



**UNIVERSITY SYSTEM OF MARYLAND
BOARD OF REGENTS - AUDIT COMMITTEE
OPEN - MEETING AGENDA**

March, 24 2020

- | | |
|--|-------------------------|
| 1. Information & Discussion - USM's Year End 6/30/2019 A133 Single Audit Report | Ms. Booker Mr. Smith |
| 2. Information & Discussion - USM's Half Year (12/31/2019) Financial Statements & Financial Comparison Analysis to Peer Institutions | Ms. Denson Mr. Page |
| 2.1 Points to Consider | |
| 2.2 Financials and Expense Crosswalk | |
| 2.3 Trends in Transfers of Accounts Receivables to CCU | |
| 2.4 Public College & University Financial Ratio Comparison | |
| 3. Information - Office of Legislative Audit Activity – Published Audit Reports | Mr. Mosca |
| 4. Information & Discussion – Annual Affiliated Foundation Policy Compliance Status | Ms. Herbst Mr. Page |
| 5. Information & Discussion - Follow up of Action Items from Previous Meetings | Mr. Mosca |
| 6. Approval - Convene to Closed Session | Ms. Fish |
-

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Single Audit Summary of Results Year Ended June 30, 2019





Engagement Team Leadership

SB & Company, LLC

- ❖ Monique Booker, Engagement Partner
- ❖ Graylin Smith, Client Service Partner
- ❖ Venkanna Alkunta, Engagement Manager





Scope of Services

- Single Audit testing at certain universities as part of the State of Maryland Single Audit Report
- Year-round advice and consultation



Single Audit Results

| Institutions | Major Programs | |
|--|-------------------------------------|---|
| | Student Financial Aid Cluster (SFA) | Research and Development Cluster (1) (RD) |
| 2019 | | |
| Salisbury University | X | |
| Towson University | X | |
| University of Maryland, Baltimore | X | X |
| University of Maryland Global Campus | X | |
| University of Maryland, College Park | | X |
| 2018 | | |
| University of Maryland, College Park | X | |
| University of Maryland, Baltimore County | X | |
| Frostburg State University | X | |
| University of Baltimore | X | |
| 2017 | | |
| University of Maryland, Baltimore | X | X |
| University of Maryland, Eastern Shore | X | |
| Coppin State University | X | |
| Bowie State University | X | |

(1) Rotated RD cluster in 2018. RD is not a high risk program per Federal guidelines and SBC risk assessment.



Single Audit Results (continued)

Single Audit Approach



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Single Audit Results (continued)

| 2019 | | | | | |
|-------------------------|----------------------|--------------------------------|------------------------------------|---------------------------------------|-------|
| Program/ Institution | Material Weakness | Control Deficiency (New) | Significant Deficiency (New) | Significant Deficiency (Repeat) | Other |
| SFA – SU | - | - | - | - | - |
| SFA – TU | - | - | - | - | - |
| SFA – UMB | - | - | 3 | - | - |
| R&D – UMB | - | 1 | 1 | - | - |
| SFA – UMGC | - | - | 1 | - | - |
| SFA – FSU | - | - | - | 1* | - |
| SFA – CSU | - | - | - | 2* | - |
| SFA – UB | - | - | - | 1 | - |
| SFA – UMES | - | - | - | 1* | - |
| Total | - | 1 | 4 | 5** | - |

- Information requested to test if corrective action plan was implemented, not received as of March 17, 2020.
- ** 4 findings were cleared in 2019



Single Audit Results (continued)

| Institution | Type of Finding | New / Repeat |
|-------------|--|--------------|
| UMB | Student Financial Aid Cluster | |
| | 1. Disbursements to or on Behalf of Students - The earliest an institution may disburse SFA funds is 10 days before the first day of classes of the payment period for which the disbursement is intended. | New |
| | 2. Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. NSLDS is used for loan repayment notifications based on changes such as graduation, withdrawals, or reducing classes from full time to part time. | New |
| | 3. Distance Education Program (new requirement in 2019) - Title IV funds may be expended only towards the education of the students who can be proved to have been in attendance at the school. | New |
| | Research and Development Cluster | |
| | 1. Subrecipient Monitoring (R&D) - Risk evaluation must be performed for purposes of determining the appropriate subrecipient monitoring required. Impacts 3 different Federal agencies. | New (CD) |
| | 2. Procurement - A non-federal entity must ensure that every purchase order or contract includes applicable provisions required by 2 CFR section 200.326. New requirements went in effect in 2019. | New |
| UMGC | 1. Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. NSLDS is used for loan repayment notifications based on changes such as graduation, withdrawals, or reducing classes from full time to part time. | New |



Single Audit Results (continued)

| Institution | Type of Finding | New / Repeat |
|-------------|--|--------------|
| FSU | 1. Borrower Data Transmission and Reconciliation (Direct Loan) - Monthly reconciliations of borrower information per the Direct Loan Servicing System and the institutions' records are required under Federal guidelines. | Repeat |
| CSU | 1. Verification - Obtaining the proper proof of information reported on the student's Institutional Student Information Record (ISIR) and making the corrections through the Central Processing System based on results. | Repeat |
| | 2. Borrower Data Transmission and Reconciliation (Direct Loan) - Monthly reconciliations of borrower information per the Direct Loan Servicing System and the institutions' records are required under Federal guidelines. | Repeat |
| UB | 1. Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. NSLDS is used for loan repayment notifications based on changes such as graduation, withdrawals, or reducing classes from full time to part time. | Repeat |
| UMES | 1. Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. NSLDS is used for loan repayment notifications based on changes such as graduation, withdrawals, or reducing classes from full time to part time. | Repeat |



Single Audit Results (continued)

| Institution | Type of Finding | Cleared / Repeat in 2019 |
|-------------|---|--------------------------|
| UMCP | Return of Title IV - Properly calculating the amount of Federal funds that must be returned to the Federal Government based on a student's change in enrollment status. Timely returning the funds within 45 days of the institutions' determination of student withdrawal. | Cleared |
| UMBC | Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. | Cleared |
| FSU | Borrower Data Transmission and Reconciliation (Direct Loan) - Monthly reconciliations of borrower information per the Direct Loan Servicing System and the institutions' records are required under Federal guidelines. | Cleared |
| BSU | Student Enrollment Reporting - Untimely and inaccurate submission of student enrollment status changes to National Student Loan Data System within 60 days of change. | Cleared |



Engagement Team Contact Information

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Monique Booker, CPA
Engagement Partner

Office: 410-584-1403
Cell: 443-804-6129
Fax: 410-584-0061
Email: mbooker@sbandcompany.com

Executive Assistant: Susan Teneza
Office: 410-584-9303
Email: steneza@sbandcompany.com



Graylin Smith, CPA
Client Service Partner

Office: 410-584-1401
Cell: 410-340-4515
Fax: 410-584-0061
Email: gsmith@sbandcompany.com

Executive Assistant: Kristina Ortiz
Office: 410-584-9309
Email: kortiz@sbandcompany.com



Venkanna Alkunta, CPA
Engagement Manager

Office: 410-584-1407
Cell: 402-850-3236
Fax: 410-584-0061
Email: valkunta@sbandcompany.com

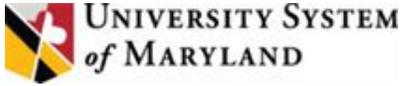


Baltimore Office:

10200 Grand Central Avenue
Suite 250
Owings Mills, Maryland 21117
410.584.0060

Washington, D.C. Office:

1200 G Street, NW
Suite 821
Washington, D.C. 20005
202.803.2335



TOPIC: Information – Interim Financial Statements

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: March 24, 2020

SUMMARY:

Attached is a set of ***unaudited University System of Maryland interim financial statements for the six month period ended December 31, 2019, the year ended June 30, 2019 and the six month period ended December 31, 2018.***

A set of key points to consider in reviewing the interim financial statements is provided to help focus the user on the information most relevant in understanding the System’s financial health.

