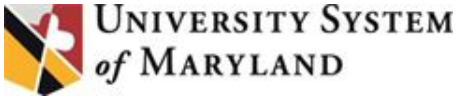




UNIVERSITY SYSTEM OF MARYLAND
BOARD OF REGENTS - AUDIT COMMITTEE
OPEN MEETING AGENDA
October 21, 2022

1. Information & Discussion – FY 2022 Audit Committee Work Plan Mr. Mosca
 2. Information & Discussion – Review of BOR Charge Policies Mr. Mosca
 - Committee on Audit Charter
 - Committee on Audit Bylaws
 3. Action, Information & Discussion - Proposed Modifications to BOR Policy on Affiliated Foundations Ms. Skolnik
Ms. Herbst
 4. Information & Discussion – FYE 2022 - System Wide Draft Financials, Balance Sheet & Statement of Changes (affiliated foundations are not included) Ms. Denson
 5. Information & Discussion - USM’s Year End 6/30/2021 A133 Single Audit Report Ms. Bowman
 6. Information and Discussion – Update on USM’s Implementation of Enterprise Risk Management Programs Mr. Pope
Ms. Herbst
Mr. Eismeier
 7. Information & Discussion – Completed Office of Legislative Audit Activity Mr. Mosca
 8. Information & Discussion – Follow up of Action Items from Prior Meetings Mr. Mosca
 9. Approval - Convene to Closed Session Ms. Fish
-



BOARD OF REGENTS

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

TOPIC: Information & Discussion – FY 2023 Audit Committee Work Plan

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

Attached is a schedule of the Audit Committee’s FY 2023 work plan. The objectives of the work plan are designed to assist the Audit Committee in fulfilling the requirements of its Charter and Bylaws. The schedule also identifies which objectives will be addressed at each of the four Audit Committee meetings scheduled throughout the year. For FY2023, an annual analysis of the Office of Legislative Audit findings has been added (item #31 in the attached).

As new risks emerge, additions or modifications to the work plan will be made as needed.

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 2023**

Objective		When Performed					Completed
		Audit Committee Meetings					
		Oct	Dec	Mar	June	As Needed	
Authority							
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	
2	Resolve any disagreements between the independent auditor and management.					x	
Composition of Committee Members							
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					
Meetings							
4	Meet at least 4 times per year.	x	x	x	x		
Responsibilities							
Internal Audit							
5	Review with the Director of Internal Audit progress of completing the annual plan of activity.	x	x	x	x		
6	Review and approve internal audit's annual plan of activity.		x				
7	Ensure that there are no unjustified restrictions or limitations on the internal audit department.	x	x	x	x		
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		
Independent Auditor							
10	Review the external auditors' proposed audit scope and approach.				x		
11	Review significant accounting and reporting issues and understand their impact on the financial statements.		x				
12	Review with management and the external auditors the results of the audit, including any difficulties encountered.		x				
13	Discuss the annual audited financial statements with management and the external auditors.		x				
14	Review and discuss the results of enrolment testing agreed upon procedures.				x		
15	Review and discuss the results of A-133 Single Audit.	x					
16	Discuss the scope of external auditors' review of internal control over financial reporting.		x				
17	Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.					x	

**USM BOR Audit Committee
Annual Work Plan
FY 2023**

Objective	When Performed Audit Committee Meetings					Completed	
	Oct	Dec	Mar	June	As Needed		
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		
Financial Reporting							
19	Review FYE Consolidated Financial Statements	x	x				
20	Review FYE Financial Dashboard Indicators		x				
21	Review 12/31/22 six month Financial Statements			x			
Other							
22	Regularly report to the Board of Regents about Committee activities.	x	x	x	x		
23	Confirm annually that all responsibilities outlined in the committee's charter have been carried out.				x		
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	
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		
26	Review policies pertaining to Audit Committee	x	x	x	x		
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	
28	Oversee the Board's Enterprise Risk and Crisis Management Work Group	x	x	x	x	x	
29	Receive updates of Cybersecurity environment and emerging risks.	x	x	x	x	x	
30	Review Presidents, Chancellor and Board of Regents annual financial disclosure forms. This is to comply with Md. Education Code Ann. §12-104(p).				x		
31	Review analysis of Office of Legislative Audit Findings	x				x	



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR DISCUSSION

TOPIC: Review of Board of Regent Policies

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

SUMMARY:

Attached are BOR Policies/Bylaws that pertain to the Board of Regents (BOR) Committee on Audit's charge. These are:

1. Committee on Audit Charter (Attachment A). Last revised November 13, 2020. No modifications are currently recommended.
2. The Board of Regents Bylaws Section 3. Last revised November 22, 2019. Committee on Audit (Attachment B). No modifications are currently recommended.

Procedures for Review of USM BOR Bylaws and Policy

BYLAWS:

1. The Committee on Organization and Compensation should review BOR bylaws on a 4-year cycle.
2. **Each BOR committee should conduct an annual review of their committee charge at the beginning of each fiscal year.**

BOR POLICIES:

1. All BOR policies should be reviewed on a 4-year cycle.
2. Each policy should be assigned to a BOR committee(s); assigned policies should be relevant to the committee's mission.
3. USM staff will assist BOR committees in developing a detailed 4-year policy review schedule that considers policies that are high priority and identifies policies that are primarily technical or administrative in nature or dictated by external requirements. (Attachment C).
4. Policy reviews should include an update of policies, as needed, as well as the elimination of unneeded policies and/or merger of policies.
5. Policies may be reviewed out of cycle if problems arise with the policy implementation or to implement best practices.
6. Each BOR committee should report annually at the end of each fiscal year to the BOR on the policies reviewed during the past 12 months.

attachments

FISCAL IMPACT: none

CHANCELLOR'S RECOMMENDATION:

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: David Mosca

Attachment A

University System of Maryland
Board of Regents Audit Committee
Audit Committee Charter
Established June 2006 and Last Revised – November 13, 2020

PURPOSE

To assist the Board of Regents in fulfilling its responsibilities for overseeing the adequacy of and compliance with the internal controls, BOR Policies, risk management practices, investigative activity, governance processes, and to oversee the sufficiency and appropriateness of the financial reporting of the University System of Maryland.

AUTHORITY

The Audit Committee (Committee) is granted the authority to investigate any activity of the USM, and all employees are directed to cooperate as requested by the Committee Chair or Committee of the Whole. The Committee, with the approval of the Board, is empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibility. It is empowered to:

- Appoint, compensate and oversee the work of the Director of Internal Audit and the public accounting firm employed by the organization to conduct the annual audit. This firm and the Director of Internal Audit will report directly to the Audit Committee.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Retain independent accountants or other qualified professionals to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees--all of whom are directed to cooperate with the committee's requests--or external parties.
- Meet with USM officers, external auditors or outside counsel, as necessary.
- The committee may delegate authority to subcommittees, providing that decisions are presented to the full Committee at its next scheduled meeting.
- Review and approve the yearly internal audit plan and oversee the effectiveness of the internal audit function.

COMPOSITION

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 and have financial literacy as a whole. The Chairman of the Board of Regents shall appoint the members of the Audit Committee, and select the Audit Committee's Chair, to serve one year terms. A majority of members of the committee shall constitute a quorum.

MEETINGS

The Audit Committee is to meet at least four times each year, and as many more times as it deems necessary. All Committee members are expected to attend each meeting. As necessary or desirable, the Committee Chair may request that members of management and the representatives of the independent auditor or other advisors be present at meetings of the Committee.

RESPONSIBILITIES:

1. The Committee on Audit shall render advice and assistance to the Board of Regents in fulfilling its fiduciary responsibilities for overseeing the adequacy of and compliance with the internal controls, BOR Policies, risk management practices, investigative activity, governance processes, and to oversee the sufficiency and appropriateness of the financial reporting of the University System of Maryland.
2. This Committee shall review independent audit proposals including the scope of examination, services to be provided, reports to be rendered and fees to be charged, recommend to the Board the selection and scope of work of the independent external auditor of the University System of Maryland, review findings received there from and provide the Board with appropriate reports.
3. This Committee shall review legislative audits of the institutions of the University System and institutional responses thereto, and provide the Board with appropriate reports.
4. This Committee shall review and recommend to the Board the scope of the internal audit function. The Committee shall review the Charter of the Office of Internal Audit, its annual plan of work, its reports and administrative actions taken regarding its recommendations, and its annual report of significant audit items, and shall provide the Board with appropriate reports on the activities of that office. The Committee shall review the performance of the Director of Internal Audit and monitor the effectiveness of the internal audit function.
5. In fulfillment of these responsibilities this Committee shall foster direct communications with the external auditors on an annual basis or as otherwise deemed appropriate, and shall assure direct access from the Office of the Internal Audit, including meeting privately, at least on an annual basis, with the Director of Internal Audit.
6. This Committee shall 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.

7. This Committee shall assist the Board in fulfilling its responsibility to comply with Md. Education Code Ann. Section 12-104(p) review of annual financial disclosure statements—The Board of Regents shall review the annual financial disclosure statements filed by the Chancellor and the presidents of each constituent institution in accordance with Section 5-607 of the General Provisions Article.
8. The Committee shall review the annual financial disclosure statements filed by the members of the Board of Regents in accordance with Section 5-607 of the General Provisions Article.
9. The Committee shall render advice and assistance to the Board of Regents in fulfilling its responsibilities for overseeing the sufficiency and adequacy of Enterprise Risk Management of the University System of Maryland as defined in BOR Policy - VIII-20.00 Policy on Enterprise Risk Management.

