



**UNIVERSITY SYSTEM OF MARYLAND  
BOARD OF REGENTS - AUDIT COMMITTEE  
MEETING AGENDA - OPEN SESSION  
June 4, 2021**

- |   |                        |
|---|------------------------|
| 1. <a href="#">FY 2021 Audit Committee Objectives (Information &amp; Discussion)</a>  | Mr. Mosca              |
| 2. <a href="#">Proposed Modifications to BOR Policy on Affiliated Foundations (Action, Information &amp; Discussion)</a>  | Mr. Page<br>Ms. Herbst |
| 3. <a href="#">CliftonLarsonAllen LLP, Audit Approach for the FYE 2021 Independent Audit (Information &amp; Discussion)</a>   | Ms. Bowman             |
| 4. <a href="#">CliftonLarsonAllen LLP, Update Regarding FYE 2020 A-133 Single Audit (Information &amp; Discussion)</a>  | Ms. Bowman             |
| 5. <a href="#">Completed Office of Legislative Audit Activity (Information &amp; Discussion)</a>  | Mr. Mosca              |
| 6. <a href="#">Review Presidents, Chancellor and Board of Regents CY 2020 Annual Financial Disclosure Compliance with §12-104(p) (Information &amp; Discussion)</a> | Mr. Mosca              |
| 7. <a href="#">Open Action Items from Prior Meetings (Information &amp; Discussion)</a>   | Mr. Mosca              |
| 8. <a href="#">Convene to Closed Session (Action)</a>   | Ms. Fish               |

[\*\*LINK TO CLOSED SESSION\*\*](#)

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

**TOPIC:** Information & Discussion – FY 2021 Audit Committee Work Plan & Objectives

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** June 4, 2021

Attached is a schedule of the Audit Committee's (Committee) FY 2021 work plan and objectives. The objectives are designed to assist the Committee in fulfilling the requirements of its Charter and Bylaws. The schedule also identifies the objectives addressed at each Audit Committee meeting throughout the year.

On the whole, the Committee has met its objectives and fulfilled its requirements as defined in its Charter and Bylaws. One area has been delayed due to scheduling changes in response to COVID 19. The completion date for the independent auditor's A-133 audit has been pushed back to 6/30/2021.

Attachment

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:** none

COMMITTEE ACTION:     None

DATE: \_\_\_\_\_

BOARD ACTION:         None

DATE: \_\_\_\_\_

SUBMITTED BY: David Mosca

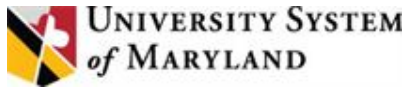


**USM BOR Audit Committee  
Annual Work Plan  
FY 2021**

Objective		When Performed Audit Committee Meetings					
		Oct	Dec	Mar	June	As Needed	Completed
<b>Authority</b>							
1	The Committee, with the approval of the Board, is empowered to retain outside counsel or persons having special competence as necessary to assist the Committee in fulfilling its responsibility.					x	N/A
2	Resolve any disagreements between the independent auditor and management.					x	N/A
<b>Composition of Committee Members</b>							
3	The Audit Committee shall comprise not less than 5 or more than 7 members. The majority of the members must be knowledgeable about financial matters.	x					Yes
<b>Meetings</b>							
4	Meet at least 4 times per year.	x	x	x	x		Yes
<b>Responsibilities</b>							
<b>Internal Audit</b>							
5	Review with the Director of Internal Audit progress of completing the annual plan of activity.	x	x	x	x		Yes
6	Review and approve internal audit's annual plan of activity.		x				Yes
7	Ensure that there are no unjustified restrictions or limitations on the internal audit department.	x	x	x	x		Yes
8	Review the effectiveness of the internal audit function.				x		
9	Meet separately with the Director of Internal Audit to discuss any matters that the committee or the Director of Internal Audit believes should be discussed privately.	x	x	x	x		Yes
<b>Independent Auditor</b>							
10	Review the external auditors' proposed audit scope and approach.				x		Yes
11	Review significant accounting and reporting issues and understand their impact on the financial statements.		x				Yes
12	Review with management and the external auditors the results of the audit, including any difficulties encountered.		x				Yes
13	Discuss the annual audited financial statements with management and the external auditors.		x				Yes
14	Review and discuss the results of enrolment testing agreed upon procedures.		x				Yes
15	Review and discuss the results of A-133 Single Audit..						In-process
16	Discuss the scope of external auditors' review of internal control over financial reporting.		x				Yes

**USM BOR Audit Committee  
Annual Work Plan  
FY 2021**

Objective		When Performed Audit Committee Meetings					
		Oct	Dec	Mar	June	As Needed	Completed
17	Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.					x	N/A
18	Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.	x	x	x	x		Yes
	<b>Financial Reporting</b>						
19	Review FYE Consolidated Financial Statements	x	x				Yes
20	Review FYE Financial Dashboard Indicators		x				Yes
21	Review 12/31/20 six month Financial Statements			x			Yes
	<b>Other</b>						
22	Regularly report to the Board of Regents about Committee activities.	x	x	x	x		Yes
23	Confirm annually that all responsibilities outlined in the committee's charter have been carried out.				x		Yes
24	Discuss with the Attorney General or representative, the status of legal matters that may have a significant impact on USM institution's financial statements.	x	x	x		x	Yes
25	Review legislative audits of the institutions of the University System and institutional responses thereto, and provide the Board with appropriate reports.	x	x	x	x		Yes
26	Review policies pertaining to Audit Committee	x	x	x	x		Yes
27	Monitor the Board's observance of the State Ethics Code as it pertains to possible conflict of interest with matters of the University System of Maryland					x	N/A
28	Oversee the Board's Enterprise Risk and Crisis Management Work Group			x		x	Yes
29	Review Presidents, Chancellor and Board of Regents annual financial disclosure forms. This is to comply with Md. Education Code Ann. §12-104(p).	x			x		Yes

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

**TOPIC:** Proposed revision of BOR Policy IX-2.00 Policy on Affiliated Fundraising Foundations

**COMMITTEE:** Audit

**DATE OF COMMITTEE MEETING:** June 4, 2021

**SUMMARY:** The proposed revision of the current BOR Policy IX-2.00 Policy on Affiliated Foundations is needed to update and improve both oversight of affiliated fundraising foundations, but also provide clarity on requirements of the relationship between the System and its institutions, and the set of affiliated fundraising foundations that support the System and its institutions.

The proposed policy focuses on requirements appropriate to fundraising foundations, including the USM Foundation, which provides investment management services critical to fundraising foundations in managing endowments and gifts. A total of 8 non-fundraising foundations will no longer be subject to the proposed policy, but will be the focus of a future policy on non-fundraising affiliated entities, which will attempt to standardize oversight and relationship requirements for non-fundraising affiliated entities, including what are known as 'business entities' and High-impact economic development activity entities. Non-fundraising affiliated entities are not motivated to comply with Board of Regents policy requirements by the prospect of loss of license to use the institutions name and trademark assets, and accordingly require a different set of oversight arrangements and relationship terms and requirements for which a different set of policy requirements will be necessary.

Non-fundraising affiliated entities previously recognized as affiliated foundations will be considered 'business entities' under BOR Policy VIII-13.00, Policy on Business Entities, should the Board of Regents approve the revisions to the Policy on Affiliated Foundations. A policy appropriate to non-fundraising affiliated entities which would provide effective controls and consequences suitable for non-fundraising entities is to be developed over the summer with an expected completion date in September.

Attached is a redline of the current policy with changes marked in red to arrive at the proposed revised policy. A 'clean' version is attached as well for ease of review.

Lastly, a one-pager detailing out alternative views and perspectives on how the policy could be crafted in a different manner is presented, representing outstanding and unresolved differences in view on what the appropriate oversight structure and relationship requirements should be reflected in Board of Regents policy.

**ALTERNATIVE(S):** The committee could direct changes or further work on the proposed policy.

**FISCAL IMPACT:** No fiscal impact.

**CHANCELLOR'S RECOMMENDATION:** That the Audit Committee recommend that the Board of Regents approve the proposed revision of Board of Regents Policy IX-2.00 Policy on Affiliated Fundraising Foundations.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Ellen Herbst (301) 445-1923

## IX - 2.00 - POLICY ON AFFILIATED **FUND-RAISING** FOUNDATIONS

(Approved by the Board of Regents on March 1, 1989; amended on November 29, 1990 and amended on October 1, 1999)

### Purpose and scope

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The Board of Regents of the University System of Maryland recognizes the importance of voluntary private support and encourages grants and contributions for the benefit of the University System, its constituent institutions and components (hereinafter collectively referred to as "the System") or for any or all of the educational and support activities that are operated by the System. Accordingly, the Board of Regents wishes to encourage a broad base of support from many sources, particularly increased levels of voluntary support. To achieve this goal, the System will cooperate in every way possible with the work of affiliated fundraising foundations. The Board of Regents may recognize as an affiliated fundraising foundation an organization that is created and operated in support of the interests of the University System of Maryland or one of its constituent institutions or components, and has as its purpose one or ~~more-both~~ of the:

1. To facilitate fund-raising programs and contributions from private sources to foster and promote the general welfare of the System or one of its components;
2. To manage and invest private gifts and/or property for the benefit of the System or one of its components;~~;-or~~
3. ~~To promote, sponsor, and implement educational, scientific, research, charitable or cultural activities for the benefit of the System or one of its components and to engage in activities to enhance further the educational, research or service mission of the System.~~

Essential elements of the affiliation relationship are: (i) use by the entity in any way of the intellectual property (e.g., name, logo, trademark or service mark, trade dress, nickname, etc.) of the University System of Maryland or its institution(s); and (ii) engaging primarily in any lawful activity to raise and steward monies that will benefit the University System of Maryland or its institution(s).

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The Board of Regents has the sole authority and discretion to allow another entity to use the intellectual property with respect to an institution for any purpose, including fundraising. Therefore, the Board of Regents has the sole authority and discretion to determine whether an entity may affiliate with the University System of Maryland and an Institution and the terms and conditions of that affiliation, including its termination.

The purpose of this policy is to set forth the expectations of the Board of Regents with respect to the formation and operation of affiliated fundraising foundations, and the respective rights and responsibilities of the Board of Regents, an institution and an affiliated fundraising foundation.

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A subsidiary legal entity formed or owned by an affiliated fund-raising foundation may use the name or facilities of the System (including any of its institutions or components) only if it is separately recognized

by the Board of Regents pursuant to this policy or a Board of Regents policy applicable for non-fundraising affiliates. Each organization recognized as an affiliated fundraising foundation shall comply with the policies listed below.\*

~~Pursuant to its statutory responsibilities, the Board of Regents may revoke its recognition of a foundation that fails to comply with these policies, in which case the foundation shall no longer be entitled to use the name or facilities of the System.~~

#### **Establishing and Recognizing an Affiliated Fundraising Foundation**

(a) ~~(a)~~ The University System of Maryland or a regional higher education center – the Chancellor

(b) ~~(b)~~ The 123 institutions and any component of the institutions - the appropriate President unless otherwise approved by the Board of Regents.

The officials listed above shall hereinafter be referred to as the "Responsible Official" with respect to any fundraising foundations affiliated with his or her institution or component.

2. In accordance with Senate Bill 296, Laws of Maryland, 1999, the President of a constituent institution may establish campus-based fundraising foundations without the approval of the Board of Regents. All fundraising foundations shall operate in accordance with policies adopted from time to time by the Board of Regents in consultation with the Presidents of the institutions and approved for form and legal sufficiency by the Office of the Attorney General. Only with Board of Regents approval as an affiliated fundraising foundation may campus-based fundraising foundations use the institution's name and other intellectual property.

3. A President shall give the Chancellor timely notification of any new affiliation with a fundraising foundation. Such notice shall include the name of the foundation, its mission statement, its initial Board members, ~~and~~ copies of its Articles of Incorporation and corporate bylaws, the IRS Form 1023 and any IRS determination letters that result. Any dispute issue about the propriety or right to a foundation's name shall be resolved by the Board of Regents. The Board of Regents shall be notified of any change in the purposes or scope of activities of an affiliated foundation occurring after its recognition by the Board.

4. Each affiliated fundraising foundation shall enter into ~~an annual~~ written affiliation agreement with the ~~System Board of Regents, to be executed upon approval of the affiliation status by the Board of Regents, and an annual operating agreement~~ with the component or institution with which the foundation is affiliated. The written affiliation agreement with the Board of Regents shall establish the relationship between the parties, describe the purpose of the foundation, and acknowledge the applicability of these policies, which shall be incorporated by reference therein. The annual operating ~~Written~~ agreements must be signed by the Responsible Official and by the foundation officer authorized to sign such agreements and shall be approved by the Chancellor or the Chancellor's designee to ensure consistency with all applicable Regents' policies.

5. The written affiliation agreement between the ~~Board of Regents institution~~ and the foundation shall condition the organization's use of the System's or institution's name or any other name, emblem, or mark to which the System or University has any legal right, upon the foundation's continuing compliance with the agreement and all System policies on affiliated foundations.



6. Ensuring affiliated fundraising foundation compliance with Regents' policies and reasonably prudent business practices shall be included in the President's and, if different than the President, the Responsible Official's annual evaluation.