Also included are the following reports and analyses:

‘Trend in transfer of student accounts receivable to state central collections unit for periods June 30, 2015, June 30, 2019 and December 31, 2019’ – an institutional history of accounts receivable transferred to the state’s central collection unit in accordance with statute, and

‘Public College & University Financial Ratio Comparison at June 30, 2019’ – a comparison of key financial ratios for universities and university systems with a Aa1 rating from Moody’s Investor Services.

(attachments)

ALTERNATIVE(S): This is an information item.

FISCAL IMPACT: This is an information item.

CHANCELLOR’S RECOMMENDATION: Information item

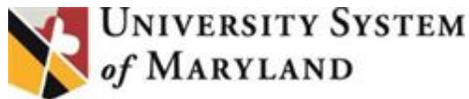
COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Ellen Herbst (301) 445-1923



**University System of Maryland
Interim Financial Statements
Six-month period ended December 31, 2019, fiscal year ended June 30, 2019, and six-month
period ended December 31, 2018**

Points to consider:

1. These Statements do not reflect the financial impact of the Coronavirus. Institutions are currently evaluating the estimated impact on operations.
2. Per the USM Balance Sheet on page 3, **unrestricted net position** shows a \$133M increase from June 30, 2019 levels, growing from \$1,289M to \$1,422M. As a point of comparison, the interim financial statements as of December 31, 2018 showed an increase for the first six months of fiscal year 2019 of \$162M.
3. Cash spending on System and Board approved capital projects for the six months ended December 31, 2019 is \$51.7M compared to \$45.5M for the six-month period ended December 31, 2018. Significant cash spending on capital projects through December 31, 2019 was reported by the following institutions: UMCP - \$24M, BSU - \$7M, TU - \$7M, UMB - \$5M, and UMBC - \$4M. At December 31, 2019, there remains a total of \$268.8M in cash-funded projects authorized and approved that is remaining to be spent, representing a claim against **unrestricted net position**. In addition, of the total anticipated donor funds of \$266M to be used to support capital projects, \$183M has been received either by the institutions or their affiliated foundations, and \$83M remains to be collected from donors.
4. Investment returns on the USM Foundation managed investments associated with the System's pool of endowment funds called the Common Trust Fund for the six months ended December 31, 2019 was 6.67%, compared to 7% and **-0.84%** for the year ended June 30, 2019 and six months ended December 31, 2018, respectively.
5. Page 6, Operating Expenses by Object report shows an increase in expenses of 3% from December 31, 2018 to December 31, 2019. This includes an increase in payments to employees of 6% or \$98.9M and a decrease in payments to vendors of 1.6% or \$14M. UMB is no longer reporting cost associated with its agreement with UMMS as 'hospital expense'. Clinical Service expenses of approximately \$120M, \$224M and \$107M as of December 31, 2019, June 30, 2019 and December 31, 2018, respectively, are reported as 'public service expense'.
6. Page 7 is the report of 'Transfers of Accounts Receivable to the State's Central Collection Unit'. The benchmark for Student accounts receivable collection rate is less than 1%. As of December 31, 2019, the ratios for UMES and UMGC were 1% or greater. The ratio for UMES has improved slightly from an average of 2.41% at June 30, 2015 to 2.41% as of December 31, 2019. The average ratio for UMGC has improved from an average of 2.61% at June 30, 2015 to 1.69% as of June 30, 2019. CSU continues to show the greatest improvement in the collection rate ratio from 3.28% as of June 30, 2015 to .02% as of December 31, 2019.
7. Page 8 is the report of Public College & University Financial Ratio as of June 30, 2019. The University System of Maryland maintains its strong Aa1 rating, thanks to a strong financial position and leadership. USM is joined by 13 other public universities.

University System of Maryland
Balance Sheet
December 31, 2019, June 30, 2019, and December 31, 2018

| | <u>December 31,</u> <u>2019</u> | <u>June 30,</u> <u>2019</u> | <u>December 31,</u> <u>2018</u> |
|---|------------------------------------|--------------------------------|------------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$2,616,399,090 | \$2,552,186,538 | \$2,461,523,363 |
| Accounts receivable, net | 720,701,572 | 295,439,263 | 703,930,369 |
| Notes receivable, current portion, net | 3,593,109 | 5,345,066 | 5,232,990 |
| Inventories | 9,886,866 | 9,464,301 | 9,919,601 |
| Prepaid expenses and other | 29,317,016 | 20,758,341 | 29,564,870 |
| Total current assets | <u>3,379,897,653</u> | <u>2,883,193,509</u> | <u>3,210,171,193</u> |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | 120,362,440 | 157,124,871 | 64,314,833 |
| Endowment investments | 387,561,723 | 364,140,586 | 324,977,886 |
| Other investments | 23,823,960 | 22,144,370 | 17,868,859 |
| Notes receivable, net | 29,369,031 | 29,984,838 | 34,560,286 |
| Capital assets, net | 6,700,403,556 | 6,633,402,152 | 6,543,477,925 |
| Total noncurrent assets | <u>7,261,520,710</u> | <u>7,206,796,817</u> | <u>6,985,199,789</u> |
| Total assets | <u>10,641,418,363</u> | <u>10,089,990,326</u> | <u>10,195,370,982</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Unamortized loss on refundings of debt | 14,196,040 | 14,196,040 | 16,987,930 |
| Asset retirement obligations | 12,404,568 | 12,404,568 | |
| Deferred changes, pension expense | 537,030,657 | 537,030,657 | 469,773,028 |
| Total deferred outflows of resources | <u>563,631,265</u> | <u>563,631,265</u> | <u>486,760,958</u> |
| Total assets and deferred outflows of resources | <u>\$11,205,049,628</u> | <u>\$10,653,621,591</u> | <u>\$10,682,131,940</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$256,848,564 | \$315,630,844 | \$208,050,597 |
| Accrued workers' compensation, current portion | 4,309,950 | 4,309,950 | 4,405,800 |
| Accrued vacation costs, current portion | 110,904,775 | 111,785,925 | 105,823,243 |
| Revenue bonds and notes payable, current portion | 97,710,264 | 100,892,731 | 95,361,166 |
| Obligations under capital lease agreements, current portion | 1,420,762 | 1,652,537 | 1,331,850 |
| Unearned revenue | 761,451,665 | 318,662,589 | 727,292,051 |
| Total current liabilities | <u>1,232,645,980</u> | <u>852,934,576</u> | <u>1,142,264,707</u> |
| Noncurrent liabilities: | | | |
| Accrued workers' compensation | 24,423,050 | 24,423,050 | 24,966,200 |
| Accrued vacation costs | 116,185,923 | 115,722,833 | 109,544,404 |
| Revenue bonds and notes payable | 1,186,415,122 | 1,198,123,353 | 1,172,639,207 |
| Obligations under capital lease agreements | 2,844,822 | 2,844,822 | 4,497,360 |
| Net pension liability | 1,309,998,345 | 1,309,998,345 | 1,130,058,957 |
| Noncurrent liabilities | <u>2,639,867,262</u> | <u>2,651,112,403</u> | <u>2,441,706,128</u> |
| Total liabilities | <u>3,872,513,242</u> | <u>3,504,046,979</u> | <u>3,583,970,835</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred service concession arrangement receipts | 261,397,411 | 270,575,431 | 279,753,452 |
| Deferred changes, pension expense | 126,115,718 | 126,115,718 | 123,312,342 |
| Total deferred inflows of resources | <u>387,513,129</u> | <u>396,691,149</u> | <u>403,065,794</u> |