Attachment B

Board of Regents Bylaws

Article X Section 3. Committee on Audit. (Last Revised November 22, 2019)

A. The Committee on Audit shall have the following duties:

1. The Committee on Audit shall render advice and assistance to the Board of Regents in fulfilling its fiduciary responsibilities for overseeing adequacy of and compliance with the internal controls of the University System of Maryland and the sufficiency and appropriateness of its financial reporting.
2. This Committee shall review independent audit proposals including the scope of examination, services to be provided, reports to be rendered and fees to be charged, recommend to the Board the selection and scope of work of the independent external auditor of the University System of Maryland, review findings received there from and provide the Board with appropriate reports.
3. This Committee shall review legislative audits of the institutions of the University System and institutional responses thereto, and provide the Board with appropriate reports.
4. This Committee shall review and recommend to the Board the scope of the internal audit function. The Committee shall review the Charter of the Office of Internal Audit, its annual plan of work, its reports and administrative actions taken regarding its recommendations, and its annual report of significant audit items, and shall provide the Board with appropriate reports on the activities of that office.
5. In fulfillment of these responsibilities this Committee shall foster direct communications with the external auditors on an annual basis or as otherwise deemed appropriate, and shall assure direct access from the Office of the Internal Auditor, including meeting privately, at least on an annual basis, with the Director of Internal Audit.
6. This Committee shall 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.
7. This Committee shall assist the Board in fulfilling its responsibility to comply with Md. Education Code Ann. Section 12-1-4(p) review of annual financial disclosure statements— The Board of Regents shall review the annual financial disclosure statements filed by the Chancellor and the presidents of each constituent institution in accordance with Section 5-607 of the General Provisions Article.
8. The Committee shall review the annual financial disclosure statements filed by the members of the Board of Regents in accordance with Section 5-607 of the General Provisions Article.
9. The Committee shall render advice and assistance to the Board of Regents in fulfilling its responsibilities for overseeing the sufficiency and adequacy of Enterprise Risk Management of the University System of Maryland as defined in BOR Policy - VIII-20.00 Policy on Enterprise Risk Management.

Attachment C

USM BOR Policy Review Schedule
 Committee on Audit
 October 21, 2022

Policy Number	Policy Name	Last Updated	Last Reviewed	Next Committee Review Date
I-7.00	Policy on Public Ethics of Members of the Board of Regents	Aug-99	Apr-17	FY 2023
VIII-7.10	Policy on Reporting Suspected or Known Fiscal Irregularities	Jun-17	Jun-17	FY 2023
VIII-7.11	Policy on the Communication of Suspected Fraud, Unethical and Illegal Business Activity	Apr-10	Apr-17	FY 2023
VIII-7.20	Policy on External Audits	Jun-18	Jun-18	FY 2023
VIII-7.30	Policy on Responses to Legislative Audits	Jun-18	Jun-18	FY 2023
VIII-7.50	USM Office of Internal Audit Charter	Apr-22	Mar-22	FY 2026
VIII-20.00	Policy on Enterprise Risk Management	Oct-19	Oct-19	FY 2024
Charter	Committee On Audit	Oct-21	Oct-22	FY 2023
Bylaws	Committee On Audit	Oct-19	Oct-22	FY 2023



TOPIC: Proposed Amendment to BOR IX-2.00 – Policy on Affiliated Foundations

COMMITTEE: Audit

DATE OF COMMITTEE MEETING: October 21, 2022

SUMMARY: Amendments substantially revising the Board of Regents policy on affiliated foundations and amending the name to “Policy on Affiliated Philanthropic Support Foundations” are presented for approval.

One primary purpose in amending the policy is to restrict its applicability only to affiliated foundations engaged in fundraising and fundraising support activities. Certain affiliated business entities engaged in activities beyond the traditional fundraising activities conducted by affiliated foundations will no longer be governed by the policy; instead, they will be subject to a revised BOR policy on business entities.

Additional substantive amendments to the policy will accomplish the following:

- Require each affiliated foundation to enter into an agreement with the Board of Regents formalizing the Board’s recognition of the affiliation status. A draft model agreement is attached as Appendix A.
- Require that each affiliated foundation’s organizational documents include a provision assuring that any assets remaining upon dissolution of the foundation will be transferred to another USM affiliated fundraising organization.
- Require that any revision to organizational documents or changes to the foundation’s exempt purpose be shared with the Chancellor within thirty days.
- Expand provisions associated with revocation of the affiliation status, including rescinding the institution’s ability to extend use of facilities and staff resources.
- Deleting provisions permitting assignment of university staff to roles associated with the foundation.
- Require the institution to develop a conflict of interest management plan for each institution or USM Office employee who performs operational duties for a foundation to ensure that all parties interacting with the foundation understand the role and capacity of the institution or USM Office employee.
- Limit the acceptable scope of foundations to activities that are outside the normal scope of operations of the USM institution.
- Require that the foundation’s acquisition of personal or real property intended to be transferred eventually to the institution be conducted in compliance with any requirements of the Maryland Public Ethics Law that would govern the institution’s acquisition of such personal or real property.
- Delete the provisions enabling foundations to accept grants and contracts on behalf of the institution.
- Amend the provision requiring foundations to employ an internal auditor to a recommended “best practice.”
- Require the foundation annually to provide the Chancellor with a copy of the IRS Form 990.
- Require the institution’s president and the foundation’s board chair and executive director to provide an affirmation that each have reviewed the policy and have complied with all policy requirements.

A red-lined and clean copy of the policy is attached. This proposed policy amendment will be presented to the Advancement Committee on October 25, 2022; it has been reviewed and approved by the Office of Attorney General for legal sufficiency.

ALTERNATIVE(S): The Committee could decline to endorse the policy amendments as presented or provide alternative guidance.

FISCAL IMPACT: None.

CHANCELLOR'S RECOMMENDATION: That the Audit Committee endorse the proposed policy amendments.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: David Mosca 443.367.0035

IX - 2.00 - POLICY ON AFFILIATED PHILANTHROPIC SUPPORT FOUNDATIONS

(Approved by the Board of Regents on March 1, 1989; amended on November 29, 1990; ~~amended on October 1, 1999~~ and amended on ~~October 1, 1999~~ _____, 2022)

I. Purpose and Scope

The Board of Regents of the University System of Maryland (USM) recognizes the importance of ~~voluntary philanthropy and encourages~~ private support ~~and encourages grants and contributions~~ (1) for the benefit of the ~~University System, USM and~~ its constituent institutions and components (~~hereinafter herein~~ collectively referred to as "~~the System~~") or "~~USM~~") and (2) for ~~any or all of the educational~~ education and support activities ~~that are operated by the System. Accordingly, USM.~~ The Board also recognizes the important role of affiliated philanthropic support foundations (foundation) in supporting philanthropic activities across the USM. This policy governs the formation and operation of affiliated philanthropic support foundations and the respective rights and responsibilities of 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 foundations. The Board of Regents may recognize as an affiliated foundation an organization that is, USM institutions, and foundations.~~

This policy applies to existing or prospective Section 501(c)(3) organizations that are 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 with one or more of the following purposes:

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

The USM, its institutions, and such other components of the USM as the Board of Regents may determine may have an affiliation with such an entity.

A subsidiary legal entity formed or owned by an affiliated foundation may use the name, personnel or facilities of the ~~System (including any of its institutions or components)~~ USM only if it is separately recognized by the Board of Regents pursuant to this policy. ~~Each organization recognized as or a Board of Regents policy applicable to non-fundraising affiliates.~~

Formatted: Header

Style Definition: Revision: Font: 12 pt

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Footer

Formatted: Header

Entities with the primary purpose of economic development or research activities are governed by Board of Regents Policy VIII-13.00 Policy on Business Entities.

II. Responsible USM Official

A Responsible Official is accountable for the relationship between the foundation and the institution or component with which it is affiliated. The Responsible Official shall monitor compliance with USM policies and agreements between the foundation, the USM, and the institution or component.

- A. The chancellor is the Responsible Official for the University System of Maryland Foundation and any other System-wide or multi-institution philanthropic foundation.
- B. The institution president is the Responsible Official for a foundation affiliated with the institution, including any components of that institution.

The Responsible Official shall be evaluated annually to determine whether they have ensured that the foundation has complied with Board of Regents policies and reasonable prudent business practices.

III. Establishment and Recognition of a New Affiliated Philanthropic Support Foundation

Launching a new foundation requires (1) establishment of the legal entity, (2) completion of an affiliated foundation shall comply with the policies listed below. * Pursuant to its statutory responsibilities, the Board of Regents may revoke its operating agreement between the foundation and the institution and (3) recognition of a foundation that fails to comply with these policies, in which case the foundation shall no longer be entitled to by the Board of Regents as an affiliated philanthropic support foundation. Although institution presidents may establish a foundation without Board of Regents approval, Board recognition is required in order for the foundation to use the institution's name or facilities of the System resources. It is recommended that these three steps be addressed concurrently or in close succession.

Establishing a Foundation

A. Establishment

~~In accordance with Senate Bill 2006 Laws of Maryland, 2009, the President of a USM institution shall comply with § 15-104 of the Education Article of the Code of Maryland. The president of a USM institution may establish campus-based foundations without the approval of the Board of Regents. All, provided that such entities must operate subject to this USM Board of Regents' policy and any others adopted by the Board of Regents with provisions explicitly applicable to affiliated philanthropic support 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.~~

~~3. A President shall give the Chancellor notice in writing of the foundation and notice of the notice of the foundation in conjunction with the signing of an operating agreement and a request for Board of Regents recognition. Such notice shall include the: The (proposed) name of the foundation, its mission statement, its initial Board members, and copies of its Articles of Incorporation and its Bylaws. A copy of the foundation shall be provided to the Board of Regents and the Office of the Attorney General.~~

~~4. Each~~

Formatted: Footer

Formatted: Header

B. Operating Agreement

~~The institution and the foundation shall enter into an annual written operating agreement with, to be signed by the System or with the component or institution with which Responsible Official and the foundation is affiliated, officer authorized to sign such agreements. The written agreement 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. 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.~~

~~6. Ensuring 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.~~

C. Board of Regents Recognition of Affiliation Status

The Responsible Official and the foundation shall obtain Board of Regents recognition of status as an affiliated foundation before the foundation can use the institution's name or any other name, emblem, or mark to which the institution has any legal right. This request, to be submitted by the Responsible Official to the chancellor, shall include the following:

1. Notification of establishment (see item III.A)
2. Operating agreement between the institution and the foundation (see item III.B)
3. Draft affiliation agreement between the foundation and the Board of Regents to be signed after final approval of affiliation status by the full Board of Regents (see Appendix A for a sample agreement).
4. Business plan narrative for the new entity, 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 chancellor shall review this request and provide any feedback to the Responsible Official within 45 days of submission. The chancellor may reject the request without Board of Regents consideration if feedback is not addressed. Following chancellor approval, requests shall be considered first by the Board of Regents Committee on Advancement and then by the full Board of Regents.

Any dispute about the propriety or right to a foundation's name related to the institution's name or intellectual property shall be resolved by the Board of Regents.