**Process for seeking Board of Regents approval of affiliation status for a fundraising foundations**

Institutions shall seek Board of Regents approval of affiliation status with a fundraising foundation in any situation where the System or one or more of its institutions extend the right to use the System or institutions name or other intellectual property for the purposes of fundraising. A fundraising foundation seeking affiliation status may be either a tax-exempt organization to be established, or an already existing organization. In either case, the following materials need to be provided to the chancellor's office for review by the Office of the Attorney General:

- Organizational documents such as Articles of Incorporation, By-laws or other similar documents required in the establishment and creation of a new entity
- IRS Form 1023 (when available)
- IRS determination letter (when available)
- Draft of affiliation agreement between the Board of Regents and the fundraising foundation to be executed upon Board of Regents approval
- Business plan narrative for the proposed new entity (or statement of scope of activities for an established fundraising foundation) including use of institution staff or resources if any, and information on how the fundraising foundation will achieve a scale sufficient to satisfy all reporting and compliance requirements for tax-exempt organizations, and appropriately manage organizational risks. The business plan narrative must also identify the institution with which the fundraising foundation seeks affiliation status, and identify the responsible official.
- List of proposed (or current) foundation officers and directors

The chancellor will provide feedback on any provisions, plans or information submitted above within 45 days on the proposed affiliated fundraising foundation as appropriate or necessary to the fundraising foundation and the institution with which it seeks affiliation status, and if the feedback is not addressed, may reject further consideration of the request for approval of affiliation status. Once all concerns have been addressed, the request for affiliation status will be presented first to the Board of Regents Committee on Advancement, and upon the committee's recommendation, to the full Board of Regents for approval.

**Termination of affiliation status**

Pursuant to its statutory responsibilities, the Board of Regents may revoke its recognition of a foundation that fails to comply with these policies, or the terms of the affiliation or operating agreements with the System or its institutions in which case the foundation shall no longer be entitled to use the name, staff resources or facilities of the System. The Board of Regents may seek guidance of the Office of the Attorney General in seeking injunctive relief in situations where the former affiliated fundraising foundation presents risks of irreparable harm to the USM or its institutions, or intellectual property assets of the System.

## Structure and Independence

7. Each foundation shall operate as a Maryland not for profit non-stock corporation that is legally separate from the System and is recognized as a 501 (c) (3) public charity by the Internal Revenue Service with a clearly articulated purpose of support of the USM or one or more of its institutions. The management and control of a foundation shall rest with a board of directors. Officers and staff members of a foundation and system staff assigned to carry out functions of a foundation shall be bonded and liability insurance for directors and officers shall be obtained by the foundation, in amounts to be determined by the board of directors. Articles of Incorporation provisions must include termination or dissolution provisions that provide for remaining assets to be transferred to the University System of Maryland or one of its institutions, to another Board of Regents designated tax-exempt entity, or to the University System of Maryland Foundation (or its successors). Subsequent changes in organizational documents such as Articles of Incorporation, By-laws or similar documents and agreements, or changes to the exempt purpose approved by the Internal Revenue Service, require the review and prior approval of the Board of Regents.

8. Presidents may only be ex-officio and non-voting members of the foundation's board of directors. System employees may serve as voting members of the board of directors of any affiliated foundation, provided that System employees do not constitute more than 20% of the foundation's board of directors.

9. With the approval of the Responsible Official, an officer or employee of the System may also serve as an officer or employee of an affiliated foundation. An employee or officer of a foundation who is also an employee or officer of the System may not represent both parties in any negotiation between the foundation and the System. Institutions must develop and formalize conflict of interest management arrangements for each System or institution employee performing roles for affiliated fundraising foundations. These exemptions to the requirements of the Public Ethics Law are to be reported to the office of the chancellor as required under the General Provisions Article, Title 5, Subtitle 15-525, Public-Private Partnership Act.

~~The executive director and support staff of an affiliated foundation should be paid employees of the foundation and not of the institution. Support staff are defined to be those individuals who provide direct services to the foundation, such as clerks, secretaries, and accountants and does not include fundraisers. Should this not be practical (e.g. an institution employee provides only part time services to the foundation), the foundation shall make a direct reimbursement to the institution for its share of the employee's salaries and fringe benefits. The foundation shall reimburse the institution for at least 33% of these costs beginning July 1, 1999, 66% beginning July 1, 2000 and 100% beginning July 1, 2001.~~

10. An affiliated fundraising foundation may use non-staff resources (e.g. space, equipment, facilities) of its affiliated institution without direct, dollar for dollar reimbursement to the institution. ~~The resources shall be quantified, included in an annual agreement, and measured against funds transferred from the foundation to the institution, or paid by the foundation on behalf of the institution.~~

## Activities

11. Affiliated fundraising ffoundations may not engage in activities that conflict with federal or state laws, rules and regulations, System policies, or the role and mission of the System. Foundations shall comply with applicable Internal Revenue Code provisions and regulations and all other applicable

policies and guidelines. Foundations may not engage in activities on behalf of the System or institution that the System or its institutions can perform, other than fundraising, fundraising support and gift investment management activities.

12. All activities of affiliated fundraising foundations shall be in conformance with Section 501 (c) (3) of the United States Code. In particular, "No substantial part of the activities (of an affiliated fundraising foundation shall be) carrying on propaganda, or otherwise attempting to influence legislation." Furthermore, no affiliated foundation shall directly or indirectly "participate in, or intervene in (including the publishing or distributing of statements) any political campaign on behalf of (or in opposition to) any candidate for public office." In particular, an affiliated fundraising foundation may not make any contribution, whether in money or in kind, to any candidate for public office. The purchase of tickets to an event intended to raise money for use by a candidate in a political campaign is a violation of this policy.

13. Except with the express, prior approval of the Responsible Official, no affiliated fundraising foundation shall conduct educational or research activities (including administration of a research grant or contract) that would be considered within the normal scope of the mission of the System or any of its components. If approved, the Responsible Official must justify in a letter to the Chancellor the reasons for a federal or state contract or grant to be managed by the foundations. Contract or grant funding that cannot be awarded to a state governmental entity, or that System institutions cannot agree to the terms by reason of formal legal or policy constraints, as well as serving as a fiscal agent for institution-sponsored research consortiums, are exempted from the requirements of this paragraph, as long as the institution's office of research administration, or other institutions office that addresses, negotiates and approves contract and grant proposals, agrees in writing to involve the affiliated fundraising foundation.

14. Pursuant to State law, an affiliated fundraising foundation may not offer an educational program (i.e., an organized course of study that leads to the award of a certificate, diploma or degree) unless it has obtained a certificate of approval from the Maryland Higher Education Commission to operate as an institution of postsecondary education. A foundation shall not apply for a certificate of approval without first obtaining written approval from the Responsible Official.

An affiliated fundraising foundation may not participate, perform or otherwise facilitate activities that could or should be performed by the System or its institutions. Specifically, any activity resulting in construction or development of assets that will become the property of the System or its institutions is not to be carried out by the affiliated fundraising foundation. The acquisition of personal or real property assets for eventual transfer to, or purchase by, the System or its institutions must follow and comply with public ethics law provisions and prohibitions that would apply if the System or its institutions were acquiring the real property directly. The affiliated fundraising foundation is not to be used for any activity that appears to be for the primary purpose of circumventing or avoiding University System of Maryland procurement requirements.

#### **Business Operations**

15. It is the fiduciary responsibility of the governing board members of each affiliated fundraising foundation to oversee the adequacy of internal controls of the affiliated fundraising foundation, as well as the sufficiency and appropriateness of its financial reporting. In fulfillment of these responsibilities governing board members shall foster direct and private communications with the independent

accountants on a regular basis, and shall assure direct access to its internal audit function for independent accountants.

16. It is essential that an affiliated fundraising foundation ensure that it clearly presents itself as an independent entity separate and distinct from the University System of Maryland and/or System institutions. All correspondence, solicitations, activities, and advertisements on behalf of an affiliated fundraising foundation shall use the name of the foundation and shall be clearly and conspicuously identified as an activity of that foundation to ensure that the public is aware that the activities undertaken by the foundation are separate and distinct from those of the System. The letterhead of an affiliated fundraising foundation shall carry the complete legal name of the foundation (e.g., The University of Maryland Foundation, Inc.). Trademarks, service marks, logos, seals, or the name of the System or any of its constituent institutions or components may be used by an affiliated fundraising foundation only with the prior written approval of the Responsible Official.

16. In all negotiations and transactions with third parties, for fund raising, enterprise activities and all other activities, affiliated fundraising foundation officers and employees shall take care to ensure that all parties involved are aware that the foundation is an independently established and separately operated legal entity from the System. Obligations of affiliated foundations shall not be obligations of the System or the State of Maryland.

17. Affiliated fundraising foundation funds shall be kept separate from System funds. System ~~trust~~ funds shall not be transferred to foundations for any purpose except, when appropriate, by action of the Board of Regents after approval by the Attorney General's Office. Funds or gifts payable to the Regents, the University System of Maryland, one of its constituent institutions, or to any other ~~system~~ System component shall not be deposited with a foundation.

18. Acceptance of gifts by the System or an affiliated fundraising foundation is subject to applicable University System of Maryland policies on gifts. Fund-raising campaigns and solicitations of major gifts for the benefit of the System by foundation personnel shall be approved in advance by appropriate System officials and should be compatible with the plans and needs of the System. Before accepting contributions or grants for restricted or designated purposes that may require administration or direct expenditure by a constituent institution or other component of the System, a foundation must obtain the prior approval of the Responsible Official. The foundation shall assure that each gift shall be used in accordance with the legally enforceable terms and conditions attached to such gift.

19. Financial activities of an affiliated fundraising foundation shall be administered in accordance with prudent business practices. Each foundation's board of directors shall adopt an expense authorization and reporting process. The process shall define the dollar threshold and nature of expenses requiring approval of a member of the board of directors, who shall not be a USM employee, and it shall define the type and frequency of expense reporting to the board of directors. An adequate and effective system of internal control designed to reduce the risk of loss, ensure appropriate attention to compliance obligations, and formalize approvals and lines of authority, is an important and necessary part of prudent business practices.

20. Affiliated fundraising foundations are encouraged to use the professional investment management resources and infrastructure provided by the University System of Maryland Foundation (or its successors). In the circumstance where an affiliated fundraising foundation chooses another entity to perform investment management services, should the an affiliated foundation's investments

underperform appropriate market indices for three consecutive years, the Regents may request from the foundation an independent review of its investment strategies along with plans for corrective action.

21. ~~All USM affiliated foundations shall be assessed an annual overhead charge that shall be determined by the Board of Regents in consultation with the Presidents. The charge shall be transferred to the University of Maryland Foundation, Inc. (UMF) to cover certain costs incurred by UMF on behalf of the Board of Regents and the Chancellor. All USM affiliated foundations may be assessed an annual overhead charge that shall be determined by the Board of Regents in consultation with the Presidents. The charge shall be transferred to the University System of Maryland Foundation (or its successors) to cover certain costs incurred by University System of Maryland Foundation on behalf of the Board of Regents and the Chancellor.~~

#### Audits and Reports

22. Each affiliated fundraising foundation shall be audited annually by an independent certified public accountant who is not a director or officer of the foundation and who is approved by the Responsible Official. Each affiliated fundraising foundation should conduct its fiscal operations to conform to the University System's fiscal year. Each affiliated fundraising foundation shall prepare its annual financial statements in accordance with generally accepted accounting principles. The independent audit shall be a full scope review, performed in accordance with generally accepted auditing standards. As part of the audit, the auditor shall verify a summary annual report of transfers of funds made to the System or its institutions. ~~Additionally, each foundation shall have a management letter prepared annually by its independent certified public accountant and submitted to the foundation's board of directors.~~

23. To ensure compliance with Paragraphs 11 and 12 of this policy, each year each affiliated fundraising foundation shall provide a separate audit of all unrestricted funds available to the Chancellor and/or the President(s).

24. ~~Affiliated fundraising f~~Foundations shall make use of an internal auditor to strengthen their ongoing commitment to continuously improve internal operations and processes. Foundation internal auditors shall possess sufficient experience and training to be able to carry out their duties in a professional manner. They must adhere to the Standards for Internal Audit published by the Institute for Internal Auditors, Inc. Reports issued by internal auditors must be made available to the University System of Maryland Board of Regents and the Chancellor. If a fundraising foundation does not make use of an internal auditor, it must be disclosed annually as part of the compliance materials provided to the Chancellor's office.

25. ~~From time to time~~Annually, the directors and chief officers of each affiliated fundraising foundation should review their responsibilities and the business and operational risks facing the foundation. ~~The Director of Internal Audit of the USM shall coordinate meetings with the presidents, foundation boards, directors and principal managers of each foundation to discuss these risks and the potential impact on the foundation. These meetings may also take place at the request of the Chancellor, president, or the foundations' board of directors, but shall occur at least every three years. Such reviews shall include such topics as engagement letters from outside auditors, review of tax laws as they impact foundations, best business practices, internal control structures, and the experiences of similar foundations throughout the country. The identified risks and mitigation strategies should be discussed annually with management at annual Board meetings.~~

26. An affiliated fundraising foundation shall permit the Responsible Official or his or her designee to inspect, at reasonable times, the following documents: the foundation's books and records; its most recent federal and state tax returns; and a list of employees, consultants, and legal counsel for the fiscal year.

27. Within 120 days after the close of the System's fiscal year, each affiliated fundraising foundation shall provide the Responsible Official with copies of the following:

- annual financial audit report;
- annual audit report of transfers made to the system;
- annual audit report of unrestricted funds available to the Chancellor and/or the President(s);
- a list of foundation officers and directors;
- a list of System employees who received compensation or other payments from the foundation during the fiscal year and the amount of that compensation or payment;
- a list of all state and federal contracts and grants managed by the foundation; and
- ~~an annual report of the foundation's major activities.~~
- Foundation board chairs, executive directors and presidents annually affirm in writing that they have read, understand and have complied with the provisions of the Board of Regents Policy on Affiliated Fundraising Foundations

28. Should the affiliated fundraising foundation not submit the required reports within the required time period, the chancellor and the responsible official shall issue a joint warning to the foundation. Should the foundation not demonstrate satisfactory progress toward immediate compliance, the Board of Regents may revoke its affiliated status or take other appropriate action.