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**University System of Maryland
Balance Sheet
December 31, 2019, June 30, 2019, and December 31, 2018**

| | December 31, 2019 | June 30, 2019 | December 31, 2018 |
|--|------------------------------|--------------------------|------------------------------|
| NET POSITION | | | |
| Unrestricted net position | 1,422,762,405 | 1,289,908,203 | 1,400,551,392 |
| Net investment in capital assets | 5,276,325,701 | 5,222,375,942 | 5,067,879,962 |
| Restricted: | | | |
| Nonexpendable: | | | |
| Scholarships and fellowships | 17,128,589 | 16,764,483 | 16,749,219 |
| Research | 5,476,926 | 5,461,934 | 5,034,304 |
| Other | 16,922,931 | 16,922,872 | 16,872,776 |
| Expendable: | | | |
| Scholarships and fellowships | 40,716,858 | 38,527,037 | 36,865,778 |
| Research | 81,408,343 | 78,706,352 | 72,737,135 |
| Loans | 49,653,816 | 49,234,447 | 49,623,502 |
| Capital projects | 4,773,779 | 6,799,771 | 2,449,460 |
| Other | 29,853,909 | 28,182,422 | 26,331,783 |
| Total net position | 6,945,023,257 | 6,752,883,463 | 6,695,095,311 |
| Total liabilities, deferred inflows of resources and net position | \$11,205,049,628 | \$10,653,621,591 | \$10,682,131,940 |

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University System of Maryland
Statement of Revenues, Expenses and Changes in Net Position
For the Six Months Ended December 31, 2019, Year Ended June 30, 2019 and Six Months Ended December 31, 2018

| | Six Months Ended December 31, 2019 | Year Ended June 30, 2019 | Six Months Ended December 31, 2018 |
|---|--|--------------------------------|--|
| OPERATING REVENUES | | | |
| Tuition and fees | \$851,649,297 | \$1,404,412,716 | \$844,310,458 |
| Federal grants and contracts | 371,264,754 | 785,626,017 | 377,726,071 |
| State and local grants and contracts | 89,939,238 | 210,355,708 | 92,209,261 |
| Nongovernmental grants and contracts | 109,706,275 | 255,868,778 | 113,735,509 |
| Sales and services of educational departments | 161,639,809 | 337,560,431 | 166,467,429 |
| Auxiliary enterprises: | | | |
| Residential facilities | 104,666,799 | 192,958,925 | 100,192,903 |
| Dining facilities | 75,601,378 | 131,303,153 | 74,379,569 |
| Intercollegiate athletics | 76,008,474 | 134,408,805 | 71,914,239 |
| Bookstore | 8,764,170 | 14,214,017 | 9,198,534 |
| Parking facilities | 25,283,210 | 44,137,190 | 25,119,880 |
| Other auxiliary enterprises revenues | 87,905,815 | 155,731,291 | 75,985,638 |
| Other operating revenues | 39,299,762 | 82,031,729 | 39,929,412 |
| Total operating revenues | 2,001,728,981 | 3,748,608,760 | 1,991,168,903 |
| OPERATING EXPENSES | | | |
| Instruction | 672,507,692 | 1,374,934,008 | 651,855,334 |
| Research | 484,454,933 | 1,139,494,806 | 543,665,322 |
| Public service | 254,016,670 | 164,646,811 | 184,631,103 |
| Academic support | 254,203,613 | 709,871,684 | 241,831,451 |
| Student services | 137,697,084 | 293,172,052 | 146,713,738 |
| Institutional support | 270,156,652 | 561,650,960 | 248,409,620 |
| Operation and maintenance of plant | 200,994,747 | 397,229,390 | 179,418,624 |
| Scholarships and fellowships | 179,846,297 | 120,607,680 | 178,197,795 |
| Auxiliary enterprises: | | | |
| Residential Facilities | 92,004,487 | 180,250,467 | 92,316,973 |
| Dining Facilities | 64,921,879 | 123,133,350 | 60,749,758 |
| Intercollegiate athletics | 67,798,077 | 145,198,019 | 66,028,300 |
| Bookstore | 8,724,294 | 16,393,630 | 9,024,543 |
| Parking Facilities | 16,132,951 | 35,699,965 | 15,454,287 |
| Other auxiliary enterprises expenses | 72,238,305 | 141,062,754 | 71,351,098 |
| Total operating expenses | 2,775,697,681 | 5,403,345,576 | 2,689,647,946 |
| Operating income | (773,968,700) | (1,654,736,816) | (698,479,043) |

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University System of Maryland
Statement of Revenues, Expenses and Changes in Net Position
For the Six Months Ended December 31, 2019, Year Ended June 30, 2019 and Six Months Ended December 31, 2018

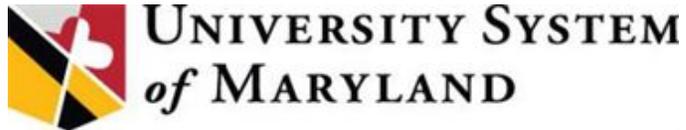
| | Six Months Ended December 31, 2019 | Year Ended June 30, 2019 | Six Months Ended December 31, 2018 |
|--|---|---|---|
| NONOPERATING REVENUES (EXPENSES) | | | |
| State appropriations | 715,112,054 | 1,398,073,778 | 684,695,817 |
| Pell grants | 80,975,145 | 167,702,482 | 81,936,092 |
| Gifts | 29,523,525 | 48,647,832 | 28,804,534 |
| Investment income (loss) | 50,114,235 | 80,677,254 | 19,955,748 |
| Less: Investment expense | (1,314,951) | (1,263,921) | (1,252,742) |
| Interest on indebtedness | (26,215,167) | (42,630,462) | (25,545,256) |
| Other revenues (expenses) gains (losses) | 10,108,114 | 14,027,435 | 7,971,708 |
| Total nonoperating revenue (expenses) | 858,302,955 | 1,665,234,398 | 796,565,901 |
| Income before other revenues (expenses) | 84,334,255 | 10,497,582 | 98,086,858 |
| OTHER REVENUES (EXPENSES) | | | |
| Capital appropriations | 101,539,616 | 244,478,467 | 120,089,088 |
| Capital gifts and grants | 5,886,767 | 28,307,336 | 7,812,285 |
| Additions to permanent endowments | 379,156 | 711,073 | 218,075 |
| Total other revenues (expenses) | 107,805,539 | 273,496,876 | 128,119,448 |
| Increase in net position | 192,139,794 | 283,994,458 | 226,206,306 |
| Net position, beginning | 6,752,883,463 | 6,468,889,005 | 6,468,889,005 |
| Net position, ending | \$6,945,023,257 | \$6,752,883,463 | \$6,695,095,311 |

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**University System of Maryland
Operating Expenses by Object
For the Six Month Periods Ended December 31, 2019 and 2018**