IV. Recognition of Existing Affiliated Foundations

For those philanthropic support foundations identified in Board of Regents Policy IX-2.01: Recognition of Affiliated Foundations that are in compliance with reporting requirements as of the date of adoption of this policy, the Board of Regents shall verify their affiliated status upon receipt of the:

Formatted: Footer

Formatted: Header

- A. Operating agreement between the institution and the foundation (see item III.B);
- B. Draft affiliation agreement between the affiliated fundraising foundation and the Board of Regents (see Appendix A for a sample agreement; to be signed after approval of affiliation status by full Board of Regents);
- C. Articles of incorporation and corporate bylaws, the IRS Form 1023 and any IRS determination letters for the affiliated philanthropic support foundation.

These documents shall be provided to the Board by December 31, 2023. Any dispute about the propriety or right to a foundation's name related to the institution's name or intellectual property shall be resolved by the Board of Regents.

V. Changes and Revocation of Affiliated Status

- A. Changes in foundation organizational documents, such as Articles of Incorporation, Bylaws or similar documents and agreements, or changes to the exempt purpose approved by the Internal Revenue Service, are to be communicated to the chancellor within 30 days of adoption and/or communication to the Internal Revenue Service.
- B. When changes to organizational documents or exempt purpose as approved by the Internal Revenue Service change the activities such that the organization becomes something other than a fundraising foundation, the organization will no longer have recognized status as an affiliated foundation and will then be subject to policy appropriate for the form of relationship to the USM or its institutions.
- C. Failure to obtain a determination in a timely manner from the Internal Revenue Service that the foundation has been recognized as a publicly supported charitable organization exempt from tax under Section 501(c)(3) of the Internal Revenue Code, or a foundation's loss of IRS qualification as a publicly supported charitable organization exempt from tax under Section 501(c)(3) will result in the Board of Regents revocation of a foundation as an affiliated foundation within the scope of this policy.
- D. The Board of Regents may revoke its recognition of an affiliated foundation that fails to comply with this policy or the terms of the affiliation and/or operating agreements. In such case, the foundation shall no longer be entitled to use the name, staff, resources or facilities of the USM. The Board of Regents may seek guidance of the Office of the Attorney General in seeking any appropriate legal remedies.

VI. Structure and Independence

- ~~7.~~
- A. Each affiliated fundraising foundation shall operate as a Maryland ~~not for profit~~ charitable non-stock corporation that is legally separate from the ~~System~~ USM 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 or components.
- B. Articles of Incorporation shall include provisions that in the event of termination, dissolution, or loss of affiliated status, all remaining assets, direct or indirect, of the entity

Formatted: Footer

Formatted: Header

shall be transferred to a Board of Regents recognized affiliated philanthropic support entity

~~C. The amount of funds that the Board of Regents may allocate to the foundation shall be determined by the Board of Regents.~~

8.

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

9.

With the approval of the Responsible Official, an officer or employee of the SystemUSM may also serve as an officer or employee of an affiliated philanthropic support foundation. An employee or officer of a foundation who is also an employee or officer of the SystemUSM may not represent both parties in any negotiation between the foundation and the System. must develop and support staff formalize conflict of interest management arrangements for each USM employee and officer of the foundation who is also an employee or officer of the SystemUSM may not represent both parties in any negotiation between the foundation and the System. exemptions to the requirements of the Public Ethics Law are to be documented in a manner consistent with that required under Board of Regents Policy III-1.10 Policy on Conflicts of Interest in Research and Development.

~~If Officers and staff members of a foundation requires a 100% level of effort from an individual, that individual shall be a paid employee of the foundation and not of the institution. If an institution employee currently provides that level of effort and would lose benefits if transferred to the foundation, then the foundation shall hire and pay for that support when the current employee no longer provides that support.~~

~~G. 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.~~

VII. Scope of Activities

~~11. 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.~~

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

12.

B. Other than fundraising, fundraising support, gift management and investment management, after December 31, 2023 foundations may not engage in activities on behalf of the USM or institutions or components that the USM or its institutions or components could perform, without specific written approval by the Board of Regents.

C. Foundations may acquire personal or real property assets for the eventual transfer to, or purchase by, the USM or its institutions; however, foundations may not make such

Formatted: Footer

Formatted: Header

acquisitions in a manner inconsistent with public ethics laws that would apply if the USM or its institutions were directly acquiring said property.

D. All activities of ~~affiliated~~ foundations shall be in conformance with Section 501-(c)-(3) of the United States Internal Revenue Code. ~~In particular, "No~~ This includes but is not limited to the restriction that "[n]o substantial part of the activities (of ~~an affiliated~~ 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~~ 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 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.

VIII. Financial Activities and Business Operations

A. The directors of each foundation board have the fiduciary responsibility to oversee the adequacy of the foundation's internal controls, as well as the sufficiency and appropriateness of its financial reporting. In fulfillment of these responsibilities, directors shall foster direct and private communications with the foundation's independent accountants on a regular basis and shall assure direct access to its internal audit function for independent accountants.

B. The foundation shall ensure that it clearly presents itself as an independent entity separate and distinct from the USM and its constituent institutions and components. All correspondence, solicitations, activities, and advertisements on behalf of a foundation shall use the name of ~~the~~ that foundation and shall be clearly 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~~USM. The letterhead of a foundation shall carry the complete legal name of the foundation or a registered Doing Business Act (DBA) name (e.g., State of Maryland Foundation, USM Foundation, USM Foundation, USM Foundation, USG Foundation, etc.).

16.

C. Trademarks, service marks, logos, seals, or the name of the USM or any of its constituent institutions or components may be used by the foundation only with the prior written approval of the Responsible Official.

D. In all negotiations and transactions with third parties, for ~~fundraising, enterprise activities~~ fundraising and all other activities, 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~~USM. Obligations of ~~affiliated~~ foundations shall not be obligations of the ~~System~~USM or the State of Maryland.

17.

Formatted: Footer

Formatted: Header

E. Foundation funds shall be kept separate from SystemUSM funds. System trustUSM funds shall not be transferred to foundations for any purpose except, when appropriate, by action of the Board of Regents after approval review by the Office of the Attorney General's Office, General. Funds or gifts payable to the Board of Regents, the University System of MarylandUSM, one of its constituent institutions, or to any other system-USM component shall not be deposited with a foundation.

18.

F. Acceptance of gifts by the SystemUSM or a foundation is subject to applicable University System of MarylandUSM policies on gifts. Fund raising, including Board of Regents Policy IX-5.00 Policy on Ethical Practices in Charitable Giving. Fundraising campaigns and solicitations of major gifts for the benefit of the System by fund-raisingUSM shall be approved in advance by appropriate System officials and should be compatible with the plans and needs of the SystemUSM. 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 SystemUSM, 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.

G. Financial activities of an affiliated fundraising foundation shall be administered in accordance with prudent business practices. Each foundation's 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. ~~Should an affiliated foundation's~~

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

21.

I. All USM affiliated foundations shall 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, Inc. (UMF) (or its successor(s)) to cover certain costs incurred by UMF the University System of Maryland Foundation on behalf of the Board of Regents and the Chancellor.

IX. Audits, Inspection and Reports

~~22.~~

A. Audits and Inspection

1. Each 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

Formatted: Footer

Formatted: Header

the Responsible Official. Each foundation should conduct its fiscal operations to conform to the ~~University System's~~ USM's fiscal year. Each 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. 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~~ USM or its institutions.

~~23. To ensure compliance with Paragraphs 11 and 12 of this policy, each~~

~~2. Each year each affiliated foundation shall provide a separate audit, to be performed by either the foundation's independent auditor, or the USM Office of Internal Audit, of all unrestricted funds available to the Chancellor and/or the President(s).~~

~~24. 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.~~

~~3. Annually, the Responsible Official, directors and chief officers of each 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.~~

~~26.~~

~~4. A foundation shall permit the Responsible Official or his or her~~their~~ 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. At the request of the Chancellor or the Chairperson of the Board of Regents, the foundation shall permit the internal auditors of the Board of Regents access to all books and records of the foundation.~~

B. Reports

~~1. Within 120 days after the close of the System's~~ USM's fiscal year, each foundation shall provide the Responsible Official with copies of the following~~-, which are to be transmitted to the Office of the Chancellor along with a set of assertions as to affiliated fundraising foundation compliance with Board of Regents policy requirements:~~

- ~~•a. annual financial audit report;~~
- ~~•b. annual audit report of transfers made to the system~~ USM, institution and components;

Formatted: Footer

Formatted: Header

- ~~•c.~~ annual audit report of unrestricted funds available to the Chancellor and/or the President(s); ~~;~~
 - ~~•d.~~ a list of foundation officers and directors;
 - ~~•e.~~ a list of ~~System~~USM employees who received compensation or other payments from the foundation during the fiscal year and the amount of that compensation or payment; ~~;~~ detailed into compensation for services, and other payments;
 - ~~f.~~ IRS Form 990 and any related State or other regulatory compliance reports (when filed or available);
 - ~~•g.~~ a list of all state and federal contracts and grants managed by the foundation; and
 - ~~•~~ ~~an annual report of the foundation's major activities.~~
- ~~2.~~ Should the foundation not submit the required documents and reports within the required time period, the Chancellor and the ~~responsible official~~Responsible Official (if other than the Chancellor) 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.
- ~~3.~~ The Chancellor may request from the Responsible Official information on ~~affiliated~~ 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 foundation shall permit the internal auditors of the Board of Regents access to all books and records of the foundation.~~
- ~~5.~~ ~~32.~~ The Board of Regents shall issue an annual report to the Legislative Joint Audit and Evaluation Committee regarding the operations of the affiliated foundations. The report shall be available no later than 180 days after the end of the ~~System's~~USM's fiscal year.

Formatted: Footer

IX - 2.00 - POLICY ON AFFILIATED PHILANTHROPIC SUPPORT FOUNDATIONS

(Approved by the Board of Regents on March 1, 1989; amended on November 29, 1990; amended on October 1, 1999 and amended on _____, 2022)

I. Purpose and Scope

The Board of Regents of the University System of Maryland (USM) recognizes the importance of philanthropy and encourages private support (1) for the benefit of the USM and its constituent institutions and components (herein collectively referred to as “USM”) and (2) for education and support activities operated by the USM. The Board also recognizes the important role of affiliated philanthropic support foundations (foundation) in supporting philanthropic activities across the USM. This policy governs the formation and operation of affiliated philanthropic support foundations and the respective rights and responsibilities of the Board of Regents, USM institutions, and foundations.