29. The Chancellor may request from the Responsible Official information on affiliated fundraising foundations according to the schedule and format specified by the Chancellor.

30. At the request of the Chancellor or the Chairperson of the Board of Regents, the affiliated fundraising foundation shall permit the internal auditors of the Board of Regents access to all books and records of the foundation.

31. The Chancellor shall annually send any revised Regents' policies, ~~foundation audits and other reports required by the Board of Regents in this policy~~ to the Legislative Reference Office within 180 days of the end of the USM fiscal year.

32. The Board of Regents shall issue an annual report to the Legislative Joint Audit Committee regarding the operations of the affiliated fundraising foundations. The report shall be available no later than 180 days after the end of the System's fiscal year.

~~\* Note: Clinical practice plans and alumni associations are not covered by this policy, but shall be governed by a separate policy. The following provisions of this policy do not apply to the University Research Corporation International: 1) second sentence of #8; 2) #9a and b; and 3) #13.~~

## **IX - 2.00 - POLICY ON AFFILIATED FUND-RAISING FOUNDATIONS**

(Approved by the Board of Regents on March 1, 1989; amended on November 29, 1990 and amended on October 1, 1999)

### **Purpose and scope**

The Board of Regents of the University System of Maryland recognizes the importance of voluntary private support and encourages grants and contributions for the benefit of the University System, its constituent institutions and components (hereinafter collectively referred to as "the System") or for any or all of the educational and support activities that are operated by the System. Accordingly, the Board of Regents wishes to encourage a broad base of support from many sources, particularly increased levels of voluntary support. To achieve this goal, the System will cooperate in every way possible with the work of affiliated fundraising foundations. The Board of Regents may recognize as an affiliated fundraising foundation an organization that is created and operated in support of the interests of the University System of Maryland or one of its constituent institutions or components, and has as its purpose one or both of the:

1. To facilitate fund-raising programs and contributions from private sources to foster and promote the general welfare of the System or one of its components;
2. To manage and invest private gifts and/or property for the benefit of the System or one of its components.

Essential elements of the affiliation relationship are: (i) use by the entity in any way of the intellectual property (e.g., name, logo, trademark or service mark, trade dress, nickname, etc.) of the University System of Maryland or its institution(s); and (ii) engaging primarily in any lawful activity to raise and steward monies that will benefit the University System of Maryland or its institution(s).

The Board of Regents has the sole authority and discretion to allow another entity to use the intellectual property with respect to an institution for any purpose, including fundraising. Therefore, the Board of Regents has the sole authority and discretion to determine whether an entity may affiliate with the University System of Maryland and an Institution and the terms and conditions of that affiliation, including its termination.

The purpose of this policy is to set forth the expectations of the Board of Regents with respect to the formation and operation of affiliated fundraising foundations, and the respective rights and responsibilities of the Board of Regents, an institution and an affiliated fundraising foundation.

A subsidiary legal entity formed or owned by an affiliated fund-raising foundation may use the name or facilities of the System (including any of its institutions or components) only if it is separately recognized by the Board of Regents pursuant to this policy or a Board of Regents policy applicable for non-fundraising affiliates. Each organization recognized as an affiliated fundraising foundation shall comply with the policies listed below.

**Establishing and Recognizing an Affiliated Fundraising Foundation**

1. A fundraising foundation may be affiliated with one of the following entities: the University System of Maryland, one of the 12 institutions of the System, a regional higher education center, or such other component of the System as the Board of Regents may determine. The following official shall be the System official responsible for relations with foundations affiliated with his or her institution; including monitoring compliance with System policies and agreements between the foundation and the System:

- (a) The University System of Maryland or a regional higher education center – the Chancellor
- (b) The 12 institutions and any component of the institutions - the appropriate President unless otherwise approved by the Board of Regents.

The officials listed above shall hereinafter be referred to as the "Responsible Official" with respect to any fundraising foundations affiliated with his or her institution or component.

2. In accordance with Senate Bill 296, Laws of Maryland, 1999, the President of a constituent institution may establish campus-based fundraising foundations without the approval of the Board of Regents. All fundraising foundations shall operate in accordance with policies adopted from time to time by the Board of Regents in consultation with the Presidents of the institutions and approved for form and legal sufficiency by the Office of the Attorney General. Only with Board of Regents approval as an affiliated fundraising foundation may campus-based fundraising foundations use the institution's name and other intellectual property.

3. A President shall give the Chancellor timely notification of any new fundraising foundation. Such notice shall include the name of the foundation, its mission statement, its initial Board members, copies of its Articles of Incorporation and corporate bylaws, the IRS Form 1023 and any IRS determination letters that result. Any dispute about the propriety or right to a foundation's name shall be resolved by the Board of Regents. The Board of Regents shall be notified of any change in the purposes or scope of activities of an affiliated foundation occurring after its recognition by the Board.

4. Each affiliated fundraising foundation shall enter into a written affiliation agreement with the Board of Regents, to be executed upon approval of the affiliation status by the Board of Regents, and an annual operating agreement with the component or institution with which the foundation is affiliated. The written affiliation agreement with the Board of Regents shall establish the relationship between the parties, describe the purpose of the foundation, and acknowledge the applicability of these policies, which shall be incorporated by reference therein. The annual operating agreements must be signed by the Responsible Official and by the foundation officer authorized to sign such agreements and shall be approved by the Chancellor or the Chancellor's designee to ensure consistency with all applicable Regents' policies.

5. The written affiliation agreement between the Board of Regents and the foundation shall condition the organization's use of the System's or institution's name or any other name, emblem, or mark to which the System or University has any legal right, upon the foundation's continuing compliance with the agreement and all System policies on affiliated foundations.

6. Ensuring affiliated fundraising foundation compliance with Regents' policies and reasonably prudent business practices shall be included in the President's and, if different than the President, the Responsible Official's annual evaluation.



**Process for seeking Board of Regents approval of affiliation status for a fundraising foundations**

Institutions shall seek Board of Regents approval of affiliation status with a fundraising foundation in any situation where the System or one or more of its institutions extend the right to use the System or institutions name or other intellectual property for the purposes of fundraising. A fundraising foundation seeking affiliation status may be either a tax-exempt organization to be established, or an already existing organization. In either case, the following materials need to be provided to the chancellor's office for review by the Office of the Attorney General:

- Organizational documents such as Articles of Incorporation, By-laws or other similar documents required in the establishment and creation of a new entity
- IRS Form 1023 (when available)
- IRS determination letter (when available)
- Draft of affiliation agreement between the Board of Regents and the fundraising foundation to be executed upon Board of Regents approval
- Business plan narrative for the proposed new entity (or statement of scope of activities for an established fundraising foundation) including use of institution staff or resources if any, and information on how the fundraising foundation will achieve a scale sufficient to satisfy all reporting and compliance requirements for tax-exempt organizations, and appropriately manage organizational risks. The business plan narrative must also identify the institution with which the fundraising foundation seeks affiliation status, and identify the responsible official.
- List of proposed (or current) foundation officers and directors

The chancellor will provide feedback on any provisions, plans or information submitted above within 45 days on the proposed affiliated fundraising foundation as appropriate or necessary to the fundraising foundation and the institution with which it seeks affiliation status, and if the feedback is not addressed, may reject further consideration of the request for approval of affiliation status. Once all concerns have been addressed, the request for affiliation status will be presented first to the Board of Regents Committee on Advancement, and upon the committee's recommendation, to the full Board of Regents for approval.

**Termination of affiliation status**

Pursuant to its statutory responsibilities, the Board of Regents may revoke its recognition of a foundation that fails to comply with these policies, or the terms of the affiliation or operating agreements with the System or its institutions in which case the foundation shall no longer be entitled to use the name, staff resources or facilities of the System. The Board of Regents may seek guidance of the Office of the Attorney General in seeking injunctive relief in situations where the former affiliated fundraising foundation presents risks of irreparable harm to the USM or its institutions, or intellectual property assets of the System.

**Structure and Independence**

7. Each foundation shall operate as a Maryland not for profit non-stock corporation that is legally separate from the System and is recognized as a 501 (c) (3) public charity by the Internal Revenue Service with a clearly articulated purpose of support of the USM or one or more of its institutions. The management and control of a foundation shall rest with a board of directors. Officers and staff members of a foundation and system staff assigned to carry out functions of a foundation shall be bonded and liability insurance for directors and officers shall be obtained by the foundation, in amounts to be determined by the board of directors. Articles of Incorporation provisions must include termination or dissolution provisions that provide for remaining assets to be transferred to the University System of Maryland or one of its institutions, to another Board of Regents designated tax-exempt entity, or to the University System of Maryland Foundation (or its successors). Subsequent changes in organizational documents such as Articles of Incorporation, By-laws or similar documents and agreements, or changes to the exempt purpose approved by the Internal Revenue Service, require the review and prior approval of the Board of Regents.

8. Presidents may only be ex-officio and non-voting members of the foundation's board of directors. System employees may serve as voting members of the board of directors of any affiliated foundation, provided that System employees do not constitute more than 20% of the foundation's board of directors.

9. With the approval of the Responsible Official, an officer or employee of the System may also serve as an officer or employee of an affiliated foundation. An employee or officer of a foundation who is also an employee or officer of the System may not represent both parties in any negotiation between the foundation and the System. Institutions must develop and formalize conflict of interest management arrangements for each System or institution employee performing roles for affiliated fundraising foundations. These exemptions to the requirements of the Public Ethics Law are to be reported to the office of the chancellor as required under the General Provisions Article, Title 5, Subtitle 15-525, Public-Private Partnership Act.

10. An affiliated fundraising foundation may use non-staff resources (e.g. space, equipment, facilities) of its affiliated institution without direct, dollar for dollar reimbursement to the institution.

#### **Activities**

11. Affiliated fundraising foundations may not engage in activities that conflict with federal or state laws, rules and regulations, System policies, or the role and mission of the System. Foundations shall comply with applicable Internal Revenue Code provisions and regulations and all other applicable policies and guidelines. Foundations may not engage in activities on behalf of the System or institution that the System or its institutions can perform, other than fundraising, fundraising support and gift investment management activities.

12. All activities of affiliated fundraising foundations shall be in conformance with Section 501 (c) (3) of the United States Code. In particular, "No substantial part of the activities (of an affiliated fundraising foundation shall be) carrying on propaganda, or otherwise attempting to influence legislation." Furthermore, no affiliated foundation shall directly or indirectly "participate in, or intervene in (including the publishing or distributing of statements) any political campaign on behalf of (or in opposition to) any candidate for public office." In particular, an affiliated fundraising foundation may not make any contribution, whether in money or in kind, to any candidate for public office. The purchase of tickets to

an event intended to raise money for use by a candidate in a political campaign is a violation of this policy.

13. Except with the express, prior approval of the Responsible Official, no affiliated fundraising foundation shall conduct educational or research activities (including administration of a research grant or contract) that would be considered within the normal scope of the mission of the System or any of its components. If approved, the Responsible Official must justify in a letter to the Chancellor the reasons for a federal or state contract or grant to be managed by the foundations. Contract or grant funding that cannot be awarded to a state governmental entity, or that System institutions cannot agree to the terms by reason of formal legal or policy constraints, as well as serving as a fiscal agent for institution-sponsored research consortiums, are exempted from the requirements of this paragraph, as long as the institution's office of research administration, or other institutions office that addresses, negotiates and approves contract and grant proposals, agrees in writing to involve the affiliated fundraising foundation.

14. Pursuant to State law, an affiliated fundraising foundation may not offer an educational program (i.e., an organized course of study that leads to the award of a certificate, diploma or degree) unless it has obtained a certificate of approval from the Maryland Higher Education Commission to operate as an institution of postsecondary education. A foundation shall not apply for a certificate of approval without first obtaining written approval from the Responsible Official.

An affiliated fundraising foundation may not participate, perform or otherwise facilitate activities that could or should be performed by the System or its institutions. Specifically, any activity resulting in construction or development of assets that will become the property of the System or its institutions is not to be carried out by the affiliated fundraising foundation. The acquisition of personal or real property assets for eventual transfer to, or purchase by, the System or its institutions must follow and comply with public ethics law provisions and prohibitions that would apply if the System or its institutions were acquiring the real property directly. The affiliated fundraising foundation is not to be used for any activity that appears to be for the primary purpose of circumventing or avoiding University System of Maryland procurement requirements.

### **Business Operations**

15. It is the fiduciary responsibility of the governing board members of each affiliated fundraising foundation to oversee the adequacy of internal controls of the affiliated fundraising foundation, as well as the sufficiency and appropriateness of its financial reporting. In fulfillment of these responsibilities governing board members shall foster direct and private communications with the independent accountants on a regular basis, and shall assure direct access to its internal audit function for independent accountants.

16. It is essential that an affiliated fundraising foundation ensure that it clearly presents itself as an independent entity separate and distinct from the University System of Maryland and/or System institutions. All correspondence, solicitations, activities, and advertisements on behalf of an affiliated fundraising foundation shall use the name of the foundation and shall be clearly and conspicuously identified as an activity of that foundation to ensure that the public is aware that the activities undertaken by the foundation are separate and distinct from those of the System. The letterhead of an affiliated fundraising foundation shall carry the complete legal name of the foundation (e.g., The University of Maryland Foundation, Inc.). Trademarks, service marks, logos, seals, or the name of the

System or any of its constituent institutions or components may be used by an affiliated fundraising foundation only with the prior written approval of the Responsible Official.