| | 2019 | | | | 2018 | | | |
|--------------------------------------|--------------------------|---|----------------------|------------------------|--------------------------|---|----------------------|------------------------|
| | Payments to Employees | Payments to Suppliers and Contractors | Depreciation | Total | Payments to Employees | Payments to Suppliers and Contractors | Depreciation | Total |
| Instruction | \$587,686,429 | \$53,185,610 | \$31,635,653 | \$672,507,692 | \$557,647,981 | \$62,919,203 | \$31,288,150 | \$651,855,334 |
| Research | 319,245,399 | 149,942,682 | 15,266,852 | 484,454,933 | 330,592,316 | 197,401,749 | 15,671,257 | 543,665,322 |
| Public service | 193,179,611 | 58,104,037 | 2,733,022 | 254,016,670 | 156,860,691 | 25,249,098 | 2,521,314 | 184,631,103 |
| Academic support | 173,443,725 | 64,751,856 | 16,008,032 | 254,203,613 | 164,414,272 | 60,784,548 | 16,632,631 | 241,831,451 |
| Student services | 87,626,370 | 46,140,452 | 3,930,262 | 137,697,084 | 79,794,232 | 62,987,681 | 3,931,825 | 146,713,738 |
| Institutional support | 206,051,915 | 56,027,334 | 8,077,403 | 270,156,652 | 186,750,633 | 53,300,854 | 8,358,133 | 248,409,620 |
| Operation and maintenance of plant | 79,728,787 | 84,252,406 | 37,013,554 | 200,994,747 | 74,654,899 | 68,798,076 | 35,965,649 | 179,418,624 |
| Scholarships and fellowships | 4,660,814 | 175,185,483 | | 179,846,297 | 4,046,725 | 174,151,070 | | 178,197,795 |
| Auxiliary enterprises: | | | | | | | | |
| Residential facilities | 26,894,713 | 35,888,527 | 29,221,247 | 92,004,487 | 26,218,165 | 37,347,547 | 28,751,261 | 92,316,973 |
| Dining facilities | 21,716,469 | 39,687,829 | 3,517,581 | 64,921,879 | 19,956,202 | 37,320,021 | 3,473,535 | 60,749,758 |
| Intercollegiate athletics | 32,587,261 | 30,077,201 | 5,133,615 | 67,798,077 | 35,962,757 | 25,273,641 | 4,791,902 | 66,028,300 |
| Bookstore | 1,965,780 | 6,745,847 | 12,667 | 8,724,294 | 1,984,910 | 7,015,978 | 23,655 | 9,024,543 |
| Parking facilities | 9,883,352 | 3,075,339 | 3,174,260 | 16,132,951 | 8,495,520 | 3,860,485 | 3,098,282 | 15,454,287 |
| Other auxiliary enterprises expenses | 31,240,630 | 25,928,285 | 15,069,390 | 72,238,305 | 29,652,301 | 26,597,087 | 15,101,710 | 71,351,098 |
| Total operating expenses | \$1,775,911,255 | \$828,992,888 | \$170,793,538 | \$2,775,697,681 | \$1,677,031,604 | \$843,007,038 | \$169,609,304 | \$2,689,647,946 |

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University System of Maryland
Trend in Transfers of Accounts Receivables to State Central Collection Unit
For Period ending June 30, 2013 through December 31, 2018
(in thousands)

| <u>Operational performance indicators</u> | UMB | UMCP | BSU | TU | UMES | FSU | CSU* | UB | SU | UMGC | UMBC |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Student accounts receivable collection rate: | | | | | | | | | | | |
| Average - five and 1/2 -years ended December 30, 2019 | | | | | | | | | | | |
| Net transfers to CCU | 119 | 1,338 | 312 | 854 | 1,475 | 247 | 5 | 568 | 307 | 5,500 | 873 |
| Gross billings | 160,141 | 719,088 | 63,471 | 265,198 | 61,235 | 91,885 | 25,039 | 65,282 | 119,412 | 325,392 | 197,465 |
| Ratio | 0.07% | 0.19% | 0.49% | 0.32% | 2.41% | 0.27% | 0.02% | 0.87% | 0.26% | 1.69% | 0.44% |
| Student accounts receivable collection rate: | | | | | | | | | | | |
| Average - five-years ended June 30, 2019 | | | | | | | | | | | |
| Net transfers to CCU | 118 | 1,307 | 360 | 848 | 1,547 | 259 | 14 | 592 | 295 | 5,323 | 885 |
| Gross billings | 162,647 | 750,537 | 65,881 | 267,048 | 57,286 | 89,897 | 24,684 | 63,469 | 121,482 | 332,587 | 201,691 |
| Ratio | 0.07% | 0.17% | 0.55% | 0.32% | 2.70% | 0.29% | 0.06% | 0.93% | 0.24% | 1.60% | 0.44% |
| Student accounts receivable collection rate: | | | | | | | | | | | |
| Average - five-years ended June 30, 2015 | | | | | | | | | | | |
| Net transfers to CCU | 177 | 911 | 386 | 712 | 1,405 | 237 | 812 | 272 | 342 | 8,038 | 1,032 |
| Gross billings | 144,642 | 508,156 | 54,921 | 238,799 | 55,798 | 57,207 | 24,761 | 74,393 | 102,092 | 308,437 | 173,613 |
| Ratio | 0.12% | 0.18% | 0.70% | 0.30% | 2.52% | 0.41% | 3.28% | 0.37% | 0.34% | 2.61% | 0.59% |

Committee on Audit - Open Session



Public College & University Financial Ratio Comparison
Moody's Aa1 Rating Category

June 30, 2019

| Institution | Total Debt <i>(in 000s)</i> | Unrestricted Net Assets ¹ <i>(in 000s)</i> | Primary Reserve Ratio | Debt Service <i>(in 000s)</i> | Operating Expenses <i>(in 000s)</i> | Operating Expense Leverage | Market Value of Endowment <i>(in 000s)</i> | Number of Students ² | Total FTE ² | Endowment per Student | Endowment per FTE | Effective Interest Rate | Increase in Unrestricted Net Assets | | |
|---|--------------------------------|---|--------------------------|-------------------------------------|---|----------------------------------|---|------------------------------------|---------------------------|-----------------------------|-------------------------|-------------------------------|--|----------|----------|
| | | | | | | | | | | | | | FY2019 | FY2018 | FY2017 |
| University System of Maryland | 1,289,317 | 1,289,008 | 99.98% | 150,683 | 5,403,346 | 2.79% | 1,530,799 | 113,933 | 96,621 | 13,436 | 15,843 | 3.31% | Y | Y | Y |
| North Carolina State University at Raleigh | 539,956 | (1,379,966) | -255.57% | 44,090 | 1,556,534 | 2.83% | 1,400,000 | 36,304 | 31,045 | 38,563 | 45,096 | 3.95% | Y | N | N |
| Ohio State University | 3,161,662 | (54,689) | -1.73% | 190,758 | 6,548,810 | 2.91% | 2,039,437 | 68,262 | 65,071 | 29,877 | 31,342 | 3.87% | N | N | N |
| Pennsylvania State University (FASB) | 1,650,652 | 4,108,982 | 248.93% | 120,904 | 6,280,089 | 1.93% | 3,139,687 | 81,721 | 78,089 | 38,420 | 40,207 | 3.81% | Y | Y | N |
| State University of Iowa | 1,348,705 | 1,431,848 | 106.16% | 118,518 | 3,629,434 | 3.27% | 1,578,933 | 32,535 | 29,915 | 48,530 | 52,781 | 3.27% | Y | Y | N |
| Texas Tech University System | 763,542 | 577,651 | 75.65% | 110,845 | 2,111,474 | 5.25% | 1,316,660 | 38,742 | 34,109 | 33,985 | 38,601 | 3.41% | N | N | N |
| University of Colorado | 1,634,462 | (661,499) | -40.47% | 284,789 | 4,127,398 | 6.90% | 1,452,722 | 67,386 | 59,560 | 21,558 | 24,391 | 4.08% | Y | N | N |
| University of Delaware (FASB) | 718,624 | 230,652 | 32.10% | 48,752 | 1,085,889 | 4.49% | 1,466,070 | 23,808 | 22,291 | 61,579 | 65,769 | 4.49% | N | Y | N |
| University of Minnesota | 1,613,482 | 602,509 | 37.34% | 94,328 | 3,346,605 | 2.82% | 1,482,200 | 67,024 | 59,274 | 22,114 | 25,006 | 3.29% | Y | N | N |
| University of Missouri System | 1,650,899 | 1,434,650 | 86.90% | 110,957 | 3,614,971 | 3.07% | 1,778,230 | 70,478 | 52,609 | 25,231 | 33,801 | 4.25% | Y | Y | N |
| University of Nebraska | 987,498 | 1,182,364 | 119.73% | 113,820 | 2,132,610 | 5.34% | 1,435,753 | 51,885 | 43,735 | 27,672 | 32,828 | 3.63% | Y | N | N |
| University of Pittsburgh (FASB) | 899,687 | 2,652,369 | 294.81% | 73,882 | 2,265,426 | 3.26% | 1,879,936 | 33,744 | 31,945 | 55,712 | 58,849 | 3.70% | Y | Y | N |
| University of Utah | 1,172,814 | 2,184,226 | 186.24% | 111,962 | 5,105,317 | 2.19% | 1,225,045 | 32,818 | 28,445 | 37,328 | 43,067 | 3.35% | Y | N | N |
| Virginia Polytechnic Institute and State University | 505,619 | (150,697) | -29.80% | 51,084 | 1,467,937 | 3.48% | 1,357,969 | 36,383 | 34,950 | 37,324 | 38,855 | 3.13% | Y | N | N |
| Average for group- 2019 | 1,281,209 | 960,529 | 74.97% | 116,098 | 3,476,846 | 3.34% | 1,648,817 | 53,930 | 47,690 | 30,573 | 34,574 | | | | |
| Average for group- 2018 | 1,265,808 | 1,217,822 | 96.21% | 130,137 | 3,299,346 | 3.94% | 1,596,462 | 54,020 | 47,550 | 29,553 | 33,574 | | | | |