This policy applies to existing or prospective Section 501(c)(3) organizations that are created and operated with one or more of the following purposes:

- To support fundraising programs and contributions from private sources to foster, support, and promote the general welfare of the USM; and/or
- To manage and invest private gifts and/or property for the benefit of the USM.

The USM, its institutions, and such other components of the USM as the Board of Regents may determine may have an affiliation with such an entity.

A subsidiary legal entity formed or owned by an affiliated foundation may use the name, personnel or facilities of the USM only if it is separately recognized by the Board of Regents pursuant to this policy or a Board of Regents policy applicable to non-fundraising affiliates.

Entities with the primary purpose of economic development or research activities are governed by Board of Regents Policy VIII-13,00 Policy on Business Entities.

II. Responsible USM Official

A Responsible Official is accountable for the relationship between the foundation and the institution or component with which it is affiliated. The Responsible Official shall monitor compliance with USM policies and agreements between the foundation, the USM, and the institution or component.

- A. The chancellor is the Responsible Official for the University System of Maryland Foundation and any other System-wide or multi-institution philanthropic foundation.
- B. The institution president is the Responsible Official for a foundation affiliated with the institution, including any components of that institution.

The Responsible Official shall be evaluated annually to determine whether they have ensured that the foundation has complied with Board of Regents policies and reasonable prudent business practices.

III. Establishment and Recognition of a New Affiliated Philanthropic Support Foundation

Launching a new foundation requires (1) establishment of the legal entity, (2) completion of an operating agreement between the foundation and the institution and (3) recognition by the Board of Regents as an affiliated philanthropic support foundation. Although institution presidents may establish a foundation without Board of Regents approval, Board recognition is required in order for the foundation to use the institution's name or resources. It is recommended that these three steps be addressed concurrently or in close succession.

A. Establishment

In accordance with § 15-104 of the Education Article, Annotated Code of Maryland, the president of a USM institution may establish campus-based foundations without the approval of the Board of Regents, provided that such entities must operate subject to this USM Board of Regents' policy and any others adopted by the Board of Regents with provisions explicitly applicable to affiliated philanthropic support foundations.

A president shall give the chancellor notice of the establishment of any new foundation in conjunction with the signing of an operating agreement and a request for Board of Regents recognition. Such notice shall include: The (proposed) name of the foundation, its mission statement, its initial Board members, copies of its articles of incorporation and corporate bylaws, and, if available, the IRS Form 1023 and any IRS determination letters.

B. Operating Agreement

The institution and the foundation shall enter into an annual operating agreement, to be signed by the Responsible Official and the foundation officer authorized to sign such agreements. The agreement shall establish the relationship between the parties, describe the purpose of the foundation, and acknowledge the applicability of Board of Regents policies. The agreement shall also condition the organization's use of the institution's name or any other name, emblem, or mark to which the institution has any legal right upon the foundation's continuing compliance with all Board of Regent policies on foundations. The agreement shall be approved by the chancellor or the chancellor's designee to ensure consistency with all applicable Board of Regents policies. A sample operating agreement is included as appendix A of this policy.

C. Board of Regents Recognition of Affiliation Status

The Responsible Official and the foundation shall obtain Board of Regents recognition of status as an affiliated foundation before the foundation can use the institution's name or any other name, emblem, or mark to which the institution has any legal right. This request, to be submitted by the Responsible Official to the chancellor, shall include the following:

1. Notification of establishment (see item III.A)

2. Operating agreement between the institution and the foundation (see item III.B)
3. Draft affiliation agreement between the foundation and the Board of Regents to be signed after final approval of affiliation status by the full Board of Regents (see Appendix A for a sample agreement).
4. Business plan narrative for the new entity, 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 chancellor shall review this request and provide any feedback to the Responsible Official within 45 days of submission. The chancellor may reject the request without Board of Regents consideration if feedback is not addressed. Following chancellor approval, requests shall be considered first by the Board of Regents Committee on Advancement and then by the full Board of Regents.

Any dispute about the propriety or right to a foundation's name related to the institution's name or intellectual property shall be resolved by the Board of Regents.

IV. Recognition of Existing Affiliated Foundations

For those philanthropic support foundations identified in Board of Regents Policy IX-2.01: Recognition of Affiliated Foundations that are in compliance with reporting requirements as of the date of adoption of this policy, the Board of Regents shall verify their affiliated status upon receipt of the:

- A. Operating agreement between the institution and the foundation (see item III.B);
- B. Draft affiliation agreement between the affiliated fundraising foundation and the Board of Regents (see Appendix A for a sample agreement; to be signed after approval of affiliation status by full Board of Regents);
- C. Articles of incorporation and corporate bylaws, the IRS Form 1023 and any IRS determination letters for the affiliated philanthropic support foundation.

These documents shall be provided to the Board by December 31, 2023. Any dispute about the propriety or right to a foundation's name related to the institution's name or intellectual property shall be resolved by the Board of Regents.

V. Changes and Revocation of Affiliated Status

- A. Changes in foundation organizational documents, such as Articles of Incorporation, Bylaws or similar documents and agreements, or changes to the exempt purpose approved by the Internal Revenue Service, are to be communicated to the chancellor within 30 days of adoption and/or communication to the Internal Revenue Service.
- B. When changes to organizational documents or exempt purpose as approved by the Internal Revenue Service change the activities such that the organization becomes something other than a fundraising foundation, the organization will no longer have

recognized status as an affiliated foundation and will then be subject to policy appropriate for the form of relationship to the USM or its institutions.

- C. Failure to obtain a determination in a timely manner from the Internal Revenue Service that the foundation has been recognized as a publicly supported charitable organization exempt from tax under Section 501(c)(3) of the Internal Revenue Code, or a foundation's loss of IRS qualification as a publicly supported charitable organization exempt from tax under Section 501(c)(3) will result in the Board of Regents revocation of a foundation as an affiliated foundation within the scope of this policy.
- D. The Board of Regents may revoke its recognition of an affiliated foundation that fails to comply with this policy or the terms of the affiliation and/or operating agreements. In such case, the foundation shall no longer be entitled to use the name, staff, resources or facilities of the USM. The Board of Regents may seek guidance of the Office of the Attorney General in seeking any appropriate legal remedies.

VI. Structure and Independence

- A. Each affiliated fundraising foundation shall operate as a Maryland charitable non-stock corporation that is legally separate from the USM 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 or components.
- B. Articles of Incorporation shall include provisions that in the event of termination, dissolution, or loss of affiliated status, all remaining assets, direct or indirect, of the entity shall be transferred to a Board of Regents recognized affiliated philanthropic support entity
- C. The management and control of a foundation shall rest with a board of directors (or board of trustees; in this policy, directors shall also refer to trustees.)
- D. Presidents may serve only as ex-officio and non-voting members of the foundation's board of directors. USM employees may serve as voting members of the board of directors of any affiliated foundation, provided that USM employees do not constitute more than 20 percent of the foundation's board of directors.
- E. With the approval of the Responsible Official, an officer or employee of the USM may also serve as an officer or employee of an affiliated philanthropic support foundation. An employee or officer of a foundation who is also an employee or officer of the USM may not represent both parties in any negotiation between the foundation and the USM. Institutions must develop and formalize conflict of interest management arrangements for each USM employee performing roles for an affiliated philanthropic support foundation. Any exemptions to the requirements of the Public Ethics Law are to be documented in a manner consistent with that required under Board of Regents Policy III-1.10 Policy on Conflicts of Interest in Research and Development.

- F. Officers and staff members of a foundation and USM 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.
- G. 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.

VII. Scope of Activities

- A. Foundations shall comply with applicable Internal Revenue Code provisions and regulations and all other applicable policies and guidelines. Foundations may not engage in activities that conflict with federal or state laws, rules and regulations, USM policies, or the role and mission of the USM.
- B. Other than fundraising, fundraising support, gift management and investment management, after December 31, 2023 foundations may not engage in activities on behalf of the USM or institutions or components that the USM or its institutions or components could perform, without specific written approval by the Board of Regents.
- C. Foundations may acquire personal or real property assets for the eventual transfer to, or purchase by, the USM or its institutions; however, foundations may not make such acquisitions in a manner inconsistent with public ethics laws that would apply if the USM or its institutions were directly acquiring said property.
- D. All activities of foundations shall be in conformance with Section 501(c)(3) of the United States Internal Revenue Code. This includes but is not limited to the restriction that "[n]o substantial part of the activities (of a foundation shall be) carrying on propaganda, or otherwise attempting to influence legislation." Furthermore, no 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, a 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.

VIII. Financial Activities and Business Operations

- A. The directors of each foundation board have the fiduciary responsibility to oversee the adequacy of the foundation's internal controls, as well as the sufficiency and appropriateness of its financial reporting. In fulfillment of these responsibilities, directors shall foster direct and private communications with the foundation's independent accountants on a regular basis and shall assure direct access to its internal audit function for independent accountants.
- B. The foundation shall ensure that it clearly presents itself as an independent entity separate and distinct from the USM and its constituent institutions and components. All

correspondence, solicitations, activities, and advertisements on behalf of a foundation shall use the name of that foundation and shall be clearly 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 USM. The letterhead of a foundation shall carry the complete legal name of the foundation or a registered Doing Business As (DBA) name (e.g., The University System of Maryland Foundation, UMBC Foundation, USG Foundation, etc.).

- C. Trademarks, service marks, logos, seals, or the name of the USM or any of its constituent institutions or components may be used by the foundation only with the prior written approval of the Responsible Official.
- D. In all negotiations and transactions with third parties, for fundraising and all other activities, 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 USM. Obligations of foundations shall not be obligations of the USM or the State of Maryland.
- E. Foundation funds shall be kept separate from USM funds. USM funds shall not be transferred to foundations for any purpose except, when appropriate, by action of the Board of Regents after review by the Office of the Attorney General. Funds or gifts payable to the Board of Regents, the USM, one of its constituent institutions, or to any other USM component shall not be deposited with a foundation.
- F. Acceptance of gifts by the USM or a foundation is subject to applicable USM policies on gifts, including Board of Regents Policy IX-5.00 Policy on Ethical Practices in Charitable Giving. Fundraising campaigns and solicitations of major gifts for the benefit of the USM shall be approved in advance by the Responsible Official and should be compatible with the plans and needs of the USM. 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 USM, 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.
- G. 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.