16. In all negotiations and transactions with third parties, for fund raising, enterprise activities and all other activities, affiliated fundraising foundation officers and employees shall take care to ensure that all parties involved are aware that the foundation is an independently established and separately operated legal entity from the System. Obligations of affiliated foundations shall not be obligations of the System or the State of Maryland.

17. Affiliated fundraising foundation funds shall be kept separate from System funds. System funds shall not be transferred to foundations for any purpose except, when appropriate, by action of the Board of Regents after approval by the Attorney General's Office. Funds or gifts payable to the Regents, the University System of Maryland, one of its constituent institutions, or to any other System component shall not be deposited with a foundation.

18. Acceptance of gifts by the System or an affiliated fundraising foundation is subject to applicable University System of Maryland policies on gifts. Fund-raising campaigns and solicitations of major gifts for the benefit of the System by foundation personnel shall be approved in advance by appropriate System officials and should be compatible with the plans and needs of the System. Before accepting contributions or grants for restricted or designated purposes that may require administration or direct expenditure by a constituent institution or other component of the System, a foundation must obtain the prior approval of the Responsible Official. The foundation shall assure that each gift shall be used in accordance with the legally enforceable terms and conditions attached to such gift.

19. Financial activities of an affiliated fundraising foundation shall be administered in accordance with prudent business practices. Each foundation's board of directors shall adopt an expense authorization and reporting process. The process shall define the dollar threshold and nature of expenses requiring approval of a member of the board of directors, who shall not be a USM employee, and it shall define the type and frequency of expense reporting to the board of directors. An adequate and effective system of internal control designed to reduce the risk of loss, ensure appropriate attention to compliance obligations, and formalize approvals and lines of authority, is an important and necessary part of prudent business practices.

20. Affiliated fundraising foundations are encouraged to use the professional investment management resources and infrastructure provided by the University System of Maryland Foundation (or its successors). In the circumstance where an affiliated fundraising foundation chooses another entity to perform investment management services, should the affiliated foundation's investments underperform appropriate market indices for three consecutive years, the Regents may request from the foundation an independent review of its investment strategies along with plans for corrective action.

21. All USM affiliated foundations may be assessed an annual overhead charge that shall be determined by the Board of Regents in consultation with the Presidents. The charge shall be transferred to the University System of Maryland Foundation (or its successors) to cover certain costs incurred by University System of Maryland Foundation on behalf of the Board of Regents and the Chancellor.

#### **Audits and Reports**

22. Each affiliated fundraising foundation shall be audited annually by an independent certified public accountant who is not a director or officer of the foundation and who is approved by the Responsible Official. Each affiliated fundraising foundation should conduct its fiscal operations to conform to the University System's fiscal year. Each affiliated fundraising foundation shall prepare its annual financial statements in accordance with generally accepted accounting principles. The independent audit shall be a full scope review, performed in accordance with generally accepted auditing standards. As part of the audit, the auditor shall verify a summary annual report of transfers of funds made to the System or its institutions.

23. To ensure compliance with Paragraphs 11 and 12 of this policy, each year each affiliated fundraising foundation shall provide a separate audit of all unrestricted funds available to the Chancellor and/or the President(s).

24. Affiliated fundraising foundations shall make use of an internal auditor to strengthen their ongoing commitment to continuously improve internal operations and processes. Foundation internal auditors shall possess sufficient experience and training to be able to carry out their duties in a professional manner. They must adhere to the Standards for Internal Audit published by the Institute for Internal Auditors, Inc. Reports issued by internal auditors must be made available to the University System of Maryland Board of Regents and the Chancellor. If a fundraising foundation does not make use of an internal auditor, it must be disclosed annually as part of the compliance materials provided to the Chancellor's office.

25. Annually, the directors and chief officers of each affiliated fundraising foundation should review their responsibilities and the business and operational risks facing the foundation. The identified risks and mitigation strategies should be discussed annually with management at annual Board meetings.

26. An affiliated fundraising foundation shall permit the Responsible Official or his or her designee to inspect, at reasonable times, the following documents: the foundation's books and records; its most recent federal and state tax returns; and a list of employees, consultants, and legal counsel for the fiscal year.

27. Within 120 days after the close of the System's fiscal year, each affiliated fundraising foundation shall provide the Responsible Official with copies of the following:

- annual financial audit report;
- annual audit report of transfers made to the system;
- annual audit report of unrestricted funds available to the Chancellor and/or the President(s);
- a list of foundation officers and directors;
- a list of System employees who received compensation or other payments from the foundation during the fiscal year and the amount of that compensation or payment;
- a list of all state and federal contracts and grants managed by the foundation; and
- Foundation board chairs, executive directors and presidents annually affirm in writing that they have read, understand and have complied with the provisions of the Board of Regents Policy on Affiliated Fundraising Foundations

28. Should the affiliated fundraising foundation not submit the required reports within the required time period, the chancellor and the responsible official shall issue a joint warning to the foundation. Should the foundation not demonstrate satisfactory progress toward immediate compliance, the Board of Regents may revoke its affiliated status or take other appropriate action.

29. The Chancellor may request from the Responsible Official information on affiliated fundraising foundations according to the schedule and format specified by the Chancellor.

30. At the request of the Chancellor or the Chairperson of the Board of Regents, the affiliated fundraising foundation shall permit the internal auditors of the Board of Regents access to all books and records of the foundation.

31. The Chancellor shall annually send any revised Regents' policies to the Legislative Reference Office within 180 days of the end of the USM fiscal year.

32. The Board of Regents shall issue an annual report to the Legislative Joint Audit Committee regarding the operations of the affiliated fundraising foundations. The report shall be available no later than 180 days after the end of the System's fiscal year.

## **Proposed revision of BOR Policy IX - 2.00 - POLICY ON AFFILIATED FUND-RAISING FOUNDATIONS**

### **Issues of differing perspective from that taken in proposed revision of policy**

**Full re-write to simplify and enhance understanding and compliance** – there are those who see the policy as written as unduly complicated and procedural, and favor a much shorter policy focused on “policy level” issues and that leaves operating details to be covered by guidance that USM staff could issue and update from time to time.

**New requirement to have affiliated fundraising foundations agree in writing, concurrent with approval of affiliation status, to comply with BOR policy on affiliated fundraising foundations** – some felt this was an unnecessary and potentially ineffective measure. The agreement with the Regents would formalize the understanding that the license granted to use the institution’s name and trademarks is contingent upon compliance with the requirements of the BOR policy, and can be revoked by the Regents if there are instances of non-compliance. This contractual right to revoke the agreement would not, however, be sufficient to compel the foundation’s governing board to take any corporate actions, including winding down operations and transferring assets to USM or an institution.

**Control of affiliated fundraising foundations** – there are conflicting perspectives on whether the responsible official (typically the institution president) should have control over fundraising foundations’ Board of Directors by giving the president authority to appoint and remove a majority of the Board of Directors members. The policy as currently written limits university staff to no more than 20% of the governing board membership. While this independence may be desirable for fundraising foundations, it has made resolving disagreements with some non-fundraising entities very challenging. As for the requirement to allow presidents authority to appoint and remove Board of Directors members, this alternative would be difficult to implement from a corporate law perspective, would fundamentally alter the functioning of a foundation Board, and would concentrate significant power in the responsible official. Other concerns about the responsible official having power to remove and appoint Board of Directors members include the likelihood of a reduction in interest in serving on fundraising foundation boards.

**Restricting activities of affiliated fundraising foundations** – the policy as proposed prohibits affiliated fundraising foundations from activities or initiatives that would normally or otherwise be done by the institution itself. These include not just contract and grants except with the express, advance approval of the responsible official, but also the offering of academic programs, construction or development of assets that will become the property of the System or its institutions, or any activity where it appears that the motivation is to avoid System procurement expectations. Some believe that specific activities or functions to be precluded should not be itemized, and that an increase in institution president’s ability to utilize affiliated fundraising foundations for activities that would benefit the institution should be possible. Another view is that foundations should never compete with an institution’s core academic offerings but should be available to conduct non-core activities or projects when operating flexibility, efficiencies, and the like can be achieved. Grant agreements, data use agreements and similar contracts that are vital to UMCP (as the primary example) research projects uniformly contain legal terms to which UMCP lacks the authority to agree under Maryland law. If the Office of Research Administration is not successful in negotiating the terms out of the contract, then UMCP will be precluded from the

opportunity unless USMF agrees to step in and become the grantee (or data licensee) for the benefit of UMCP. Supporting research efforts has been part of USMF's explicit purpose since its formation in 1978 and currently, it is the grantee on over \$3 million of grants for the benefit of UMCP. Restricting this role beyond current practice would harm UMCP and other schools. USMF does not "sponsor or promote" research.

**Extending state ethics law expectations where affiliated fundraising foundations use institution or System staff** – a new requirement is included that requires each institution or the System with an affiliated fund-raising foundation to develop conflict of interest management plans for any System or institution employee performing operational roles for the affiliated fund-raising foundation. Another perspective is that control over foundation operations is enhanced when institution officials are assigned to director or officer roles with the foundation, and that such assignments should be seen as consistent with, and not in conflict with, their institutional responsibilities, so long as controls are in place to limit/prevent the opportunity for personal gain. Institutional officials seconded to these foundation roles need to be defended and indemnified when taking on these additional roles to advance the institution's (and not their own) interests.





**BOARD OF REGENTS**

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

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**TOPIC:** CliftonLarsonAllen LLP. – Communication of Audit Strategy and Approach for the FYE 2021 Independent Audit of Financial Statements

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** June 4, 2021

**SUMMARY:**

Materials attached.

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:**

COMMITTEE ACTION: None

DATE:

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BOARD ACTION: None.

DATE:

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SUBMITTED BY: David Mosca

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# University System of Maryland

June 4, 2021 Audit Committee Meeting

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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# Your Service Plan

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# Scope of Services and Deliverables- FY20 Status

	Opinion on financial statements for the year ending June 30, 2020 <i>Issued December 2020</i>	
	Single audit testing as part of the State of Maryland Single Audit Report <i>In Process (due 6/30/21)</i>	
	Governance communication letter <i>Issued December 2020</i>	
	Campus enrollment agreed-upon procedures <i>Issued December 2020</i>	
	Howard P. Rawlings Scholarship Programs agreed-upon procedures <i>In Process (due 7/31/21)</i>	
	Bond Inclusion <i>Completed March 2021</i>	



# Scope of Services and Deliverables- FY21

Opinion on financial statements for the year ending June 30, 2021

Governance communication letter

Campus enrollment agreed-upon procedures

Single audit testing as part of the State of Maryland Single Audit Report

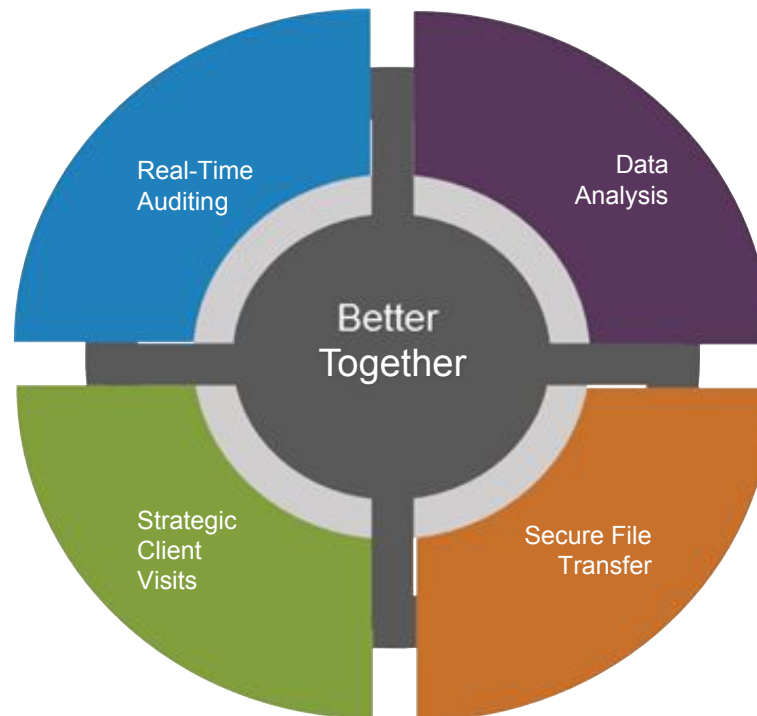
Howard P. Rawlings Scholarship Programs agreed-upon procedures



# Better Together!

Better Together is an approach where the CLA engagement team perform the audit's substantive procedures through a combination working remotely at CLA offices as well as on-site client visits.

Allowing for flexibility in engagement workflow and having impactful interactions during key strategic client visits.