Source: most recent available audited financial statements

NOTES

¹ Unrestricted Net Assets were affected by the implementation of GASB 75 for OPEB in FY18.

² UMUC students are not included in the total enrollment count for University System of Maryland.

Audit Report

**University System of Maryland
University of Maryland, Baltimore County**

January 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

| | |
|--|--|
| Senator Clarence K. Lam, M.D. (Senate Chair) | Delegate Shelly L. Hettleman (House Chair) |
| Senator Malcolm L. Augustine | Delegate Steven J. Arentz |
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| Senator Justin D. Ready | Delegate Karen Lewis Young |
| Senator Craig J. Zucker | One Vacancy |

To Obtain Further Information

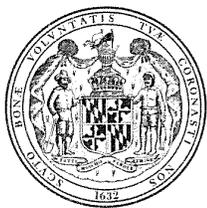
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

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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

January 17, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Shelly L. Hettleman, 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 University System of Maryland (USM) – University of Maryland, Baltimore County (UMBC) for the period beginning March 19, 2015 and ending October 30, 2018. UMBC is a comprehensive public research institution of USM and provides a broad range of baccalaureate, graduate, and doctoral programs in the liberal arts and sciences and engineering disciplines.

Our audit disclosed that UMBC lacked documentation that payroll adjustments, which totaled approximately \$2.4 million in fiscal year 2018, were verified for propriety, and did not have procedures in place to independently verify adjustments to employee leave balances. Similarly, tuition remission waivers posted to student accounts receivable records were not sufficiently verified to ensure that only authorized waivers were recorded. During fiscal year 2018, tuition remission waivers totaled approximately \$7.2 million. We also noted that bookstore collections were not subject to an independent deposit verification and malware protection software was not installed on certain UMBC servers.

Our audit also included a review to determine the status of the 7 findings contained in our preceding audit report and the 3 findings contained in our November 9, 2016 special report on our review of an allegation received through our fraud, waste, and abuse hotline regarding certain questionable procurement practices at UMBC's Facilities Management Department. We determined that UMBC satisfactorily addressed all 10 prior findings.

USM's response to our findings and recommendations, on behalf of UMBC, 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 and Evaluation Committee of any outstanding issues that we cannot resolve with USM.

We wish to acknowledge the cooperation extended to us during the audit by UMBC. We also wish to acknowledge USM's and UMBC's 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 initial 'G'.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The University of Maryland, Baltimore County (UMBC) is a comprehensive public research institution of the University System of Maryland and operates under the jurisdiction of the System's Board of Regents. UMBC offers a broad range of baccalaureate, graduate, and doctoral programs in the liberal arts, sciences, and engineering disciplines. According to UMBC's records, student enrollment for the Fall 2018 semester totaled 13,767, including 11,260 undergraduate students and 2,507 graduate students.

UMBC's budget is funded by unrestricted revenues, such as tuition and fees; a State general fund appropriation; and restricted revenues, such as federal grants and contracts. According to the State's accounting records, UMBC's revenues for fiscal year 2018 totaled approximately \$441.7 million, which included a State general fund appropriation of approximately \$116.8 million.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated March 23, 2016. We determined that UMBC satisfactorily addressed these findings.

Our audit also included a review to determine the status of the three findings contained in our November 9, 2016 special report on our review of an allegation received through our fraud, waste, and abuse hotline regarding certain questionable procurement practices at UMBC's Facilities Management Department. We determined that UMBC satisfactorily addressed these findings.

Findings and Recommendations

Payroll

Finding 1

The University of Maryland, Baltimore County (UMBC) lacked documentation that payroll adjustments were verified for propriety, and did not have procedures in place to independently verify adjustments to employee leave balances.

Analysis

UMBC lacked documentation that procedures it had established to verify payroll adjustments, such as for retroactive pay and leave payouts, had been performed. Furthermore, no procedures were in place to independently verify adjustments to employee leave balances. UMBC's payroll office processed payroll and leave adjustments based on authorized adjustment request forms received from individual campus departments. According to the State's records, during fiscal year 2018, UMBC's payroll expenditures totaled approximately \$251 million, and payroll adjustments processed by UMBC totaled approximately \$2.4 million.

UMBC did not ensure that all payroll adjustments processed by the payroll office were reviewed for propriety and that only authorized payroll adjustments had been processed. Payroll reports detailing employee pay and adjustments processed each pay period were provided to each campus department for review and verification to the authorized adjustment request forms. However, our review of nine payroll adjustments processed during the period between February 2017 and December 2018, totaling \$279,000, disclosed that four of the associated payroll reports had no documentation of the required reviews. These four reports included \$137,000 of the adjustments tested. Furthermore, several departments we contacted advised us that the reviews they performed only ensured that requested adjustments were properly included on the payroll report, but did not include a verification that all recorded adjustments included in the payroll report had been authorized. We subsequently determined that the four adjustments appeared proper.

In addition, no procedures had been established to independently verify adjustments to employee leave balances. Specifically, available output reports of leave balance adjustments were not generated and provided to the campus departments for verification that all recorded adjustments were proper. According to its records, during calendar year 2018, UMBC processed 239 leave adjustments that increased employee leave by 7,717 hours and 219 adjustments that decreased employee leave by 5,499 hours.

Recommendation 1

We recommend that UMBC

- a. ensure that all payroll adjustments are reviewed for propriety and the reviews are documented, and**
- b. generate output reports of leave balance adjustments and establish procedures to independently verify that only authorized adjustments are made.**

Tuition Remission Waivers

Finding 2

Tuition remission waivers posted to student accounts receivable records were not sufficiently verified. Tuition remission waivers totaled approximately \$7.2 million in fiscal year 2018.

Analysis

UMBC's procedures for verifying the propriety of tuition remission waivers posted to student accounts receivable records were not sufficient to ensure that only authorized waivers were recorded. According to UMBC records, during fiscal year 2018, tuition remission waivers totaled approximately \$7.2 million.

Although supervisory employees reviewed system output reports of tuition remission waivers posted to student accounts, the two employees who performed these reviews also had access capability allowing them to record the waivers in students' records. Furthermore, the output reports of waivers granted to graduate assistants were not independently generated; rather, the employee who recorded the waivers in student accounts also generated the reports and provided them to the supervisory employee performing the review. Under these conditions, unauthorized tuition remission waivers could be recorded in student accounts without detection. During fiscal year 2018, \$4.2 million of the \$7.2 million in tuition remission waivers were granted to graduate assistants.