- H. Foundations are encouraged to use the professional investment management resources and infrastructure provided by the University System of Maryland Foundation (or its successor(s)). In the circumstance where a foundation chooses another entity to perform investment management services, should the foundation's investments underperform appropriate market indices for three consecutive years, the Board of Regents may request from the foundation an independent review of its investment strategies along with plans for corrective action.
- I. 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 successor(s)) to cover certain costs incurred by the University System of Maryland Foundation on behalf of the Board of Regents and the Chancellor.

IX. Audits, Inspection and Reports

A. Audits and Inspection

1. Each 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 foundation should conduct its fiscal operations to conform to the USM's fiscal year. Each foundation shall prepare its annual financial statements in accordance with generally accepted accounting principles. The independent audit shall be 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 USM or its institutions.
2. Each year each foundation shall provide a separate audit, to be performed by either the foundation's independent auditor, or the USM Office of Internal Audit, of all unrestricted funds available to the Chancellor and/or the President(s).
3. Annually, the Responsible Official, directors and chief officers of each foundation should review their responsibilities, and the business and operational risks facing the foundation.
4. A foundation shall permit the Responsible Official or their 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. At the request of the Chancellor or the Chairperson of the Board of Regents, the foundation shall permit the internal auditors of the Board of Regents access to all books and records of the foundation.

B. Reports

1. Within 120 days after the close of the USM's fiscal year, each foundation shall provide the Responsible Official with copies of the following, which are to be

transmitted to the Office of the Chancellor along with a set of assertions as to affiliated fundraising foundation compliance with Board of Regents policy requirements:

- a. annual financial audit report;
 - b. annual audit report of transfers made to the USM, institution and components;
 - c. annual audit report of unrestricted funds available to the Chancellor and/or the President;
 - d. a list of foundation officers and directors;
 - e. a list of USM employees who received compensation or other payments from the foundation during the fiscal year and the amount of that compensation or payment, detailed into compensation for services, and other payments;
 - f. IRS Form 990 and any related State or other regulatory compliance reports (when filed or available);
 - g. a list of all state and federal contracts and grants managed by the foundation; and
 - h. A written affirmation of the foundation board chair, executive director and the Responsible Official that they have read, understand and have complied with the provisions of the Board of Regents Policy on Affiliated Philanthropic Support Foundations.
2. Should the foundation not submit the required documents and reports within the required time period, the Chancellor and the Responsible Official (if other than the Chancellor) 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.
 3. The Chancellor may request from the Responsible Official information on foundations according to the schedule and format specified by the Chancellor.
 4. The Chancellor shall annually send any revised Board of Regents' policies relating to affiliated foundations to the Department of Legislative Services within 180 days of the end of the USM's fiscal year.
 5. The Board of Regents shall issue an annual report to the Legislative Joint Audit and Evaluation Committee regarding the operations of the affiliated foundations. The report shall be available no later than 180 days after the end of the USM's fiscal year.



Appendix A

**Model Affiliation Agreement between the University System of Maryland
Board of Regents and Affiliated Philanthropic Support Foundation**

Board of Regents Policy IX-2.00 Policy on Affiliated Philanthropic Support Foundations, Section III C. requires:

The Responsible Official and the foundation shall obtain Board of Regents recognition of status as an affiliated foundation before the foundation can use the institution's name or any other name, emblem, or mark to which the University has any legal right.

and in the same section #3, including a:

Draft affiliation agreement between the foundation and the Board of Regents...

This agreement is to remain in force for as long as the affiliation status is maintained and recognized by the Board of Regents. The affiliated philanthropic support foundation named above agrees and acknowledges that:

1. The above-named affiliated philanthropic support foundation commits to maintaining an operating agreement with the affiliated university that reflects best practices and the requirements of the BOR policy.
2. The BOR acknowledges that the named affiliated philanthropic support foundation is an independent 501 (c) 3 entity with its own governing board and financial systems.
3. The above-named affiliated philanthropic support foundation commits to compliance with all applicable BOR policies.
4. The above-named affiliated philanthropic support foundation understands and agrees to the consequences of failing to comply with the BOR policy governing affiliated philanthropic foundations, including but not limited to denial of the right to use the name and resources of the university.
5. The above-named affiliated philanthropic support foundation acknowledges that its dissolution will result in transfer of its funds to a BOR-recognized foundation for the benefit of the affiliated university.

6. The above-named affiliated philanthropic support foundation agrees to follow all applicable laws pertaining to their 501 (c) 3 status.
7. The above-named affiliated philanthropic support foundation agrees that any changes to corporate documents or purpose must be communicated to the BOR within 60 days, and that certain changes may result in revocation of recognition.
8. The above-named affiliated philanthropic support foundation agrees that it will cease using the institution or USM name or any other name, emblem, or mark of the university or USM in the event of a Board of Regents action to revoke its recognition as an affiliated philanthropic support foundation upon formal communication of such action.

We the undersigned, do hereby agree to, and acknowledge the terms of this affiliation agreement:

Executive director, President or Chief Executive Date
Affiliated philanthropic support organization

Responsible Official Date
USM institution

Chancellor (on behalf of the Board of Regents) Date
University System of Maryland



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR DISCUSSION

TOPIC: FY 2022 Preliminary USM Financial Statements

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

SUMMARY:

A brief review of the unaudited preliminary University System of Maryland basic financial statements for the year ended June 30, 2022.

The sheet titled 'Financial Snapshot' summarizes the System's key financial health ratio used by rating agencies, Available Resources to Debt Outstanding, using the figures reflected in the preliminary financial statements, to provide a comparison between June 30, 2022, and 2021. The second part of the Financial Snapshot adjusts the publicly reported balances to take into consideration Board-approved claims and authorizations not yet expended or reflected in the financial statements to arrive at a 'true' financial health ratio for internal management and decision-making purposes to ensure the minimum levels of financial strength required in the BOR Policy VIII-12.00 Policy on Debt Management.

A set of key points in reviewing the System's preliminary financial statements is included.

The financial statements reflect the preliminary financial position and the results of operations of the University System of Maryland for the years ended June 30, 2022, and 2021 prepared on an accrual basis of accounting. The final, audited financial statements for the University System of Maryland will be available in December, and will include the auditor's opinion (System officials anticipate a 'clean' or unqualified opinion at this point) all appropriate note disclosures, a section containing management's discussion and analysis, the summary financial statements of the affiliated fundraising foundations (called 'component units' in financial statement terminology), and supplementary financial statements for each of the USM institutions.

FISCAL IMPACT: Information item

CHANCELLOR'S RECOMMENDATION: Information item

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: David Mosca



**Preliminary Financial Statements
Years ended June 30, 2022 and 2021**

Key points associated with FY 2022 preliminary financial statements:

1. The total net position increase of \$223M (**A on Statements of Net Position**) is comprised of an increase of \$110M in unrestricted net position (**B on Statements of Net Position and Financial Snapshot**), \$108M increase in net invested in capital assets (**C on Statements of Net Position**) and \$5M increase in restricted net position.
2. The increase in unrestricted net position is the result of an increase from operating activities of \$210M offset by cash-funded spending on capital projects of \$57M and \$43M in additional expense per the allocation of the pension liability (see point #5).
3. The attached preliminary financial statements reflect the implementation of GASB No. 87, Leases, which requires financial statements to include a balance sheet liability for the present value of future lease payments for what were formerly considered operating leases, and a lease receivable for the present value of payments to be received for assets leased by System institutions to others. The calculated total of Lease receivable as of June 30, 2022 and 2021 was \$60M. Lease obligations as of June 30, 2022 and June 30, 2021 was \$126M and \$156M, respectively. (**D on Statement of Net Position**) The impact on net position associated with the implementation of GASB 87, shown at the bottom of the Statements of Revenues, Expenses and Changes in Net Position as Cumulative Effect of Change in Accounting Principle, is reported as just over \$11M.
4. USM institutions were awarded \$574M under the Department of Education’s HEERF Program (Higher Education Emergency Relief Fund). Revenue recognized is recorded as ‘Nonoperating grants’ (**E on Statements of Revenues, Expenses and Changes in Net Position**). Preliminary estimate of revenue is as follows:

HEERF Program (in millions)	Total Award	FY21 & FY20 Revenue	FY22 Revenue	Remaining To Be Used
Student Aid	\$209	\$90	\$104	\$15
Institutional Aid	251	123	96	32
HBCU/Minority Serving Institutions	114	26	54	34
Total	\$574	\$239	\$254	\$81

5. The net pension liability and related deferred balances as of June 30, 2022, and 2021 were \$1,144M and \$1,100M, respectively (**F on Statement of Net Position and Financial Snapshot**). The net impact of pension related adjustments beyond required contributions is an additional expense of \$43M in FY22, compared to \$104M in FY21. While the calculated pension liability declined by more than \$400M from the end of FY 21 to FY 22, the overall increase in pension liability and the associated deferred amounts is a result to accounting requirements to ‘smooth’ the impact of changes in investment return experience, and other changes, compared with assumptions over a 5-6 year period.

6. Investment income for the year ended June 30, 2022 and 2021 was \$27M and \$109M respectively. **(G on Statements of Revenues, Expenses and Changes in Net Position)** This decline in investment income is primarily a result of a 2% rate of return for FY22 compared to 27% in FY21 on endowment investments.
7. As shown on the 'Financial Snapshot', the financial statements report the key Balance Sheet strength ratio used by the rating agencies. Balance Sheet strength, defined as the ratio of 'available resources' (USM unrestricted net position + pension liability amounts + accrued leave liability + affiliated foundation unrestricted net assets) to debt outstanding, is 203% at June 30, 2022, declining from 206% at June 30, 2021 **(H on Financial Snapshot)**.
8. To ensure informed decision-making, the financial snapshot, following Board of Regents policy, adjusts reported financial statement balances to take into account Board-approved commitments and authorizations to spend not yet reflected in the financial statements. On that adjusted basis the results of FY22 resulted in a slight increase in overall 'true' financial standing, with the ratio of available resources to debt outstanding on an adjusted basis, improving from 136% at the end of FY21, to 149% at the close of FY22 **(I on Financial Snapshot)**.
9. Per the current Board of Regents Policy on Debt Management and consistent with how rating agencies once categorized and considered P3 borrowings, debt associated with public private partnerships is considered indirect debt. Our financial advisor, PFM has advised the System that the rating agencies now are treating public private partnerships (P3) arrangements as indistinguishable from what Board of Regents policy considers direct debt (basically System revenue bonds and lease obligations). The System is considering revising its board policy to be consistent with this treatment. The impact of including existing arrangements along with similar projects that are in the pipeline is the ratio of available resources decreases from 149% to 105%.