# Responsibilities



## Responsibilities of Parties Involved

Governance	Strategic Direction
	Accountability, including financial reporting
Management	Internal Controls
	Accounting Policies
	Management Decisions
	Fair Presentation of Financial Statements
	Programs to Prevent and Detect Fraud
Independent Auditor	Opinion on Fair Presentation of Financial Statements
	Audit in Accordance with GAAS and GAGAS
	Reasonable, not Absolute Assurance
	Understanding of Internal Controls
	Risk Based Audit Approach





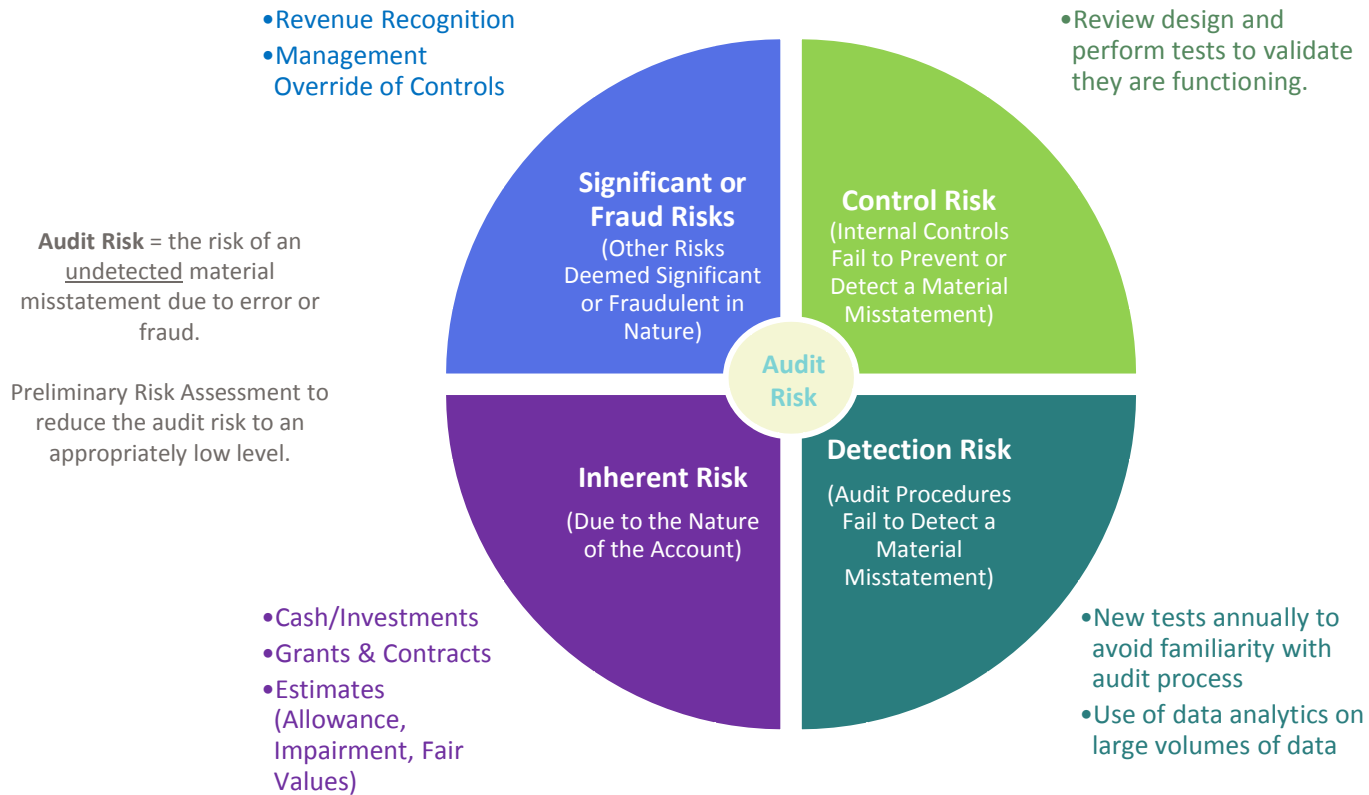
# Audit Approach

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# Risk Assessment



# Control Understanding

- Understand the Control Environment- All locations
- Walkthrough of key controls- All locations for the areas tested substantively
- Testing the effectiveness of key controls:
  - Payroll expenses- All locations
  - Nonpayroll expenses (except depreciation and interest)- All locations
- Consideration of Information of Technology- All locations with additional review at rotation of schools.



# Information Security and Compliance Issues

## Remote Workforce

- Remote access vulnerabilities
- Increased IT support needs
- Personal devices
- Direct application access

## Phishing Attacks

- Increase in targeted attacks
- Impersonation of vendors, third parties
- Extensive research before emailing

## Ransomware

- Easier than stealing data
- Difficult to trace attacker
- Many organizations don't have a response plan



# Leading Security Practices and Culture



## Cybersecurity Risk Management Program

- Independent assessments and alignment with frameworks
- Privacy and compliance requirements



## Data Classification and Inventory

- Data inventory and asset inventory



## Incident Response Plan

- Who to call when it happens
- Cybersecurity insurance



**Test, Test, Test**



## Security Awareness Training





# Upcoming GASB Pronouncements

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# Upcoming GASB Pronouncements

## June 30, 2021

- GASB 84, *Fiduciary Activities*

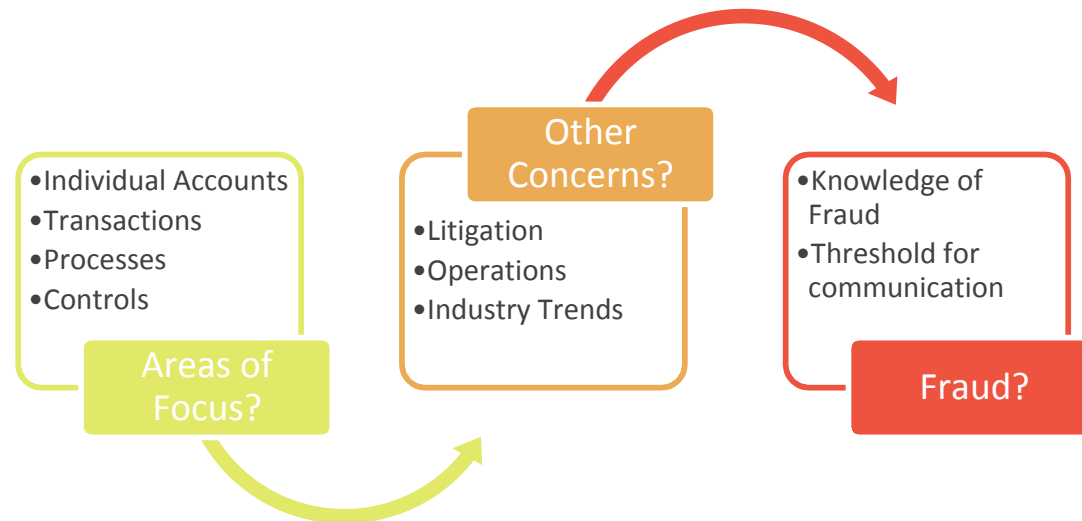
## June 30, 2022

- GASB 87, *Leases*



# Governance Input

As independent auditors, we work **for** governance and work **with** management to accomplish the audit. Your input is valued as we develop our audit plan and approach.



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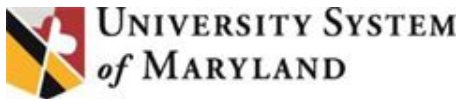
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**BOARD OF REGENTS**

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

---

**TOPIC:** CliftonLarsonAllen LLP. – Update Regarding the Status of FYE 2020 A-133 Audit

**COMMITTEE:** Audit

**DATE OF COMMITTEE MEETING:** June 4, 2021

**SUMMARY:**

No materials. Verbal update.

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:**

COMMITTEE ACTION: None

DATE:

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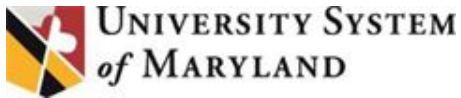
BOARD ACTION: None.

DATE:

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SUBMITTED BY: David Mosca

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

**TOPIC:** Update of Office of Legislative Audit Activity

**COMMITTEE:** Audit

**DATE OF COMMITTEE MEETING:** June 4, 2021

Since the Committee's March 2021 meeting, the Office of Legislative Audits (OLA) published its report (attached) on Bowie State University (BSU). OLA is in the fieldwork stage for its audit of the University of Maryland College Park and the University of Baltimore.

**Summary of OLA's Report on Bowie State University:**

**Finding 1:** Student Financial Aid and Account Adjustments – OLA notes that BSU does not independently verify various financial aid awards and related adjustments to student accounts. Additionally, BSU does not use output reports to independently verify the propriety of non-cash credit adjustments to student accounts. As a result, errors or irregularities may go undetected. (Repeat Finding)

**Finding 2:** Student Refunds – OLA notes that BSU should take the following actions with regards to its vendor responsible for issuing student refunds:

- Independently verify the accuracy of refund information provided to its vendor,
- Ensure that the vendor properly issues the student refunds, and
- Ensure that the vendor obtains a SOC 2 Type 2 report to ensure sensitive student information is adequately safeguarded.

**Finding 3:** Information System Security and Control – OLA notes that BSU did not adequately restrict employee access to various functions in its financial management system. OLA also noted approximately 35 examples where current and former employees had inappropriate access to change residency status, financial aid, student accounts, payroll, etc.

**Finding 4:** Sensitive Personally Identifiable Information (PII) – OLA notes that BSU has not performed automated data scans for PII against its servers or completed a manual inventory of PII stored on its servers. OLA also noted that BSU had not adequately secured unencrypted PII. (repeat finding)

**Finding 5:** Network Security Access and Intrusion Detection Prevention Systems (IDPS) – OLA notes that BSU's firewalls allowed unnecessary access to critical sources such as student computer labs, VPN users, and internet devices (cameras). OLA also notes that IDPS protections were not used to detect/prevent security breaches for various inbound network traffic.

**Finding 6: Multi-factor Authentication** – OLA notes that BSU does not use multi-factor authentication for remote access to network connections.

**Finding 7: Procurement** – OLA notes the following exceptions regarding procurement activity:

- BSU artificially split \$216K of payments for parking lot improvements to circumvent procurement policy for purchases greater than \$200K.
- BSU did not verify that rates invoiced by its foodservice vendor matched contracted rates. OLA noted that three invoices exceeded contract rates by approximately \$32,000.
- BSU processed approximately \$120K of change orders on two contracts that were not submitted to BSU's Procurement Office for approval.
- BSU processed 396 manual overrides of automated controls over procurements and disbursements without supervisory review and approval. These overrides totaled approximately \$1.2 million. OLA did not note any irregular manual overrides.

(Attachment)

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:** none

COMMITTEE ACTION: None

DATE:

BOARD ACTION: None

DATE:

SUBMITTED BY: David Mosca



Audit Report

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**University System of Maryland  
Bowie State University**

May 2021

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**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 Carol L. Krimm (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Mark S. Chang
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Victoria L. Gruber  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA  
Legislative Auditor

May 12, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Carol L. Krimm, 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) – Bowie State University (BSU) for the period beginning August 29, 2016 and ending April 30, 2020. BSU is a regional university offering a broad range of undergraduate and selected professionally oriented graduate programs.

Our audit disclosed that BSU had not established comprehensive controls over certain financial aid awards and adjustments to student accounts, and that BSU lacked sufficient procedures related to elements of the student refund process, including the safeguarding of sensitive student information. In addition, we found several information system security and control issues, including the lack of a process to ensure that critical user access capabilities on BSU's financial management systems were adequately restricted. Furthermore, sensitive personally identifiable information was maintained without adequate safeguards and identification, and BSU's internal network was not adequately secured. Our audit also disclosed that for certain purchases BSU circumvented procurement requirements and lacked comprehensive controls over invoice review, change order approvals, and manual overrides of automated controls.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit also included a review to determine the status of four of the five findings contained in our preceding audit report. We determined that BSU satisfactorily addressed two of these findings. The remaining two findings are repeated in this report.

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The USM Office's response to this audit, on behalf of BSU, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of USM's response which will require further clarification, we do not anticipate these will require the Joint Audit and Evaluation Committee's attention to resolve. Finally, we have edited USM's response to remove certain vendor names or products, as allowed by our policy.

We wish to acknowledge the cooperation extended to us during the audit by BSU. We also wish to acknowledge USM's and BSU'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, stylized 'G' and 'H'.

Gregory A. Hook, CPA  
Legislative Auditor



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## **Background Information**

### **Agency Responsibilities**

Bowie State University (BSU) is a comprehensive public institution of the University System of Maryland (USM) and operates under the jurisdiction of the System's Board of Regents. BSU is a regional university that provides a broad range of undergraduate and selected professionally oriented graduate programs, including doctoral level programs in educational leadership and computer science. According to USM records, student enrollment for the fall 2020 semester totaled 6,250 students, including 5,354 undergraduate students and 896 graduate students. This includes both full-time and part-time students.

BSU's budget is funded by unrestricted revenues, such as tuition and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's records, BSU's revenues for fiscal year 2020 totaled approximately \$151.5 million, including a State general fund appropriation of approximately \$48.1 million.

### **Status of Findings From Preceding Audit Report**

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of four of the five findings contained in our preceding audit report dated October 31, 2017. As disclosed in Figure 1 below, we determined that BSU satisfactory addressed two of these findings. The remaining two findings are repeated in this report.

**Figure 1**  
**Status of Preceding Findings**

<b>Preceding Finding</b>	<b>Finding Description</b>	<b>Implementation Status</b>
Finding 1	BSU lacked an independent verification of certain financial aid awards, resulting in improper awards of \$54,000 going undetected.	<b>Repeated</b> (Current Finding 1)
Finding 2	BSU paid its building system maintenance and housekeeping service vendors without ensuring that the required level of services were received.	Not repeated
Finding 3	BSU did not verify the propriety of changes to student residency status and did not generate a comprehensive report of such changes to facilitate these verifications.	Not repeated
Finding 4	Sensitive personally identifiable information maintained by BSU was stored without adequate safeguards.	<b>Repeated</b> (Current Finding 4 )
Finding 5	Malware protection for BSU computers was not sufficient to provide BSU with adequate assurance that these computers were properly protected.	Not repeated (not followed up on)

## Findings and Recommendations

### Student Financial Aid and Account Adjustments

#### Finding 1

**BSU did not independently verify certain financial aid awards and manual adjustments to student accounts.**

#### Analysis

BSU did not independently verify certain financial aid awards and manual adjustments to student accounts. According to BSU's records, financial aid awards to students totaled approximately \$70.5 million during fiscal year 2019 (\$43.3 million for loans and \$27.2 million for grants and scholarships).