UMBC advised us that the two employees responsible for reviewing the output reports of waivers processed needed the capability to record tuition remission waivers since they served in a back-up capacity for this function.

Recommendation 2

We recommend that UMBC establish procedures to independently verify the propriety of tuition remission waivers recorded in student accounts, including independent generation of all output reports used in the verification process. If the aforementioned two employees require access to

record waivers, a procedure should be established to separately identify and verify any tuition remission waivers recorded by those employees.

Bookstore Collections

Finding 3

Bookstore collections were not subject to an independent deposit verification.

Analysis

UMBC lacked an independent verification that all bookstore collections were deposited. Specifically, the supervisory employee who compared recorded collections to bank deposits also helped to process the collections, including preparing the bank deposits. Under these conditions, there was a lack of assurance that all collections were deposited. According to UMBC records, during fiscal year 2018, bookstore collections totaled approximately \$486,000.

The Comptroller of Maryland's *Accounting Procedures Manual* requires independent verification of collections to deposit.

Recommendation 3

We recommend that UMBC ensure that deposit verifications for bookstore collections are performed by an employee who does not have access to the collections. We advised UMBC on accomplishing the necessary separation of duties using existing personnel.

Information Systems Security and Control

Background

UMBC's Division of Information Technology (DOIT) manages the development, maintenance, and support of UMBC's information technology infrastructure including support for academic teaching and research, networking, and business information systems. DOIT maintains a campus-wide network that supports both administrative and academic operations. The network includes internet connectivity, email, and various administrative systems and servers. DOIT maintains critical campus-wide applications, including financial, student administration, and human resources applications.

Finding 4

UMBC did not have malware protection software installed on certain servers.

Analysis

UMBC did not have malware protection software installed on servers using a certain operating system software product. Per UMBC's records as of February 8, 2019, there were 327 servers in operation which used this operating system software, some of which supported critical financial and student management applications.

Consequently, one of multiple security controls commonly used for in-depth protection against malicious software did not exist on these servers, resulting in an increased security risk. The University System of Maryland *IT Security Standards* state that various measures be employed to protect physical and virtual servers from malicious software, including use of installed malware protection software.

Recommendation 4

We recommend that UMBC ensure that comprehensive security protection exists for all servers, including the installation and operation of malware protection software.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland, Baltimore County (UMBC) for the period beginning March 19, 2015 and ending October 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 UMBC'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 purchases and disbursements, student accounts receivable, cash receipts, information systems security and control, payroll, student financial aid, and corporate purchasing cards. We also determined the status of the findings contained in UMBC's preceding audit report, as well as the findings contained in our November 9, 2016 special report on our review of an allegation received through our fraud, waste, and abuse hotline regarding certain questionable procurement practices at UMBC's Facilities Management Department.

Our audit did not include certain support services provided to UMBC by the USM Office and the University of Maryland, Baltimore on a centralized basis for several other units of USM, such as bond financing and processing of certain construction vendor payments, respectively. These support services are included within the scope of our audits of the USM Office and the University of Maryland, Baltimore. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of UMBC's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the components of the USM.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of

UMBC'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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 UMBC's financial systems for the purpose of testing certain areas, such as financial aid and student accounts receivable. 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.

UMBC'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.

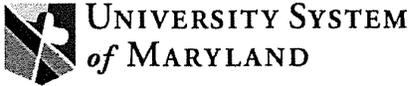
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect UMBC's ability to maintain reliable financial records, operate

effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to UMBC that did not warrant inclusion in this report.

The response from the USM Office, on behalf of UMBC, to our findings and recommendations 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 the USM Office regarding the results of our review of its response.

APPENDIX



3300 METZEROTT ROAD // ADELPHI, MD 20783
WWW.USMD.EDU // 301.445.2740

OFFICE OF THE CHANCELLOR

December 20, 2019

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

Re: University System of Maryland – University of Maryland,
Baltimore County
Period of Audit: March 19, 2015 through October 30, 2018

Dear Mr. Hook:

I have enclosed the University System of Maryland's responses to your draft report covering the examination of the accounts and records of the University System of Maryland – University of Maryland, Baltimore County. Our comments refer to the individual items in the report.

Sincerely yours,

A handwritten signature in cursive script that reads 'Robert L. Caret'.

Robert L. Caret
Chancellor

Enclosures

cc: Dr. Freeman Hrabowski III, President, UMBC
Ms. Lynne Schaefer, Vice President for Administrative Affairs, UMBC
Ms. Linda Gooden, Chair, University System of Maryland Board of Regents
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

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REGIONAL CENTERS · UNIVERSITIES AT SHADY GROVE · UNIVERSITY SYSTEM OF MARYLAND AT HAGERSTOWN

**University System of Maryland
University of Maryland, Baltimore County**

Agency Response Form

Payroll

Finding 1
The University of Maryland, Baltimore County (UMBC) lacked documentation that payroll adjustments were verified for propriety, and did not have procedures in place to independently verify adjustments to employee leave balances.

We recommend that UMBC

- a. ensure that all payroll adjustments are reviewed for propriety and the reviews are documented, and
- b. generate output reports of leave balance adjustments and establish procedures to independently verify that only authorized adjustments are made.

| Agency Response | | | |
|---|--|-----------------------------------|-------------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | | | |
| Recommendation 1a | Agree | Estimated Completion Date: | Implemented |
| Please provide details of corrective action or explain disagreement. | Manual payroll adjustment forms are now completed via DocuSign and routed back to the department for final approval. The DocuSign system provides the documentation of the review and approval of these adjustments. | | |
| Recommendation 1b | Agree | Estimated Completion Date: | May 2020 |
| Please provide details of corrective action or explain disagreement. | Human Resources will create and implement a workflow/reporting process of leave balance adjustments and establish and implement procedures to independently verify that only authorized adjustments are made. | | |

**University System of Maryland
University of Maryland, Baltimore County**

Agency Response Form

Tuition Remission Waivers

Finding 2
Tuition remission waivers posted to student accounts receivable records were not sufficiently verified. Tuition remission waivers totaled approximately \$7.2 million in fiscal year 2018.

We recommend that UMBC establish procedures to independently verify the propriety of tuition remission waivers recorded in student accounts, including independent generation of all output reports used in the verification process. If the aforementioned two employees require access to record waivers, a procedure should be established to separately identify and verify any tuition remission waivers recorded by those employees.

| Agency Response | | | |
|---|---|-----------------------------------|-----------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | | | |
| Recommendation 2 | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | UMBC has revised its procedures to independently generate reports used to verify and document tuition waivers. Additionally, the reports used to verify tuition waivers have been enhanced to identify the employee who processed the waiver. These enhanced reports allow the separate identification and verification of any tuition remission waivers recorded by the aforementioned employees and will be reviewed by a third employee. | | |

**University System of Maryland
University of Maryland, Baltimore County**

Agency Response Form

Bookstore Collections

| |
|--|
| <p>Finding 3 Bookstore collections were not subject to an independent deposit verification.</p> |
|--|

We recommend that UMBC ensure that deposit verifications for bookstore collections are performed by an employee who does not have access to the collections. We advised UMBC on accomplishing the necessary separation of duties using existing personnel.

| Agency Response | | | |
|--|--|-----------------------------------|-----------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | | | |
| Recommendation 3 | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | UMBC has implemented the necessary procedure to ensure that deposit verifications for bookstore collections are independently verified and documented. | | |

**University System of Maryland
University of Maryland, Baltimore County**

Agency Response Form

Information Systems Security and Control

Finding 4
UMBC did not have malware protection software installed on certain servers.