UNIVERSITY SYSTEM OF MARYLAND
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,044,034,330	\$ 2,681,608,525
Accounts receivable, net	348,430,003	322,634,199
Leases receivable, current portion, net	12,525,190	8,196,739
Notes receivable, current portion, net	4,351,323	3,870,228
Inventories	9,194,060	9,015,105
Prepaid expenses and other	20,122,560	22,589,607
Total current assets	<u>3,438,657,466</u>	<u>3,047,914,403</u>
Noncurrent assets:		
Restricted cash and cash equivalents	88,154,401	104,319,389
Endowment investments	434,364,389	436,809,838
Other investments	41,169,797	40,508,406
Leases receivable, net	47,026,210	51,628,630
Notes receivable, net	12,193,044	19,075,445
Capital assets, net	7,318,018,297	7,206,408,687
Total noncurrent assets	<u>7,940,926,138</u>	<u>7,858,750,395</u>
Total assets	<u>11,379,583,604</u>	<u>10,906,664,798</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refundings of debt	6,034,723	9,376,625
Asset retirement obligations	11,741,954	12,276,398
Deferred changes, pension expense	467,581,831	373,714,162
Total assets and deferred outflows of resources	<u>\$ 11,864,942,112</u>	<u>\$ 11,302,031,983</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 410,279,085	\$ 364,305,655
Accrued workers' compensation, current portion	4,520,850	4,794,150
Accrued vacation costs, current portion	130,262,070	129,718,324
Revenue bonds and notes payable, current portion	95,974,485	92,180,951
Lease obligations, current portion	19,814,027	21,473,427
Unearned revenues	519,803,600	376,540,915
Total current liabilities	<u>1,180,654,117</u>	<u>989,013,422</u>
Noncurrent liabilities:		
Accrued workers' compensation	25,618,150	27,166,850
Accrued vacation costs	181,624,240	176,068,088
Revenue bonds and notes payable	1,230,758,825	1,226,264,284
Lease obligations	106,290,369	134,668,776
Net pension liability	977,354,142	1,395,144,942
Total noncurrent liabilities	<u>2,521,645,726</u>	<u>2,959,312,940</u>
Total liabilities	<u>3,702,299,843</u>	<u>3,948,326,362</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement receipts	266,747,515	233,863,349
Deferred inflows related to leases	58,230,865	59,747,688
Deferred changes, pension expense	633,753,479	78,780,716
Total deferred inflows of resources	<u>958,731,859</u>	<u>372,391,753</u>
NET POSITION		
Unrestricted	1,286,531,806	1,176,679,089
Net investment in capital assets	5,687,800,373	5,580,081,931
Restricted:		
Nonexpendable:		
Scholarships and fellowships	21,267,637	18,367,468
Research	7,636,377	7,636,277
Other	16,928,309	16,927,705
Expendable:		
Scholarships and fellowships	46,686,730	46,303,581
Research	70,454,900	62,227,723
Loans	27,800,658	34,623,545
Capital projects	4,633,279	3,659,537
Other	34,170,341	34,807,012
Total net position	<u>7,203,910,410</u>	<u>6,981,313,868</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,864,942,112</u>	<u>\$ 11,302,031,983</u>

PRELIMINARY

**UNIVERSITY OF SYSTEM OF MARYLAND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>		<u>2021</u>	
OPERATING REVENUES:				
Tuition and fees	\$ 1,763,780,685		\$ 1,737,544,199	J
Less: scholarship allowances	<u>(399,706,090)</u>		<u>(374,251,026)</u>	
Federal grants and contracts		\$ 1,364,074,595		\$ 1,363,293,173
State and local grants and contracts		879,571,137		774,627,139
Nongovernmental grants and contracts		232,407,684		228,853,058
Sales and services of educational departments		280,868,159		280,670,286
Auxiliary enterprises:		400,262,634		362,646,030
Residential facilities	196,472,980		108,811,825	
Less: scholarship allowances	<u>(11,039,449)</u>	185,433,531	<u>(6,506,601)</u>	102,305,224
Dining facilities	128,954,082		50,868,506	
Less: scholarship allowances	<u>(6,419,028)</u>	122,535,054	<u>(3,155,203)</u>	47,713,303
Intercollegiate athletics	132,226,377		86,556,363	
Less: scholarship allowances	<u>(1,987,735)</u>	130,238,642	<u>(6,166,541)</u>	80,389,822
Bookstore	28,215,539		11,706,188	
Less: scholarship allowances	<u>(4,550,328)</u>	23,665,211	<u>(1,393,925)</u>	10,312,263
Parking facilities	38,232,144		23,998,707	
Less: scholarship allowances	<u>(1,248,965)</u>	36,983,179	<u>(149,932)</u>	23,848,775
Other auxiliary enterprises revenues	155,481,618		128,285,524	
Less: scholarship allowances	<u>(50,127)</u>	155,431,491	<u>(58,014)</u>	128,227,510
Other operating revenues		<u>64,933,123</u>		<u>51,515,174</u>
Total operating revenues		<u>3,876,404,440</u>		<u>3,454,401,757</u>
OPERATING EXPENSES:				
Instruction		1,461,537,235		1,420,144,490
Research		1,117,451,390		1,050,765,878
Public service		572,207,331		575,995,384
Academic support		536,541,733		520,704,936
Student services		330,908,315		326,370,905
Institutional support		613,850,633		578,088,127
Operation and maintenance of plant		414,758,235		401,520,485
Scholarships and fellowships		225,089,117		173,157,118
Auxiliary enterprises:				
Residential facilities		188,255,264		156,860,896
Dining facilities		126,247,532		70,506,748
Intercollegiate athletics		156,345,026		108,209,011
Bookstore		14,607,497		13,706,606
Parking facilities		25,308,991		25,233,098
Other auxiliary enterprises expenses		<u>141,327,397</u>		<u>123,268,514</u>
Total operating expenses		<u>5,924,435,696</u>		<u>5,544,532,196</u>
Operating loss		<u>(2,048,031,256)</u>		<u>(2,090,130,439)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations		1,580,936,234		1,505,429,509
Pell grants		167,701,242		163,278,977
Other nonoperating grants		253,607,839	D	196,776,455
Gifts		53,354,623		45,136,501
Investment Income	26,502,784		108,811,899	G
Less: investment expense	<u>(1,505,288)</u>	24,997,496	<u>(1,465,896)</u>	107,346,003
Interest on indebtedness		<u>(39,248,619)</u>		<u>(35,746,617)</u>
Other revenues, (expenses), gains and (losses)		<u>5,759,732</u>		<u>4,994,458</u>
Total nonoperating revenues		<u>2,047,108,547</u>		<u>1,987,215,286</u>
Income (loss) before other revenues		<u>(922,709)</u>		<u>(102,915,153)</u>
OTHER REVENUES:				
Capital appropriations		179,148,592		160,457,476
Capital gifts and grants		41,469,786		52,323,700
Additions to permanent endowments		2,900,873		1,213,208
Total other revenues		<u>223,519,251</u>		<u>213,994,384</u>
Increase in net position		222,596,542		111,079,231
Net position - beginning of year		<u>6,981,313,868</u>		<u>6,881,391,484</u>
Cumulative effect of change in accounting principle				<u>(11,156,847)</u>
Net position - end of year		<u>\$ 7,203,910,410</u>		<u>\$ 6,981,313,868</u>

PRELIMINARY

Audit Committee Meeting - Open Session

University System of Maryland
Financial Snapshot
June 30, 2022 and 2021

	<u>ProForma June 30, 2022</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
From the June 30, 2022 preliminary financial statements and 2021 audited financial statements			
USM unrestricted net position	\$ 1,288,674,390	\$ 1,288,674,390	\$ 1,187,863,054 B
Net pension liability and deferred balances	1,143,525,790	1,143,525,790	1,100,211,496 F
USM accrued leave	311,886,310	311,886,310	305,786,412 H
Affiliated foundations unrestricted net assets	<u>203,823,948</u>	<u>203,823,948</u>	<u>203,823,948</u>
Available funds	<u>\$ 2,947,910,438</u>	<u>\$ 2,947,910,438</u>	<u>\$ 2,797,684,910</u>
Debt outstanding	<u>\$ 1,452,837,706</u>	<u>\$ 1,452,837,706</u>	<u>\$ 1,357,226,192 D,I</u>
Ratio of available resources to debt outstanding per financial statements	203%	203%	206%
Claims against the June 30 available resources not reflected in financial statements:			
Available funds per financial statements	\$ 2,947,910,438	\$ 2,947,910,438	\$ 2,797,684,910
Cash-funded capital projects not fully spent at June 30,	(186,852,870)	(186,852,870)	(215,994,358)
Future years cash-funded capital projects committed but not yet authorized	(255,578,000)	(255,578,000)	(275,836,258)
Noncapital cash-funded projects not yet authorized	<u>(68,486,443)</u>	<u>(68,486,443)</u>	<u>(88,618,761)</u>
Adjusted available funds	<u>\$ 2,436,993,126</u>	<u>\$ 2,436,993,126</u>	<u>\$ 2,217,235,533</u>
Debt outstanding per financial statements	\$ 1,417,535,011	\$ 1,452,837,706	\$ 1,357,226,192
Revenue bond-funded projects authorized but debt not yet issued	184,888,969	184,888,969	276,532,257
Deferred service obligations	266,747,515	-	-
Future obligations pending approval	<u>450,000,000</u>	<u>-</u>	<u>-</u>
Adjusted total debt outstanding	<u>\$ 2,319,171,495</u>	<u>\$ 1,637,726,675</u>	<u>\$ 1,633,758,449</u>
Ratio of available resources to debt outstanding, adjusted	105%	149%	136%

While rating agencies base their assessments based on financial statement balances, the System manages the ratio of available funds to debt outstanding to not fall below 1:1 ratio to ensure that financial health does not fall below medians for Aa1 rating category.



BOARD OF REGENTS

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

TOPIC: USM’s Year End 6/30/2021 A133 Single Audit

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

See attached CliftonLarsonAllen LLC’s (CLA) report to USM Regents.