#### BSU Did Not Verify Certain Financial Aid Awards and Related Adjustments

- BSU did not independently review scholarship decisions, such as for merit, diversity, and athletic scholarships, forwarded by various BSU departments to the Financial Aid Office for entry into the financial aid system. Our review of the 961 merit and 1,824 diversity grant scholarships awarded by BSU during academic years 2018 through 2020, disclosed that 11 merit scholarships and 7 diversity grant scholarships exceeded BSU's established award limit of \$2,000 by as much as \$4,000. Although we were advised that amounts may be awarded in excess of established limits, BSU did not document the rationale and justification for doing so in the cases we noted. Consequently, there was a lack of assurance that there was a reasonable and considered basis for providing awards in excess of the \$2,000 limit.
- BSU could not provide documentation of any supervisory review and approval of manual adjustments made to system-generated institutional financial aid awards posted to student accounts. Although legitimate reasons exist for making award adjustments (such as, when a student drops classes and is no longer eligible for an award), the adjustments should be subject to independent supervisory review and approval to ensure their propriety. We could not determine the value of these adjustments since BSU did not generate system output reports of the manual adjustments, which could be used by supervisory personnel to review and verify their propriety.

#### System Output Reports Were Not Used to Verify Non-cash Credit Adjustments

Available system output reports were not used to independently verify the propriety of non-cash credits processed in student accounts, and no other mitigating controls were in place to effectively ensure that all credits processed

were valid. Consequently, the employee responsible for recording non-cash credits could do so without independent supervisory review and approval. Non-cash credits totaled approximately \$2.5 million in fiscal year 2019. Our test of non-cash credits recorded in student accounts did not disclose any improper credits.

Similar conditions regarding the lack of independent verification of financial aid awards and manual adjustments were noted in our preceding audit report.

### **Recommendation 1**

#### **We recommend that BSU**

- a. independently verify the propriety of financial aid awards and manual adjustments to financial aid awards using output reports (repeat),**
- b. document the reason and justification for any scholarship or grant award made to a student that exceeds the award limit established by BSU for that scholarship or grant, and**
- c. ensure that non-cash credits recorded in student accounts are independently reviewed and approved using available system output reports.**

### **Student Refunds**

#### **Finding 2**

**BSU did not have sufficient procedures to ensure that valid refund information was transmitted to the vendor responsible for disbursing student refunds, and that the vendor properly issued all refunds and adequately safeguarded sensitive student information.**

#### **Analysis**

BSU did not have sufficient procedures to ensure that valid refund information was transmitted to the vendor responsible for disbursing student refunds, and that the vendor properly issued all refunds and adequately safeguarded sensitive student information. A student is generally eligible for a refund when the student's total account credits (such as payments and financial aid awards) exceed the student's total account charges (such as tuition, fees, and housing). A BSU employee calculated student refunds and transferred the funds weekly to a vendor to issue the refunds to the students.

- One BSU employee had unilateral responsibility for providing the vendor with the refund information including the specific students and the amounts to be refunded. BSU did not have a process to ensure the information submitted by

the employee was accurate or to ensure that the vendor properly issued the student refunds. Although the vendor provided BSU with a confirmation of the refunds issued, BSU did not have a process to confirm that the vendor reported refunds were legitimate and actually disbursed. According to BSU records, student refunds totaled \$20.5 million during fiscal year 2019.

- BSU did not require or obtain an independent review of the automated system used by the vendor to ensure that sensitive student information residing on the vendor's system was properly safeguarded. State law requires that a unit of State government, including a public institution of higher education, or a third-party service provider under contract with the unit shall implement reasonable security procedures and practices to protect personal information. In addition, University System of Maryland (USM) *IT Security Standards* require USM institutions to obtain and review a control assessment report based on such a review performed by a recognized independent audit organization. The *Standards* provide several examples of acceptable reports, including the American Institute of Certified Public Accountants (AICPA) Service Organization Control (SOC) 2 Type 2 report.

The AICPA has issued guidance for various reviews of service organizations. Based on this guidance, service organizations (like the aforementioned vendor) may contract for an independent review of controls and the resultant independent auditor's report is referred to as a SOC report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. The aforementioned SOC 2 Type 2 report includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, processing integrity, confidentiality, and/or privacy.

In response to our request, the vendor provided a SOC 1, Type 2 report, which it had obtained. However, SOC 1 reports are generally intended to focus on service organization controls relevant to financial reporting for user entities and would not provide BSU the degree of assurances necessary for confirming the security of sensitive student information. BSU advised us that it subsequently obtained from the vendor a SOC 2 Type 2 report.

## **Recommendation 2**

### **We recommend that BSU**

- establish procedures to independently verify that accurate refund information is provided to the vendor;**
- ensure, at least on a test basis, that the vendor properly issued the student**

- refunds; and
- c. **comply with State law and USM *IT Security Standards* by periodically requiring, obtaining, and reviewing a control assessment report, such as a SOC 2 Type 2 report, to ensure sensitive student information provided to the vendor is properly safeguarded.**

## **Information Systems Security and Control**

### **Background**

BSU's Division of Information Technology provides information technology support to BSU through the operation and maintenance of campus-wide applications, such as the student administration, human resources, and financial management systems. BSU also operates an integrated administrative and academic computer network, which provides connections to multiple servers used for administrative and academic purposes. The network includes separate email and file servers, intrusion detection systems, and firewalls. BSU's network also connects to the Maryland Research and Education Network to send and receive data to and from other USM institutions and for internet connectivity. Students are provided limited access to BSU's network from dormitories and computer labs.

### **Finding 3**

**BSU did not ensure that access to perform critical functions on its financial management systems was adequately restricted.**

### **Analysis**

BSU did not ensure that access to perform critical functions within its financial management systems was adequately restricted. Specifically, BSU did not take action to eliminate unnecessary or incompatible access granted to certain employees that was included on quarterly reports of user access provided to management personnel for their review during calendar year 2020. We reviewed system capabilities assigned to 144 users for 42 critical functions related to student financial aid, student accounts, payroll and human resources, and procurements and disbursements and noted the following conditions.

- Four individuals who left BSU employment between October 2019 and May 2020 still had access to BSU information systems as of October 2020. For example, one former employee who left BSU in December 2019 still had access to change residency status.



- Thirteen employees had access to critical screens in financial aid, student accounts, or payroll and human resources, even though they did not require the access to perform their job duties. For example, 4 users who did not work in the Financial Aid Office had inappropriate or unnecessary access to change the federal verification status for such aid.
- Nineteen users, including 2 with access to critical screens noted above, had access to process critical student financial aid, student accounts, or procurements and disbursements transactions without independent approval. For example, 11 employees responsible for verifying the propriety of federal financial aid applications could also modify the financial data used to determine aid eligibility without independent approval.

### **Recommendation 3**

#### **We recommend that BSU**

- a. use available output reports to monitor user access to critical functions on its financial management systems; and**
- b. terminate any incompatible or unnecessary access, including those noted above.**

### **Finding 4**

**Sensitive personally identifiable information (PII) was maintained without adequate safeguards and identification.**

#### **Analysis**

Sensitive personally identifiable information (PII) was maintained without adequate safeguards and identification. BSU operated a computer system which contained a significant amount of sensitive PII. As of July 2020, we noted that this system's database included 174,748 unique sensitive information records, which were maintained in a manner that made the information vulnerable to improper disclosure. This sensitive PII was properly accessible via two assigned employee accounts and a system account. BSU personnel advised us that this sensitive PII was subject to one form of a mitigating security control; however, it was not comprehensive.

Furthermore, although BSU had procedures for performing automated scanning of workstations for PII identification, it had not manually inventoried its applications nor completed similar scanning of its servers to achieve complete identification of PII across its entire IT environment. Detailed sensitive aspects of this finding were omitted from this report, however the related detailed information was

previously shared with BSU for purposes of implementing the following recommendations.

Similar conditions were commented upon in our preceding audit report. *USM IT Security Standards* state that USM institutions must protect confidential data while the data are in transit or at rest on any media.

#### **Recommendation 4**

**We recommend that BSU**

- a. perform an inventory of all of its systems, identify all sensitive PII, and delete all unnecessary sensitive PII (repeat); and**
- b. implement appropriate information security safeguards for the sensitive PII it maintains (repeat).**

#### **Finding 5**

**Access to critical BSU internal network devices was not properly restricted and intrusion detection prevention system coverage was not complete or adequate.**

#### **Analysis**

Access to critical BSU internal network devices was not properly restricted and intrusion detection prevention system (IDPS) coverage was not complete or adequate.

- Certain rules on the BSU network's firewalls allowed unnecessary network level access to critical internal network devices. Some of these rules involved virtual private network (VPN) connections, with access allowed to a broad range of users via specific services, despite the access being needed by only responsible information technology staff. Another rule granted excessive access from the student computer labs and the neutral public network zone servers to the entire administrative network and certain critical servers, via multiple services. This rule's intent was to ensure needed connectivity, but excessive access occurred as a result. The *USM IT Security Standards* state that firewalls should be configured to block all unneeded services, prevent direct access to hosts on trusted network from untrusted networks, and maintain comprehensive audit trails.
- Network-based IDPS inspection coverage did not exist for substantial amounts of untrusted traffic entering the BSU network. Specifically, we identified 22 firewall rules without defined network IDPS coverage applied that allowed traffic from the internet, BSU's neutral public network zone, and

other untrusted sources to certain BSU internal and neutral public network destinations. The lack of network IDPS coverage for this untrusted traffic creates a security risk as such traffic could contain undetected malicious data. The USM *IT Security Standards* require that institutions establish automated and manual processes for intrusion detection and/or prevention systems and state that host-based, network-based, or a combination of both systems may be utilized.

### **Recommendation 5**

**We recommend that BSU**

- a. configure its firewalls to properly protect all critical network devices, and**
- b. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be best applied to its network and implement this coverage for traffic from all untrusted parties.**

### **Finding 6**

**Remote access to the internal BSU network by employees and authorized contractors used a single authentication measure.**

### **Analysis**

Employees' and authorized contractors' remote access to BSU's internal network, using a VPN connection, required a stronger security authentication measure than we found was in place during the audit. During our review, we were advised that approximately 170 individuals used such VPN-based remote network access.

These remote VPN connections into BSU's internal network did not require multi-factor authentication (MFA) for establishing access, and instead, access was provided based upon only single factor authentication. MFA uses two or more different credential factors to authenticate user network connections. Access to critical networks and resources requires layers of security protections which include use of MFA, to help prevent security risks tied to compromised user credentials.

Best practices, as specified in the State of Maryland *Information Technology Security Manual*, require that Maryland agencies must ensure that MFA mechanisms are employed for all remote access to networks.

### **Recommendation 6**

**We recommend that BSU implement multi-factor authentication for remote connections into the BSU network by employees and authorized contractors.**

## Procurements and Disbursements

### Finding 7

**For certain purchases, we found BSU circumvented procurement requirements and lacked comprehensive controls over invoice review, change order approvals, and manual overrides of automated controls.**

### Analysis

BSU split certain purchases circumventing USM and BSU procurement requirements and spending limits, did not verify rates charged on certain vendor invoices, and did not obtain required approvals for certain change orders. BSU also did not verify the propriety of manual overrides of automated procurement and disbursement controls.

- BSU artificially split certain purchases circumventing certain USM and BSU purchasing requirements and spending limits. Our test of 11 purchase orders totaling approximately \$1.1 million, disclosed that two purchase orders totaling \$193,595 and \$22,790 respectively, were issued to the same vendor on the same day, for essentially the same service (parking lot improvements). As a result, these purchases were made using the competitive simplified procurement process rather than competitive sealed procurement as required by USM policy for purchases of \$200,000 or more. USM's *Procurement Policies and Procedures* require that procurements not be artificially divided to create simplified procurements, which are defined as procurements under \$200,000. Disbursements to this vendor totaled \$346,360 during fiscal year 2020.

In addition, our review of two or more corporate purchasing card transactions totaling \$46,720 processed by the same cardholders on the same day from the same vendor identified two instances in which purchases were split into two smaller transactions circumventing BSU's single transaction spending limit at the time of \$3,000<sup>1</sup>. One set of purchases totaled \$5,253 and the other \$3,048. The remaining purchases totaling \$38,419 were all determined to be separate transactions.

- BSU did not compare rates invoiced by its food service vendor to the related rates specified in the vendor's contract. Our review of three fiscal year 2019 invoices totaling \$334,000 disclosed that certain rates invoiced and paid by BSU on all three invoices appeared to exceed the corresponding rates in the contract by approximately \$32,000. We were advised by BSU that the higher

<sup>1</sup> Limit was subsequently raised to \$5,000, effective July 1, 2019.

invoiced rates had been negotiated with the vendor to provide certain modifications to the contracted services. However, these changes were made without a formal change order to modify the contract as required by BSU's *Procurement Policy and Procedures*. BSU paid the vendor approximately \$4.8 million in fiscal year 2019.

- Our test of five procurements totaling \$26.7 million disclosed that change orders totaling \$120,000 processed by BSU units on two contracts totaling \$7.6 million were not submitted to the BSU Procurement Office for approval as required by BSU's *Procurement Policy and Procedures*.
- BSU did not verify the propriety of manual overrides of certain automated controls over procurements and disbursements. BSU's automated system performed certain matches of critical documents to help ensure the transactions were proper. For example, the system matched selected purchase order data to the corresponding invoice data prior to invoice payment. Our review disclosed that during our audit period certain employees processed manual overrides of these controls for 396 transactions totaling approximately \$1.2 million without any supervisory review and approval. Although there may be legitimate reasons for overriding these system controls, such as adjustments made to the invoice for vendor credits not reflected on the purchase order, manual overrides should be reviewed and approved by supervisory personnel prior to payment of the invoice. We reviewed approximately \$431,000 of the aforementioned \$1.2 million and found the transactions to be valid.

