, coordination, and technical assistance to Executive departmental units as specified. AFCU and specified elected and appointed officials may view unredacted cybersecurity audit findings. AFCU must submit an annual report to the Joint Audit and Evaluation Committee (JAEC) by October 1 each year on all audit findings for executive departmental units under examination. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by \$590,200 in FY 2027 for staffing; future years reflect annualization, inflation, and ongoing costs. The FY 2027 budget as introduced includes \$330,000 for two additional AFCU employees. Revenues are not affected.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	590,200	705,200	737,500	770,500	804,100
Net Effect	(\$590,200)	(\$705,200)	(\$737,500)	(\$770,500)	(\$804,100)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The Governor must implement systems and processes to monitor the efforts of the Executive Branch departmental units to correct audit findings reported by OLA.

AFCU must provide direct assistance as specified in the bill to agencies with at least four repeat audit findings or unsatisfactory audits. AFCU must establish a specialized team to provide the required direct assistance, which may include current State employees, current contractual employees, and external contractors.

The Secretary of Budget and Management may adopt regulations to carry out provisions of the bill.

Current Law:

Audits Conducted by the Office of Legislative Audits

Generally, OLA must conduct a fiscal/compliance audit of each unit of the State government (except for units of the Legislative Branch) at an interval ranging from three to four years, unless the Legislative Auditor determines, on a case-by-case basis, that more frequent audits are required. Each agency or program may be audited separately or as part of a larger organizational unit of State government. OLA must also conduct performance audits or financial statement audits when authorized by the Legislative Auditor, directed by the JAEC, or the Executive Director of the Department of Legislative Services (DLS), or otherwise required by law. A report must include OLA's findings, any appropriate recommendations, and any response from the unit subject to the audit.

The Executive Director of DLS or JAEC may direct OLA to undertake a review to determine the extent to which action has been taken by a unit to implement a report recommendation.

The Governor and the Chief Justice of the Supreme Court must implement systems and processes to monitor the efforts of the Executive departmental units and the Judiciary to correct audit findings reported by OLA. A report auditing a unit of State or local government must have any cybersecurity findings redacted in a manner consistent with auditing best practices before the report is made available to the public. Within nine months of the most recent audit report, any unit with five or more repeat audit findings must report to OLA on the corrective actions taken or a schedule for when specific corrective actions will be implemented for each finding in the audit report. Each applicable unit must continue to report to OLA on a quarterly basis after the initial report until satisfactory progress has been made.

Six State agencies (the Comptroller of Maryland, the Department of Housing and Community Development, the Department of Information Technology, the Maryland Department of Health – Pharmacy Services, the Maryland Department of Transportation, and St. Mary’s College of Maryland) had repeat audit findings in calendar 2024 fiscal compliance reports issued by OLA. The 2025 *Joint Chairmen’s Report* (JCR) restricted \$250,000 of funds until the State Chief Information Security Officer submits a report to OLA on plans to remediate repeat audit findings by February 1, 2026 (which was submitted in February 2026), and OLA submits a report on commitment to resolve audit findings by May 1, 2026. Representatives from agencies with certain repeat audit findings in calendar 2024 were also required to meet with the State Chief Information Security Officer to identify and document a path for resolution of any outstanding issues.

Audit and Finance Compliance Unit of the Department of Budget and Management

AFCU is an audit unit within DBM focused on enhancing audit compliance and program management across State agencies. AFCU was expanded in fiscal 2023 from a small unit of four individuals within the Office of the Secretary, Executive Direction to an official budgetary subunit of DBM with nine regular positions. AFCU provides enhanced technical support to State agencies facing repeat audit findings, fiscal crises, and other financial management or audit compliance issues. The fiscal 2027 budget as introduced adds two additional regular positions to assist AFCU’s work.

Committee narrative in the 2024 JCR requested that DBM develop new performance measures for AFCU. The department’s fiscal 2026 Managing for Results submission included no new measures. In response, language in the fiscal 2026 budget bill restricted \$150,000 in general funds pending submission of performance measures for AFCU. DBM submitted a report containing the requested information on August 20, 2025, and the budget committees authorized the release of funds.

Governor’s Directive

On February 6, 2026, Governor Wes Moore released a directive to cabinet secretaries, directing them to review their agency processes for monitoring resolution of audit issues within 60 days of the order. The secretaries must also review recent audit findings and identify areas to address without new resources within the first 60 days. Then, within 180 days, secretaries must identify areas where additional resources could address the root cause of repeat audit findings. The directive stated that the Department of Information Technology (DoIT) will pilot a management tool to track findings, inquiries, and corrective actions. AFCU is also highlighted as a resource for agencies in seeking input, as well as convening meetings with agencies to develop a culture of best practices.

State Expenditures: The bill generally codifies what AFCU is already doing to assist State agencies in monitoring corrective actions for OLA findings. However, the bill adds

to AFCU’s responsibilities by: (1) requiring AFCU to perform sample tests of implemented corrective actions, as needed; (2) requiring AFCU to annually report to JAEC; and (3) establishing a specialized team to provide direct assistance to specified agencies.

DBM reports needing nine additional employees and \$650,000 in contractor costs to implement the bill, but DLS disagrees with that assessment. The fiscal 2027 budget as introduced adds two additional regular positions to assist AFCU with monitoring corrective actions to resolve OLA findings. DLS assumes that these two additional positions can handle any increased workload stemming from providing guidance, coordination, and technical assistance to Executive departmental units. DLS also assumes existing employees can likely staff the specialized team. However, DLS concurs that DBM needs additional resources to perform sample tests of implemented corrective actions as needed and to meet the bill’s reporting requirement. Currently, DBM reports that testing is only done on a limited basis when resources allow for it, so it is not typically performed.

Thus, general fund expenditures increase by \$590,237 in fiscal 2027, which accounts for a 90-day start-up delay from the bill’s July 1, 2026 effective date. This estimate reflects the cost of hiring two administrators to assist with audits (as budgeted in the fiscal 2027 budget as introduced), and one auditor, one informational technology auditor, and one supervisor to perform sample tests of implemented corrective actions on an as-needed basis. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	5.0
Salaries and Fringe Benefits	\$544,533
Operating Expenses	<u>45,704</u>
Total FY 2027 State Expenditures	\$590,237

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. To the extent that the additional staff need professional memberships and specialized training, general fund expenditures may increase further. The fiscal 2027 budget as introduced contains \$329,960 in general funds for the two administrators in AFCU.

Executive departmental units can report to AFCU on their progress in correcting any audit findings with existing resources. To the extent that the specialized team consists of State employees outside of DBM, State agencies can likely serve on the team with existing resources.

Additional Comment: Although the fiscal 2027 budget as introduced includes \$5.0 million in the Dedicated Purpose Account to address repeat audit findings, DBM advises that those funds are not for AFCU. Rather, they will be used for temporary staff,

information technology (presumably the tool to track audit findings in the Governor's directive), and consultants. Therefore, those funds are not available for the additional staff included in this analysis.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 1369 (Delegate Solomon)(By Request - Joint Audit and Evaluation Committee) - Government, Labor, and Elections.

Information Source(s): Department of Information Technology; Department of Commerce; Maryland Department of Aging; Maryland State Department of Education; Maryland Department of Agriculture; Department of Budget and Management; Maryland Department of Disabilities; Maryland Department of the Environment; Maryland Department of Health; Department of Housing and Community Development; Department of Human Services; Maryland Department of Planning; Department of Public Safety and Correctional Services; Department of State Police; Maryland Department of Transportation; Department of Veterans and Military Families; Department of Service and Civic Innovation; Department of Legislative Services

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