CLA’s State of Maryland’s 104-page, A -133 audit report can be found at the following link:

https://www.usmd.edu/usm/adminfinance/finafair/FY21_SAR.pdf

FISCAL IMPACT: none

CHANCELLOR’S RECOMMENDATION: none

COMMITTEE ACTION: None

DATE:

BOARD ACTION: None

DATE:

SUBMITTED BY: David Mosca



University System of Maryland

Audit Committee Meeting
October 21, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

We'll get you there.



CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. ©2022 CliftonLarsonAllen LLP

Scope of Services and Deliverables - FY21 Status

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

Single audit testing as part of the State of Maryland Single Audit Report *Issued September 30, 2022*

Governance communication letter *Issued December 2021*

Campus enrollment agreed-upon procedures *Issued April 2021*

Howard P. Rawlings Scholarship Programs agreed-upon procedures *Issued October 2022*

Bond Inclusion *Completed March 2022*



FY21 Single Audit

- Major Programs
 - Education Stabilization Fund ALN 84.425
 - Coronavirus Relief Fund ALN 21.019



FY21 Single Audit Findings

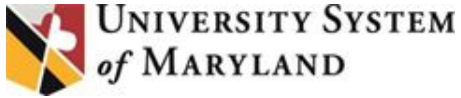
Finding #	Applicable Campus	Type of Finding	Condition
2021-004	BSU, UMB	Significant Deficiency in Internal Control	Errors in the preparation of the SEFA
2021-005	UMCP	Significant Deficiency in Internal Control	Differences noted in time & effort reporting compared to supporting documentation
2021-006	UMGC, UMBC, UMCP, BSU	Significant Deficiency in Internal Control, Noncompliance	HEERF Quarterly and Annual Reports contained errors or missing supporting documentation
2021-007	TU	Significant Deficiency in Internal Control	Suspension & debarment was not verified



FY21 State Scholarship Testing

	Sample Size			Housing Status	CBEAG calculations	MDCAPS award amount	Credit Completion	Drug Free Pledge	ISIR Mismatch	Other (describe)
	EA	GA	CBEAG							
Bowie State University	45	2	4	17	1	1	3	3	-	Statement of Educational Purpose
Coppin State University	46	5	7	13	-	2	-	-	-	
Frostburg State University	44	3	3	-	1	-	-	-	2	Verification worksheet
Salisbury University	45	4	4	-	-	-	-	-	-	
Towson University	45	47	10	-	-	-	-	-	-	
University of Baltimore	44	4	2	-	-	-	-	-	1	
University of Maryland, Baltimore	42	3	-	-	-	-	-	-	4	
University of Maryland, Baltimore County	44	8	5	-	-	-	-	-	3	
University of Maryland, College Park	45	47	9	2	-	-	-	-	6	
University of Maryland, Eastern Shore	45	8	-	-	-	-	1	-	3	
University of Maryland Global Campus	45	3	3	-	-	-	-	-	2	





BOARD OF REGENTS

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

TOPIC: Update from ERM and Crisis Management Workgroup

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

See attached.

FISCAL IMPACT: none

CHANCELLOR'S RECOMMENDATION: none

COMMITTEE ACTION: None

DATE:

BOARD ACTION: None

DATE:

SUBMITTED BY: David Mosca



Enterprise Risk and Crisis Management Update

October 21, 2022

Presented by Chair Louis Pope for the
Board of Regents Audit Committee

Preliminary Updated Risk Profile

- Below are the top risks as reported by campuses and the System Office in 2022.* These risks were scored, calibrated, and prioritized for System-wide monitoring and reporting.

High-Level Risk Category (as defined by System Office)	Example Risks in Category (as reported by Campus)	# of Specific Risks Reported	# of Institutions/US MO Reported
Campus Safety	Student or staff injury, environmental hazards, aging facilities and deferred maintenance, COVID-related health and safety, campus crime	12	11
Financial Stability / Sustainability	Tuition dependency, decrease in State funding, poor investment performance, increased reliance on “mega gifts”, insufficient capital funding, competition from private job training, outdated budget model	12	9
Quality Educational Experience	Loss of accreditation, changing student learning preferences, course / material accessibility, instructional delivery, aging campus facilities and infrastructure	6	7
Information Systems and Data Security	Data privacy and compliance, technology infrastructure failure, data breach, loss of information, data governance	5	10
External Relationship Management	Campus and community activism, State officials’ relations, decline in public opinion of higher education, DEI	5	4
Qualified Workforce	Inability to recruit and retain talent, remote work	2	6
Ethical Governance and Oversight	Limited statutory authority, reduced decision-making control	2	4
Research Funding and Integrity	Research compliance, research and creative achievement	2	3
Culture of Integrity	Student, faculty, and / or staff misconduct	1	2

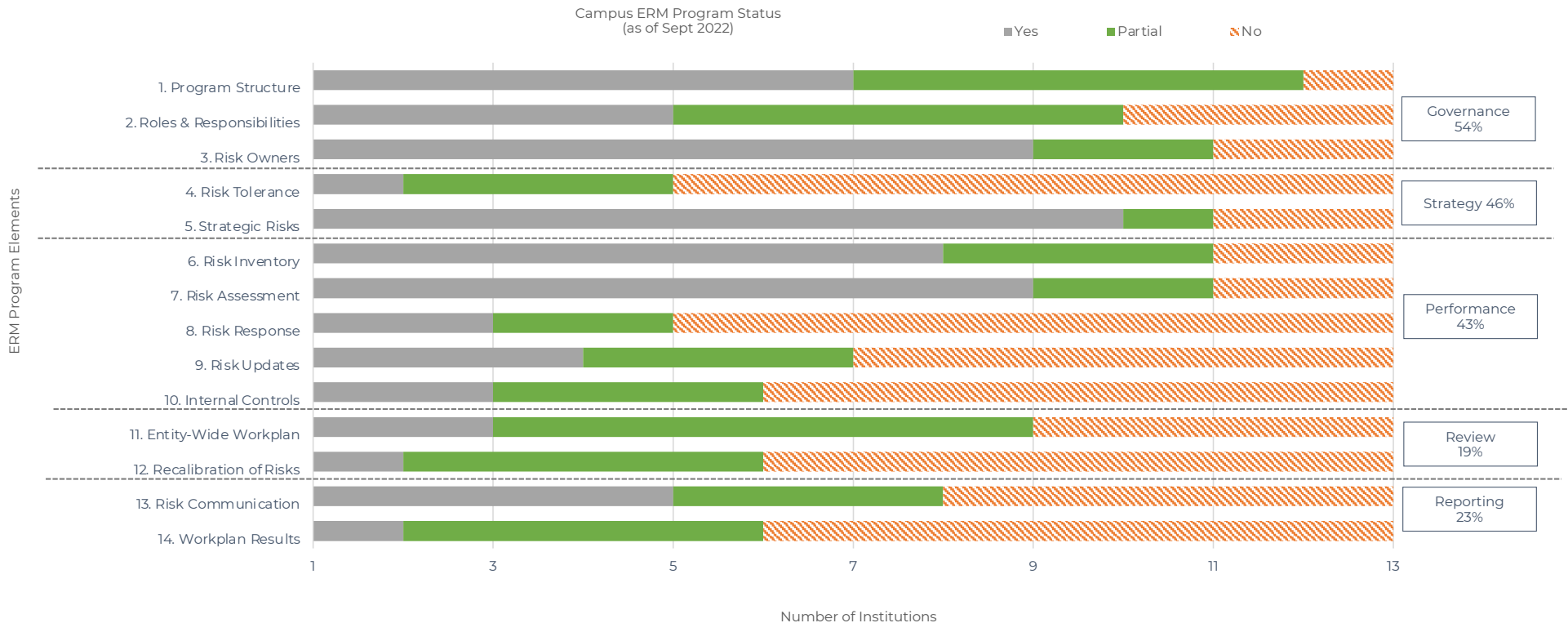
USM Risk Priorities

Risks Scored at Over 17 Composite Rating
Theft or inappropriate use of sensitive data
Violent crime on campus
Major student mental health incident
Personal injury or death of student athletes
Athletic staff or student athlete misconduct
Extended loss of systems or data due to cyber attacks
Exposure to environmental hazards or infectious disease leading to illness or death
Activism on campus leading to damage, liability, or unfavorable response
Unauthorized media communications
Failure of building life safety systems or emergency response procedures
Unplanned facility shutdown
Large-scale financial fraud
Impact of centralized collective bargaining process

*Priority risks represent congruence between USM Office risk assessment and institutional reporting