We recommend that UMBC ensure that comprehensive security protection exists for all servers, including the installation and operation of malware protection software.

| Agency Response | | | |
|---|---|-----------------------------------|----|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | NA | | |
| Recommendation 4 | Agree | Estimated Completion Date: | NA |
| Please provide details of corrective action or explain disagreement. | As discussed in the OLA exit interview, UMBC agrees that systems that handle sensitive data need to have additional layers of protection, and these layers should be a combination of network based segmentations and restrictions and/or host-based protections. Though we have network based segmentation in place for systems handling sensitive data, after discussions with the auditors, we attempted to also add host-based protections to servers running one of multiple operating system software products to evaluate the risk/benefits. In early fall, we experienced a number of performance issues and service disruptions due to the software. In working with the vendor, they were unable to address the performance impact and we removed this software. As part of our annual risk assessment for these servers, we will continue to assess on-going risks and evaluate what the most effective combination of network and host-based protections for these servers should be. | | |

AUDIT TEAM

Michael J. Murdzak, CPA
Robert A. Wells, Jr., CPA
Audit Managers

Richard L. Carter, CISA
R. Brendan Coffey, CPA, CISA
Information Systems Audit Managers

Menachem Katz, CPA
Senior Auditor

J. Gregory Busch, CISA
Edwin L. Paul, CPA, CISA
Information Systems Senior Auditors

Samuel Hur, CPA
Elliot Ortiz, CFE
John B. Wachter, CFE
Staff Auditors

Peter W. Chong
Joseph R. Clayton
Information Systems Staff Auditors



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR DISCUSSION

TOPIC: Affiliated Foundation Policy compliance status

COMMITTEE: Audit

DATE OF COMMITTEE MEETING: March 24, 2020

SUMMARY: Board of Regents Policy IX-2.00 Policy on Affiliated Foundations details reporting and compliance requirements for foundations and not-for-profit entities recognized as formally affiliated with a USM institution or the System as a whole.

The Board policy requires that audited financial statements, and other reports and listings, be provided the System Office by October 31 annually. The Office of Administration and Finance reviews the items for unusual reporting items, and events that need to be followed up on. In cases of egregious noncompliance or reporting, the first step is review with the Vice Chancellor for Advancement, and then a discussion between the Vice Chancellor for Advancement and the relevant affiliated foundation executive, which in the case of fundraising foundations is often the institution’s vice president for advancement. In the event of ongoing egregious noncompliance, the Board of Regents can take the step of revoking the affiliation status, which is required for the institution to provide a license to use the institution’s name in fundraising materials.

The Robert H. Smith School of Business Foundation, affiliated with the University of Maryland College Park, is the subject of several reviews and examinations, both internal and external to the institution. The lack of formal compliance materials for the R.H. Smith School of Business Foundation is a product of these examinations and the resulting personnel changes and interactions with the foundation’s governing board.

Maryland Hawk Corporation is the other affiliated foundation that represents an exception to the long-running record of affiliated foundations with successful operations and results, with appropriate internal controls. In 2015 a legislative audit report highlighted several instances of questionable actions and arrangements by Maryland Hawk Corporation. The Audit Committee directed the UMES president to deactivate Maryland Hawk Corporation except for efforts to transfer title to a graduate student housing development to UMES. Those efforts continue while Maryland Hawk Corporation attempts to resolve an outstanding title obligation that holds up closing.

ALTERNATIVE(S): This is an information item.

FISCAL IMPACT: This is an information item.

CHANCELLOR’S RECOMMENDATION: This is an information item.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Ellen Herbst (301) 445-1923

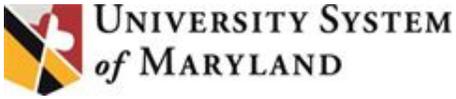
Committee on Audit - Open Session

University System of Maryland
Affiliated Foundations Compliance Checklist
FY19

| | |
|-----|----------------------------------|
| KEY | RECEIVED DOCUMENTS/DOCUMENTATION |
| | FOLLOW UP REQUIRED |
| | FOLLOWED UP & AWAITING RESPONSE |

| MATERIALS DUE | DUE DATE | All | UMB | UMB | UMCP | UMCP | UMCP | UMCP | UMCP | BSU | BSU | TU | TU | UMES | FSU | CSU | UB | SU | SU | UMBC |
|--|------------|--------------------------------------|--|--|--|---|------------------------------|---|---|-----------------------------------|---|-------------------------------|---------------------------------------|--|---------------------------------------|--|------------------------------------|--------------------------------|--------------------------------------|-------------------------------|
| | | The University of Maryland Fdn (UMF) | Medical Alumni Association of the University of Maryland, Inc. (MAA) | The University of Maryland Baltimore Fdn (UMBFB) | University of Maryland College Park Fdn (UMCPFP) | Harry R Hughes Center for Agro-Ecology, Inc. (HRHF) | M Club Fdn (MCLB) | Robert H. Smith School of Business Fdn (RHSE) | The Maryland 4-H Fdn (MD4H) | Bowie State University Fdn (BSUF) | MD Center @ Bowie State University (CNTR) | Towson University Fdn (TUF) | Towson University Public Media (TUPM) | Maryland Hawk Corporation (HAWK) | Frostburg State University Fdn (FSUF) | Coppin State University Development Fdn (CSUF) | University of Baltimore Fdn (UBFB) | Salisbury University Fdn (SUF) | Ward Museum (WARD) | UMBC Research Park (RPCO) |
| Certification of Compliance Sheet (initiated by institution's president) | 10/31/2019 | yes | yes | yes | pending | yes | working on it | yes | still awaiting Loh's approval | yes | yes | has a compliance cover letter | yes | yes | yes | yes | yes | yes | yes | yes |
| Agreement with Institution (signed by president of foundation & institution) | 10/31/2019 | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | needs to be signed | yes | Agreement letter signed; need actual agreement | yes | yes | yes | yes |
| Annual Financial Audit Report | 10/2/2019 | final | final | final | final | final | final | draft | final | final | final | final | final | final | final | final | final | final | final | final |
| Annual Audit Report of Transfers to USM | 10/2/2019 | yes | yes | yes | yes | n/a | yes | | yes | yes | yes | yes | yes | | yes, pg 32 in audit & AUP | Waiting for signed copy from Board | yes | yes | yes | yes |
| Management Letter/Auditors Required Communications Letter | 10/31/2019 | yes | yes | yes | yes | yes | yes | | yes | yes | yes | yes | n/a | | yes | did not receive | yes | yes | yes | yes |
| Use of Internal Auditor | 10/31/2019 | yes | yes | yes | yes | n/a | n/a | | n/a | n/a | yes | yes | n/a | n/a; included in compliance checklist letter | yes | yes | yes - do not use IA | yes | yes - used CPA but not CIA | does not have IA on staff |
| Annual Audit Report of Unrestricted Funds Available to the President | 10/31/2019 | yes | none | yes | yes | n/a | n/a | | n/a | n/a | n/a | yes | n/a | | yes | yes | yes | yes | yes - no funds | none |
| A List of Officers and Directors (can get from website) | 10/31/2019 | yes | yes | yes | yes | yes | yes | | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| A List of USM Employees Receiving Compensation from the Foundation & Amount of that Compensation | 10/31/2019 | yes | none | yes | yes | n/a | yes, in audit report | | n/a | n/a | n/a | n/a | yes | yes; included in compliance checklist letter | yes, pg 29-31 in Audit | yes | n/a | yes | yes | none |
| A List of State and Federal Contracts and Grants Managed by the Foundation | 10/31/2019 | none | none | n/a | n/a | n/a | n/a | | yes | none | yes | none | yes | n/a | none | n/a | yes | n/a | yes | yes |
| Annual Report (report of major activities) | 10/31/2019 | yes | yes | yes | n/a | yes | | | have a program gap in lieu of annual report | yes | yes | n/a | yes | yes; included in compliance checklist letter | will send when complete | n/a | yes | in final prep | to be sent when avail (eta nov 2019) | yes |
| Annual affiliated foundation operations report (from Gina) | 12/31/2019 | yes | yes | yes | yes | yes | yes | | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| Submitted by and contact info | | Tom Gilbert | Larry Pitrof Executive Director | Pam Heckler pheckler@umarylan.edu | Janice McMillan 310-955-1266 | Nancy Nunn 410-827-8056 | Laura Chiriacco 301-314-6394 | Colleen Auburger 301-405-6777 | Lauren Mohler | Daphne De Shields 301-860-4308 | Terry Lawlah 301-860-4309 | John Mease 410-704-2040 | Kirsten Scofield 410-704-3464 | Lester Primus | Janelle Moffett 301-687-4493 | Tara Turner | Hillary Belzer 410-837-6216 | Icadkins @salisbury.edu | Kristin Sullivan 410-742-4988 | Alagra D. Weaver 410-455-6778 |