#### **Recommendation 7**

**We recommend that BSU**

- a. discontinue splitting purchases and ensure they are made in accordance with established USM and BSU requirements and spending limits,**
- b. verify rates invoiced by vendors to the applicable contract rates,**
- c. prepare required change orders for contract modifications and obtain required approvals for all change orders including those noted above, and**
- d. ensure that manual overrides of system controls are reviewed and approved by supervisory personnel.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – Bowie State University (BSU) for the period beginning August 29, 2016 and ending April 30, 2020. 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 BSU'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. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of the findings included in our preceding audit report was limited to those findings that were applicable to the current audit scope for each area.

Our audit did not include certain support services provided to BSU by the USM Office, such as bond financing, or by the University of Maryland, College Park (UMCP), which provided capital project management. These support services are included within the scope of our audits of the USM Office and UMCP, respectively. 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 BSU'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.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our test of transactions and other auditing procedures were generally focused on the transactions occurring during our audit

period of August 29, 2016 to April 30, 2020, 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 BSU's operations. 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 BSU'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.

BSU'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 BSU, 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.

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 BSU's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to BSU that did not warrant inclusion in this report.

The response from the USM Office, on behalf of BSU 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



701 E. PRATT ST. // BALTIMORE, MD 21202  
WWW.USMD.EDU // 410.576.5735

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### OFFICE OF THE CHANCELLOR

May 7, 2021

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 – Bowie State University  
Period of Audit: August 29, 2016 through April 30, 2020

Dear Mr. Hook:

Thank you for the work of your team and the recommendations you provided. 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 – Bowie State University. Our comments refer to the individual items in the report.

Sincerely yours,

A handwritten signature in cursive script that reads 'Jay A. Perman'.

Jay A. Perman  
Chancellor

### Enclosures

cc: Dr. Aminta Breaux., President, Bowie State University  
Mr. Anthony Savia, Vice President, Administration and Finance, Bowie State University  
Mr. Wayne Felder, Controller, Bowie State University  
Ms. Linda R. 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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OF MARYLAND AT HAGERSTOWN • UNIVERSITY SYSTEM OF MARYLAND AT SOUTHERN MARYLAND

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**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Student Financial Aid and Account Adjustments**

**Finding 1**

**BSU did not independently verify certain financial aid awards and manual adjustments to student accounts.**

**We recommend that BSU**

- a. independently verify the propriety of financial aid awards and manual adjustments to financial aid awards using output reports (repeat),**
- b. document the reason and justification for any scholarship or grant award made to a student that exceeds the award limit established by BSU for that scholarship or grant, and**
- c. ensure that non-cash credits recorded in student accounts are independently reviewed and approved using available system output reports.**

<b>Agency Response</b>	
<b>Analysis</b>	
<b>Please provide additional comments as deemed necessary.</b>	<p>Prior to posting awards, including merit, and athletic scholarships submitted by various departments, the scholarship coordinator/assistant director reviews the awards to ensure that students have not exceeded the cost of attendance. Diversity/Institutional awards are awarded automatically through our system according to the criteria of being a first-generation student with a specific EFC.</p> <p>Awards are made in excess of the established amounts based on the professional judgement of the Director, Assistant Vice President, and Vice President of Enrollment Management. Professional judgment (PJ) is at the discretion of the financial aid administrator (FAA) and the school. In general, the FAA should use his or her own PJ decision by determining what will best address an unusual circumstance faced by a student.</p> <p>Additional guidance posted on Information for Financial Aid Professionals dated 3/05/2020 from the Office of Post-Secondary Education reiterates the following explanation on using professional judgement: Financial aid administrators (FAA) have statutory authority to use professional judgment to make adjustments on a case-by-case basis to the cost of attendance or the data elements used to calculate the EFC to reflect a student's special circumstances; documentation must</p>

**University System of Maryland  
Bowie State University**

**Agency Response Form**

	<p>substantiate the reason for any adjustment. Institutions are reminded that regardless of how broadly an event may affect its student population, professional judgement determinations must be made and documented on a case-by-case basis.</p> <p>All awards above the criteria were made utilizing professional judgement and in accordance with the Department of Education regulations.</p>		
<b>Recommendation 1a</b>	Agree	<b>Estimated Completion Date:</b>	March 2021
<b>Please provide details of corrective action or explain disagreement.</b>	BSU will independently verify the propriety of financial aid awards and manual adjustments to financial aid awards using output reports.		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	Immediately
<b>Please provide details of corrective action or explain disagreement.</b>	BSU will continue to apply professional judgement to adjust student awards on a case-by-case basis for special circumstances. When established award limits are exceeded the reason and justification will be documented.		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	February 2021
<b>Please provide details of corrective action or explain disagreement.</b>	We have modified the system output report so that all non-cash credit transactions are captured. The report will be independently reviewed and approved monthly.		

**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Student Refunds**

**Finding 2**

**BSU did not have sufficient procedures to ensure that valid refund information was transmitted to the vendor responsible for disbursing student refunds, and that the vendor properly issued all refunds and adequately safeguarded sensitive student information.**

**We recommend that BSU**

- a. establish procedures to independently verify that accurate refund information is provided to the vendor;**
- b. ensure, at least on a test basis, that the vendor properly issued the student refunds; and**
- c. comply with State law and USM *IT Security Standards* by periodically requiring, obtaining, and reviewing a control assessment report, such as a SOC 2 Type 2 report, to ensure sensitive student information provided to the vendor is properly safeguarded.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 2a</b>	Agree	<b>Estimated Completion Date:</b>	February 2021
<b>Please provide details of corrective action or explain disagreement.</b>	We have established new procedures to ensure that an independent staff member verifies that accurate refund information is provided to the vendor.		
<b>Recommendation 2b</b>	Agree	<b>Estimated Completion Date:</b>	February 2021
<b>Please provide details of corrective action or explain disagreement.</b>	On a test basis, an independent staff will ensure that the vendor properly issued the student refunds. The verification process will be documented, and the documentation will be maintained.		
<b>Recommendation 2c</b>	Agree	<b>Estimated Completion Date:</b>	Completed
<b>Please provide details of corrective action or explain disagreement.</b>	BSU has a process in place to request and review SOC 2 Type 2 reports from 3rd-party cloud vendors that we share confidential information with. BSU will ensure that this process is always complied with when contracting 3rd-party cloud vendors if confidential information will be shared. The referenced vendor provided us with the required SOC 2 Type 2 report in February 2021.		

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**Agency Response Form**

**Information Systems Security and Control**

**Finding 3**

**BSU did not ensure that access to perform critical functions on its financial management systems was adequately restricted.**

**We recommend that BSU**

- a. use available output reports to monitor user access to critical functions on its financial management systems; and**
- b. terminate any incompatible or unnecessary access, including those noted above.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 3a</b>	<b>Agree</b>	<b>Estimated Completion Date:</b>	<b>May 2021</b>
<b>Please provide details of corrective action or explain disagreement.</b>	We will continue to provide quarterly user access reports to management personnel and ensure the reports are used to monitor and correct user access to critical system functions.		
<b>Recommendation 3b</b>	<b>Agree</b>	<b>Estimated Completion Date:</b>	<b>May 2021</b>
<b>Please provide details of corrective action or explain disagreement.</b>	We will ensure that the necessary actions are taken to terminate any incompatible and unnecessary user access.		

**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Finding 4**

**Sensitive personally identifiable information (PII) was maintained without adequate safeguards and identification.**

**We recommend that BSU**

- a. perform an inventory of all of its systems, identify all sensitive PII, and delete all unnecessary sensitive PII (repeat); and**
- b. implement appropriate information security safeguards for the sensitive PII it maintains (repeat).**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 4a</b>	Agree	<b>Estimated Completion Date:</b>	December 2021
<b>Please provide details of corrective action or explain disagreement.</b>	BSU is currently under contract with our DLP vendor to carry out agentless inventorying and PII scanning of our servers. We also currently have processes in place for the retention of PII on end-user devices. BSU will apply existing processes used for end-user devices to our server environment to address the retention of unnecessary sensitive PII. Agentless scans of servers will be tested before the end of April 2021		
<b>Recommendation 4b</b>	Agree	<b>Estimated Completion Date:</b>	December 2021
<b>Please provide details of corrective action or explain disagreement.</b>	BSU recently purchased a tool that has gone through initial testing and we are in the process of completing a staggered roll-out of this tool to devices containing confidential information.		

**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Finding 5**

**Access to critical BSU internal network devices was not properly restricted and intrusion detection prevention system coverage was not complete or adequate.**

**We recommend that BSU**

- a. configure its firewalls to properly protect all critical network devices, and**
- b. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be best applied to its network and implement this coverage for traffic from all untrusted parties.**

Agency Response			
<b>Analysis</b>			
Please provide additional comments as deemed necessary.			
<b>Recommendation 5a</b>	Agree	<b>Estimated Completion Date:</b>	May 2021
Please provide details of corrective action or explain disagreement.	BSU has an on-going project to address firewall rules. BSU will continue to review and refine our firewall rules. Specifically, we will refine the referenced firewall rules to ensure that least privilege access is implemented to effectively protect the BSU network infrastructure.		
<b>Recommendation 5b</b>	Agree	<b>Estimated Completion Date:</b>	March 2021
Please provide details of corrective action or explain disagreement.	BSU has remediated this finding and configured groups to ensure IDPS is applied to new policies.		

**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Finding 6**

**Remote access to the internal BSU network by employees and authorized contractors used a single authentication measure.**

**We recommend that BSU implement multi-factor authentication for remote connections into the BSU network by employees and authorized contractors.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 6</b>	Agree	<b>Estimated Completion Date:</b>	December 2021
<b>Please provide details of corrective action or explain disagreement.</b>	BSU is currently pushing out MFA for campus resources in a staggered format.		



**University System of Maryland  
Bowie State University**

**Agency Response Form**

**Procurements and Disbursements**

**Finding 7**

**For certain purchases, we found BSU circumvented procurement requirements and lacked comprehensive controls over invoice review, change order approvals, and manual overrides of automated controls.**

**We recommend that BSU**

- a. discontinue splitting purchases and ensure they are made in accordance with established USM and BSU requirements and spending limits,**
- b. verify rates invoiced by vendors to the applicable contract rates,**
- c. prepare required change orders for contract modifications and obtain required approvals for all change orders including those noted above, and**
- d. ensure that manual overrides of system controls are reviewed and approved by supervisory personnel.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 7a</b>	Agree	<b>Estimated Completion Date:</b>	Immediately
<b>Please provide details of corrective action or explain disagreement.</b>	<p>During the time-period of this Audit, Bowie State University Buyers were assigned purchase requisition processing responsibilities based on the “dollar amount” of each purchase requisition. Therefore, Buyers were not aware of situations when one department submitted multiple purchase requisitions for the same project, artificially splitting purchases, and circumventing BSU purchasing requirements and spending limits.</p> <p>Buyers are now assigned requisition processing responsibilities based on “individual departments”. Each Buyer is responsible for processing all purchase requisitions for a specific department. This will prevent artificially splitting of purchases, and circumventing BSU purchasing requirements and spending limits.</p> <p>During the time-period of this Audit, the Bowie State University Corporate Purchasing Card (CPC) Coordinator was monitoring “all CPC Transactions” looking for suspicious activity; to better identify instances</p>		

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Bowie State University**

**Agency Response Form**

	in which purchases are split into smaller transactions circumventing the BSU single transaction spending limit. The CPC Coordinator is now monitoring on a routine basis all "Individual Cardholder's Transactions" as well. This process will increase the probability that the CPC Coordinator will be able to identify split purchases.		
<b>Recommendation 7b</b>	Agree	<b>Estimated Completion Date:</b>	Immediately
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The rates paid to the food service vendor were modified due to changes made to the meal plans. Specifically, the meal plans were changed, and new prices were negotiated to fall in line with the overall rate structure. With a modification in meal plans to offer more to the students (more flex dollars or more meals), the corresponding price charged by the vendor would increase. The action resulted in no overpayment to the vendor. However, the new amount should have been noted as an amendment to the contract along with a listing of the new meal plans.</p> <p>We will ensure that rates invoiced by vendors are verified to the applicable contract rates, including those noted in the audit.</p>		
<b>Recommendation 7c</b>	Agree	<b>Estimated Completion Date:</b>	Immediately
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The BSU Procurement Office will provide written notification to all campus units responsible for managing contracts stating that in accordance with BSU Procurement Policy and Procedures, the Procurement Office is the only campus unit with authority to approve Change Orders. Therefore, Contract Managers cannot and should not unilaterally authorize any changes to contracts without the prior written approval (Change Order) of the BSU Procurement Office.</p>		
<b>Recommendation 7d</b>	Agree	<b>Estimated Completion Date:</b>	August 2021
<b>Please provide details of corrective action or explain disagreement.</b>	<p>Many of the overrides are necessary only because the system payment processing controls are too restrictive. We will review the system controls to ensure that they are appropriately configured. Once the controls are adjusted, we will ensure that all overrides are reviewed and approved by supervisory personnel.</p>		

AUDIT TEAM

**Adam J. Westover, CPA**  
Audit Manager

**R. Brendan Coffey, CPA, CISA**  
**Edwin L. Paul, CPA, CISA**  
Information Systems Audit Managers

**Lauren E. Franchak, CPA**  
Senior Auditor

**Edward O. Kendall, CISA**  
**Matthew D. Walbert, CISA**  
Information Systems Senior Auditors

**Tyshawna J. Ford**  
**Shantasia S. Johnson**  
**Dianne P. Ramirez**  
Staff Auditors

**Dominick R. Abril**  
**Peter W. Chong**  
**Charles O. Price**  
Information Systems Staff Auditors

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

**TOPIC:** Review of Presidents', Chancellor's and Regents' Financial Disclosure Forms

**COMMITTEE:** Audit

**DATE OF BOARD OF REGENTS MEETING:** June 4, 2021

In accordance with Md. Education Code Ann. §12-104(p), the Board of Regents (BOR) Bylaws and the BOR Committee on Audit's Charter, the Office of Internal Audit has completed its review of the calendar year 2020 financial disclosure statements from the University Presidents (Attachment A), the Chancellor (Attachment A) and the Board of Regents (Attachment B). This review did not identify any disclosures that appeared inappropriate.