Issues noted in report?
*Or as soon as report is complete



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR **DISCUSSION**

TOPIC: Follow up of Action Items from Prior Audit Committee Meetings

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: March 24, 2020

SUMMARY:

See Attachment A: Listing of Open Action Items From 2016 – 2019 Audit Committee Meetings.

FISCAL IMPACT: none

CHANCELLOR'S RECOMMENDATION: none

COMMITTEE ACTION: none

DATE:

BOARD ACTION: none

DATE:

SUBMITTED BY: David Mosca

USM Board of Regents
 Action Items From 2016 - 2019 Audit Committee Meetings
 24-Mar-20

Action Item

Status

From December 2019 Audit Committee Meeting

| | | |
|----|--|---|
| 1. | Include a footnote to provide clarity of "Other Expense line item in Combining Statement of Activities | Will be included with FYE 2020 financial reporting. |
| 2. | SB & Co. should consider including UMB's Tanzania and Zambia operations in their A133 Audit scope. | Update at March 2020 Committee Meeting |
| 3. | Include Audit of FSU's Student Affairs Director's Financial and HR Activities | Added Internal Audit's 2020 plan of activity. |
| 4. | Include proposed implementation dates as part of Internal Audit's monthly audit reports to the Audit Committee | Implemented in January 2020. |

From October 2019 Audit Committee Meeting

| | | |
|----|---|---|
| 1. | Include ongoing discussion of Policy Development and Oversight at each FY 2020 Audit Committee meeting. Get Presidents' input. | First update included with Audit Committee's 12/18/2019 meeting. Second in March meeting. |
| 2. | Universities shall submit their ERM plan of implementation to the Audit Committee and annual produce risk dashboards. Contact UMB's Department of Health as a resource for implementing ERM. Internal Audit should audit implementation of ERM. | Plan's are due in the Spring of 2020 and implementation by July 2021. Internal Audit will incorporate ERM implementation audits in 2021. Audit Committee will be regularly updated. |
| 3. | Invited internal audit staff to future meetings. | To be completed at December 2019 and March 2020 meetings (moved to future date. |
| 4. | Schedule a conference call to discuss the State's selection of its Independent Auditor | Completed March 2020 |

From June 2019 Audit Committee Meeting

| | | |
|----|--|---|
| 1. | Consider having Internal Audit submit an annual affirmation statement of no conflicts or potential conflicts of interests exist relating to Presidents and Chancellors financial disclosure statement. | Discussed at October 2019 meeting. Will be adopted for review of CY 2019 financial disclosure statements. |
|----|--|---|

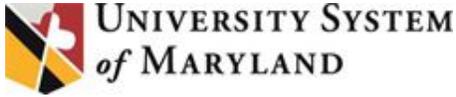
From March 2019 Audit Committee Meeting

| | | |
|----|--|---------------------------------------|
| 1. | Establish update process to monitor progress of correcting A133 Audit Findings/Recommendations | To occur in FY 2019 A133 Audit Cycle. |
|----|--|---------------------------------------|

From March 2016 Audit Committee Meeting

| | | |
|----|--|---|
| 1. | The BOR should develop interagency agreements policy. | Assigned to BOR's Committee on Finance to develop policy. |
| 2. | The BOR should reassess BOR's policy related to barring enrollment to students with outstanding receivable balances. | Assigned to BOR's Committee on Finance to assess policy. |

Note: Action items concluded prior to the December 2019 BOR Audit Committee meetings are not included in this schedule.



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR DISCUSSION

TOPIC: Convening Closed Session

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: March 24, 2020

SUMMARY:

The Open Meetings Act permits public bodies to close their meetings to the public in circumstances outlined in §3-305 of the Act and to carry out administrative functions exempted by §3-103 of the Act. The Committee on Audit will now vote to reconvene in closed session. The agenda for the public meeting today includes a written statement with a citation of the legal authority and reasons for closing the meeting and a listing of the topics to be discussed. The statement has been provided to the regents, it is posted on the USM’s website and copies are available here today.

ALTERNATIVE(S): No alternative is suggested.

FISCAL IMPACT: There is no fiscal impact.

CHANCELLOR’S RECOMMENDATION: The Chancellor recommends that the BOR Audit Committee vote to reconvene in closed session.

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE: 3-24-2020

SUBMITTED BY: David Mosca, 443.367.0035, dmosca@usmd.edu



STATEMENT REGARDING CLOSING A MEETING
OF THE USM BOARD OF REGENTS

Date: March 24, 2020
Time: 10:00 AM
Location: Universities System of Maryland Office

STATUTORY AUTHORITY TO CLOSE A SESSION

Md. Code, General Provisions Article §3-305(b):

- (1) To discuss:
 - [] (i) The appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; or
 - [] (ii) Any other personnel matter that affects one or more specific individuals.
- (2) [] To protect the privacy or reputation of individuals with respect to a matter that is not related to public business.
- (3) [] To consider the acquisition of real property for a public purpose and matters directly related thereto.
- (4) [] To consider a preliminary matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State.
- (5) [] To consider the investment of public funds.
- (6) [] To consider the marketing of public securities.
- (7) [] To consult with counsel to obtain legal advice on a legal matter.
- (8) [] To consult with staff, consultants, or other individuals about pending or potential litigation.
- (9) [] To conduct collective bargaining negotiations or consider matters that relate to the negotiations.

- (10) To discuss public security, if the public body determines that public discussions would constitute a risk to the public or public security, including:
- (i) the deployment of fire and police services and staff; and
 - (ii) the development and implementation of emergency plans.
- (11) To prepare, administer or grade a scholastic, licensing, or qualifying examination.
- (12) To conduct or discuss an investigative proceeding on actual or possible criminal conduct.
- (13) To comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.
- (14) Before a contract is awarded or bids are opened, to discuss a matter directly related to a negotiation strategy or the contents of a bid or proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive bidding or proposal process.

Md. Code, General Provisions Article §3-103(a)(1)(i):

- Administrative Matters

TOPICS TO BE DISCUSSED:

Legislative audit matters that are ongoing and, therefore, confidential; discussion of investigative matters which may lead to criminal prosecution; calendar year 2019 internal audit plan of activity; and the committee meeting separately with the independent auditors and the director of internal audit.

REASON FOR CLOSING:

- 1) To maintain confidentiality of discussions of ongoing investigations by the USM Office of Internal Audit's and outside agencies, which potentially could result in criminal prosecutions (§3-305(b)(12));
- 2) To maintain the confidentiality of matters involved in ongoing legislative audits, as required by Section 2-1226 of the State Government Article of the Annotated Code of Maryland (§3-305(b)(13));
- 3) To carry out an administrative function: discussion of calendar year 2020 audit plan of activity by the USM Office of Internal Audit (§ 3-103(a)(1)(i)); and
- 4) To carry out an administrative function: the Committee's separate meetings with the independent auditors and the Director of Internal Audit (§3-103(a)(1)(i)).