The following subjects make up the reporting requirements, which are also summarized in attachments A and B. There are no sections I through W.

**Schedule A: Real Property (This section is not required to be completed by the Regents)**

You must disclose:

1. Property owned directly, both commercial and residential.
2. Property leased or rented as a tenant, both commercial and residential.
3. A place of residence without a formal agreement, if you provided any monetary contributions to the household.
4. Property owned jointly or through a partnership, limited liability partnership, or limited company in which you held an interest.

**Schedule B: Securities (This section is not required to be completed by the Regents)**

You must disclose:

1. Shares of stock you own directly or as a part of an Individual Retirement Account (IRA), including a Roth IRA.
2. Bonds issued by corporate entities.
3. Mutual funds and exchange-traded funds (ETFs), ONLY IF they consist primarily of holdings and stock interests in a specific sector regulated by your governmental unit.

**Schedule C: Ownership in Business Entities**

You must disclose ownership in a:

1. Corporation
2. Partnership
3. Limited liability partnership (LLP) (Limited Liability Partnership)
4. Limited liability company (LLC) (Limited Liability Company)
5. Sole proprietorship

### **Schedule D: Gifts**

You must disclose gifts with a value of more than \$20, or multiple gifts from the same donor if the gifts had a cumulative value of \$100 or more. Include gifts from:

1. A regulated lobbyist.
2. An entity engaged in an activity regulated or controlled by the State.
3. An entity that otherwise did business with the State.

### **Schedule E: Debts and Liabilities**

You must disclose:

1. Debts you owe to entities, if they did business by sales, purchases, contract, or lease of at least \$5,000 with your governmental unit during the reporting period.
  - Typical debts to report are installment loans, mortgages, car loans, or other time-fixed liabilities owed to financial institutions such as banks, credit unions, mortgage companies, and similar entities.
  - Other reportable debts could include those owed to other entities, including merchants, contractors, etc.
2. Debts you owe to entities if the entity was regulated by your governmental unit *Example: Department of Labor, Licensing, and Regulation (DLLR) filers must disclose mortgages owed to financial institutions regulated by the Commissioner of Financial Regulation as that Office is within DLLR.*
3. Debts you owe to regulated lobbyists.
4. Debts your spouse owes, ONLY IF you were involved in the transaction that gave rise to the debt.
5. Debts your dependent children owe, ONLY IF you were involved in the transaction that gave rise to the debt.

### **Schedule F: Employment and Offices Held**

You must disclose:

1. Any outside employment where you earned a salary, WHETHER OR NOT your employer did business with the State.
2. Any unsalaried positions you held, such as an officer or director of a for-profit or not-for-profit organization, but ONLY IF the entity did business with the State.

### **Schedule G: Spouse**

You must report each place of salaried employment held by your spouse during the reporting period, WHETHER OR NOT your spouse's employer did business with the State. You must also report unsalaried offices, directorships, or similar positions for your spouse with any entity that did business with the State. You must also report any solely or partially owed business from which your spouse earned income.

Lobbying Disclosure: If your spouse was a regulated lobbyist with the State during the reporting period, you must also identify each client that engaged your spouse for lobbying purposes.

**Schedule H: Dependent Children**

You must report each place of salaried employment held by your dependent children during the reporting period, subject to the conditions below. You must also report unsalaried offices, directorships, or similar positions for your dependent children with any entity that did business with the State. You must also report any solely or partially owned business from which your children earned income.

The statement may not include a minor child's employment or business interests unless the employment or business interests are with:

1. The State.
2. An entity regulated by your governmental unit.
3. An entity that has contracts in excess of \$10,000 with your governmental unit

**Schedule X: Other**

Schedule X is an optional schedule if you have other interests or transactions that have not been disclosed on the previous schedules and which you feel should be disclosed. This is also the chance to add more explanation or clarification to any of your responses on other schedules.

If you served as a member of a State board or commission during the reporting period, please list the name of that board or commission.

(Attachments)

**FISCAL IMPACT:** Uncertain

**CHANCELLOR'S & COMMITTEE ON AUDIT'S RECOMMENDATION:**

BOARD ACTION            none

DATE:

SUBMITTED BY: COMMITTEE ON AUDIT

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**The University System of Maryland**  
**Office of Internal Audit**  
**Summarized Review of State Ethics Commission Financial Disclosures - USM Presidents**  
**Calendar Year 2020**

		Disclosure Sections								
		A	B	C	D	E	F	G	H	X
		Property - Mortgage	Securities	Business Ownership	Gifts	Debts & Liabilities	Employment and Offices Held	Spouse	Dependent Children	Other
Dr. Aminta H. Breaux		Y	Y	N/A	N/A	N/A	Y	N/A	N/A	N/A
Dr. Kim Schatzel		Y	Y	N/A	Y	N/A	Y	Y	N/A	N/A
Dr. Ronald Nowaczyk		Y	N/A	N/A	N/A	N/A	Y	Y	N/A	N/A
Dr. Charles Wight		Y	Y	N/A	N/A	N/A	N/A	Y	N/A	N/A
Hon. Kurt Schmoke		Y	Y	N/A	N/A	Y	N/A	Y	N/A	N/A
Dr. Jay Perman		Y	N/A	N/A	N/A	Y	Y	N/A	N/A	Y
Dr. Freeman Hrabowski		Y	Y	N/A	N/A	Y	Y	Y	N/A	Y
Dr. Heidi Anderson		Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Javier Miyares		Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Peter Goodwin		Y	Y	N/A	N/A	N/A	N/A	Y	N/A	Y
Dr. Bruce Jarrell		Y	Y	N/A	N/A	N/A	Y	N/A	N/A	Y
Dr. Darryll Pines		Y	Y	Y	Y	Y	Y	Y	N/A	N/A
Dr. Anthony Jenkins		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gregory W Fowler		Y	N/A	N/A	N/A	Y	Y	N/A	N/A	Y

Y = Included a Disclosure(s)  
N/A = No Disclosure was Made

Auditor's Note - There were no inappropriate conflicts of interests or inappropriate disclosures identified in any of the forms reviewed.  
Auditor's Note 2 - There are no sections I - W in the Financial Disclosure Form

The University System of Maryland  
Office of Internal Audit  
Summarized Review of State Ethics Commission Financial Disclosures - USM Presidents  
Calendar Year 2020

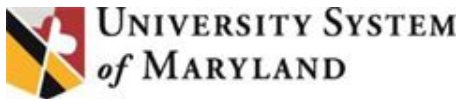
## Attachment B

		Disclosure Sections								
		A	B	C	D	E	F	G	H	X
		Property - Mortgage	Securities	Business Ownership	Gifts	Debts & Liabilities	Employment and Offices Held	Spouse	Dependent Children	Other
D'Ana E. Johnson		N/A	N/A	N/A	N/A	N/A	N/A	Y	N/A	N/A
Linda R. Gooden		N/A	Y	N/A	N/A	N/A	Y	N/A	N/A	N/A
Gary Lee Attman		Y	Y	N/A	N/A	Y	Y	Y	N/A	N/A
Andrew J. Bartenfelder		Y	Y	Y	N/A	Y	Y	N/A	N/A	Y
Ellen Rafferty Fish		N/A	N/A	N/A	N/A	N/A	Y	Y	N/A	N/A
Goeffrey J. Gonella		Y	Y	Y	N/A	N/A	Y	Y	N/A	Y
Barry P. Gosset		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Michelle Gourdine		N/A	N/A	N/A	N/A	N/A	Y	Y	N/A	N/A
James N. Holzapfel		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Isiah Leggett		Y	Y	Y	N/A	N/A	Y	Y	N/A	N/A
Sam Molhotra		N/A	N/A	N/A	N/A	N/A	Y	Y	N/A	N/A
Meredith Mears		N/A	N/A	N/A	N/A	N/A	Y	Y	N/A	N/A
Robert R. Neall		Y	N	Y	N/A	Y	Y	Y	N/A	N/A
Louis M. Pope		N/A	N/A	Y	N/A	N/A	Y	N/A	N/A	N/A
Robert D. Rauch		Y	Y	Y	N/A	Y	Y	Y	N/A	N/A
Kelly M. Schulz		Y	Y	N/A	N/A	Y	N/A	Y	N/A	N/A
Aaliyah Edwards		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nathaniel Sansom		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Robert Lee Wallace		N/A	N/A	Y	N/A	N/A	Y	Y	N/A	N/A
Gary Thomas Gill		N/A	N/A	N/A	N/A	N/A	Y	N/A	N/A	N/A
William T. Wood		N/A	N/A	N/A	N/A	N/A	Y	N/A	N/A	N/A

Y = Included a Disclosure(s)  
N/A = No Disclosure was Made

Auditor's Note - There were no inappropriate conflicts of interests or inappropriate disclosures identified in any of the forms reviewed.  
Auditor's Note 2 - There are no sections I - W in the Financial Disclosure Form





**BOARD OF REGENTS**

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

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

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** June 4, 2021

**SUMMARY:**

See Attachment: Listing of Open Action Items From 2019 – 2020 Audit Committee Meetings.

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:** none

COMMITTEE ACTION: none

DATE:

BOARD ACTION: none

DATE:

SUBMITTED BY: David Mosca

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USM Board of Regents  
 Action Items From 2019 - 2020 Audit Committee Meetings  
 4-Jun-21

Action ItemStatus**From March 2021 Audit Committee Meeting**

1.	Submit and recommend modifications to the BOR Policy on Foundations for the Committee's consideration and recommendation to the full Board.	Included in the June 2021 Audit Committee Meeting.
2.	Recommend that Foundation Boards, executive directors and Presidents annually affirm that they have read and understood the BOR's Foundation Policy	Included in modification to BOR Policy on Affiliated Foundations.
3.	Regarding the annual Foundation Compliance Reporting, indicate which entities are necessary for the completion of USM's annual financial audit.	Will include in FY 2022 reporting.
4.	The BOR Enterprise Risk Management (ERM) Work Group will provide an update on USM's implementation of ERM programs.	Will include in October 2021 Audit Committee Meeting.
5.	Update the Audit Committee on the A133 audit and MHEC reporting statistics.	Included in the June 2021 Audit Committee Meeting.

**From December 2020 Audit Committee Meeting**

1.	Update Audit Committee of SU forgiving debt owed by Ward Museum Foundation.	Concluded in April 2021 Finance Committee Meeting.
2.	Continue discussion of the State's ransomware policy.	Included in March 2021 or June 2021 Audit Committee Meeting Closed Session.

**From October 2020 Audit Committee Meeting**

1.	Develop NIST standards compliance scorecards.	In process.
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**From October 2019 Audit Committee Meeting**

1.	Include ongoing discussion of Foundation 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. Postponed in June 2020 meeting. Update in October 2020 meeting included commitment to present proposed policies at the March 2021 Audit Committee meeting. Ongoing.
2.	Universities shall submit their ERM plan of implementation to the Audit Committee and annually 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.

Note: Action items concluded prior to the June 2021 BOR Audit Committee meetings are not included in this schedule.

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

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**TOPIC:** Convening Closed Session

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** June 4, 2021

**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.

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COMMITTEE ACTION:

DATE:

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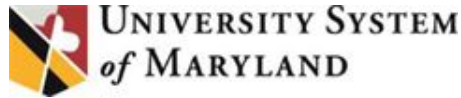
BOARD ACTION:

DATE: 6-4-2021

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





STATEMENT REGARDING CLOSING A MEETING  
OF THE USM BOARD OF REGENTS

Date: June 4, 2021  
Time: Approximately 11:00 AM  
Location: Zoom

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.

## FORM OF STATEMENT FOR CLOSING A MEETING

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- (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.
- (15) ☒ To discuss cybersecurity, if the public body determines that public discussion would constitute a risk to: (i) security assessments or deployments relating to information resources technology; (ii) network security information, including information that is: 1. Related to passwords, personal identification numbers, access codes, encryption, or other components of the security system of a governmental entity; 2. Collected, assembled, or maintained by or for a governmental entity to prevent, detect, or investigate criminal activity; or 3. Related to an assessment, made by or for a governmental entity or maintained by a governmental entity, of the vulnerability of a network to criminal activity; or (iii) deployments or implementation of security personnel, critical infrastructure, or security devices.

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

## TOPICS TO BE DISCUSSED:

IT security matters that pose vulnerabilities, Legislative audit matters that are ongoing and, therefore, confidential; discussion of investigative matters which may lead to criminal prosecution or legal action; calendar year 2021 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 USM's cybersecurity that would constitute a risk vulnerability of networks, critical IT infrastructure and information resources. (§3-305(b)(15));
- 2) 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));
- 3) 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));
- 4) To carry out an administrative function: discussion of calendar year 2021 audit plan of activity by the USM Office of Internal Audit (§ 3-103(a)(1)(i); and
- 5) 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)).