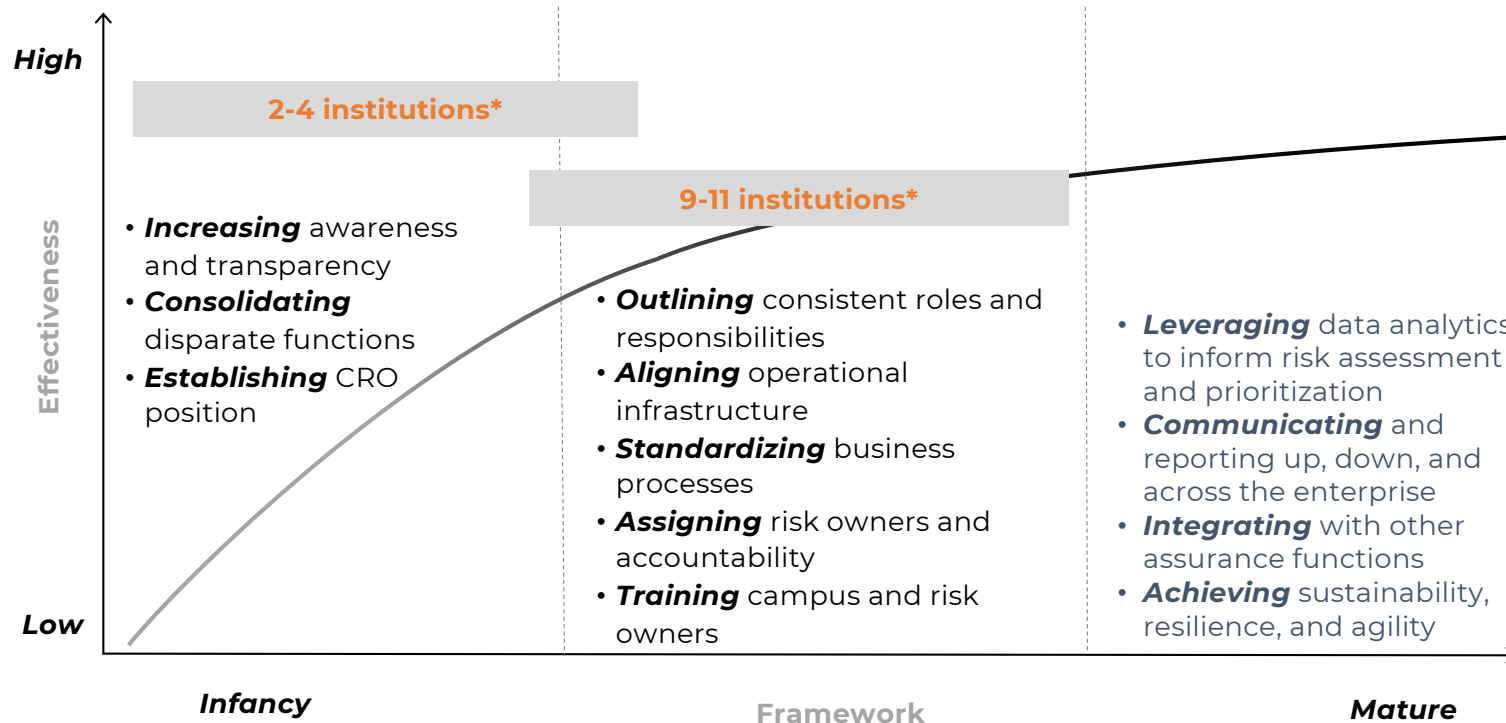
Campus ERM Programs

USM campuses and the System Office provided updates for the status of their respective ERM Programs, the results of which are charted below. The details for the 14 ERM Program Elements surveyed are included in the Appendix.



Campus ERM Programs

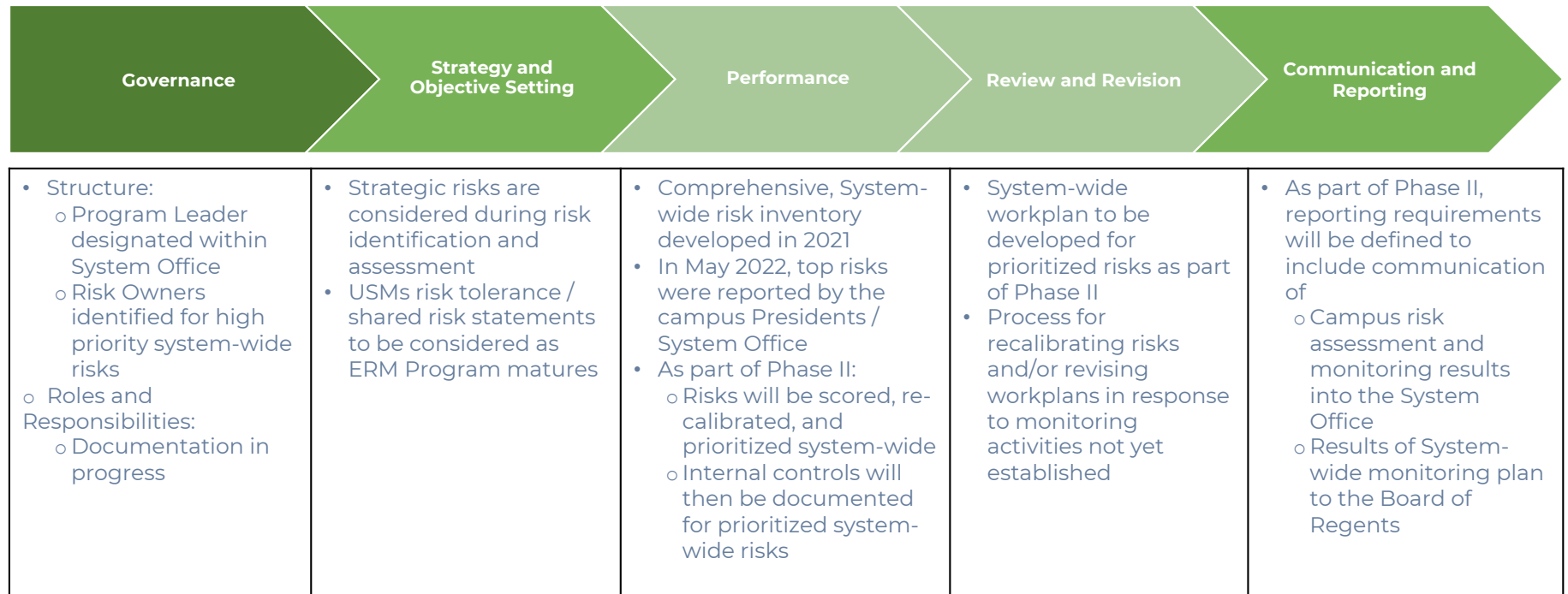
USM campuses and the System Office provided updates for the status of their respective ERM Programs, the results of which are charted below.



*13 institutions including the System Office are in varying stages of maturity from infancy to developing.

System-Wide ERM Program

Below is a summary of the System-wide ERM Program status:



Appendix A: ERM Program Survey

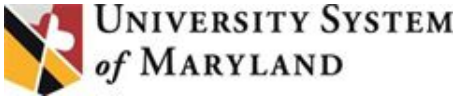
Survey Question	
Governance	1. Has the institution documented the structure, reporting lines, roles and responsibilities, and reporting requirements for the institution's ERM Program?
	2. Have roles and responsibilities for ERM Program activities been communicated throughout the institution?
	3. Have Risk Owners been identified and documented for the institution's risk inventory?
Strategy and Objective-Setting	4. Has the institution defined and documented its appetite for risk and shared risk statements with institutional decision makers?
	5. Were strategic risks (those that would impact the institution's ability to achieve strategic goals) considered in the institution's most recent risk assessment?

Appendix A: ERM Program Survey

Survey Question	
Performance	6. Has the institution documented a comprehensive inventory of risks faced by the institution?
	7. Has the institution implemented a methodology for assessing the severity of risks?
	8. Have the institution's responses (e.g., accept, avoid, pursue, reduce, share) for each risk been determined and documented in the risk inventory?
	9. As significant changes occur in the internal or external environment throughout the year, is there a process whereby the institution's risk profile is updated?
	10. Have internal controls and monitoring procedures been documented for the institution's risk inventory?

Appendix A: ERM Program Survey

Survey Question	
Review and Revision	11. Has the institution established an entity-wide workplan and assigned responsibility for specific monitoring activities?
	12. Are risks recalibrated, or workplans revised, based on the results of monitoring activities?
Information, Communication and Reporting	13. Are regular meetings established with the institution's ERM Program leader(s) and campus Risk Owners?
	14. Has a process been established and implemented for campus Risk Owners to report the results of monitoring plans into the institution's ERM Program?



BOARD OF REGENTS

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

TOPIC: Update of Office of Legislative Audit Activity

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

Since the Committee’s June 2022 meeting, the Office of Legislative Audits (OLA) issued its report of the University of Maryland College Park. See summary of findings in Attachment A and OLA’s report in Attachment B.

OLA Engagements Currently Active:

- University System of Maryland Office;
- University of Maryland Eastern Shore; and
- University of Maryland Baltimore.

attachments

FISCAL IMPACT: none

CHANCELLOR’S RECOMMENDATION: none

COMMITTEE ACTION: None

DATE:

BOARD ACTION: None

DATE:

SUBMITTED BY: David Mosca

Attachment A

Summary Analysis of Findings in OLA's UMCP Report

On September 27, 2022, the Office of Legislative Audit (OLA) issued its final report for its audit of UMCP. OLA notes seven findings. Three are identified as cybersecurity related and two are classified as repeats. OLA has modified its reporting on findings pertaining to cybersecurity and currently redacts each of these.

Finding 1 – Student Accounts Receivable: OLA notes that changes made to student residency status were not always subject to independent review. OLA did not identify any inappropriate changes. (Repeat Finding)

Finding 2 – Financial System Access: REDACTED

Finding 3 – IS Systems Security and Controls: REDACTED

Finding 4 – IS Systems Security and Controls: REDACTED

Finding 5 – Questionable Transaction: OLA notes procurement of services from two companies that were either owned by employees or their respective spouse. The first case identifies \$570,700 in payments to a company owned by a part-time contractual employee. The second case identifies a UMCP employee awarding a \$45,000 contract to a company owned by their spouse. OLA also notes that two other employees in the same department worked on this contract as well. Additionally, UMCP was not able to provide timesheets for these employees. UMCP referred these findings to the *State Ethics Commission* as recommended by OLA.

Finding 6 – Payroll: OLA notes that UMCP did not ensure that employees terminated for improper activities were recorded in UMCP's personnel system or in the Statewide listing of banned employees. This would help ensure that these employees were not inappropriately rehired.

Finding 7 – Payroll: OLA notes timesheets were not always signed off by the employee and approved by supervisory personnel. OLA reports that this occurred with 480 employees. (Repeat Finding)

Audit Report

**University System of Maryland
University of Maryland, College Park**

September 2022

Confidentiality Notice: This report contains sensitive cybersecurity audit findings and recommendations, along with the related corrective actions proposed by the audited agency. In accordance with the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, this information will be redacted from the copy of this audit report made available to the public. The Office of Legislative Audits requests the recipient of this unredacted report to exercise appropriate care to maintain the confidentiality of this sensitive cybersecurity information.



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Attachment B

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Mark S. Chang (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Nicholas P. Charles II
Senator George C. Edwards	Delegate Andrea Fletcher Harrison
Senator Katie Fry Hester	Delegate Trent M. Kittleman
Senator Cheryl C. Kagan	Delegate Carol L. Krimm
Senator Benjamin F. Kramer	Delegate David Moon
Senator Cory V. McCray	Delegate Julie Palakovich Carr
Senator Justin D. Ready	Delegate Elizabeth G. Proctor
Senator Craig J. Zucker	Delegate Geraldine Valentino-Smith

To Obtain Further Information

Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.

Attachment B



Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

September 27, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland, College Park (UMCP) for the period beginning July 1, 2017 and ending December 31, 2020. UMCP is a comprehensive public institution of USM and operates under the jurisdiction of USM's Board of Regents. UMCP offers a broad range of baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields.

Our audit disclosed that UMCP did not ensure that all changes made to student residency status were subject to independent review. Ensuring that the proper residency status is assigned to each student is critical since the assigned status significantly impacts the amount of tuition charged to the student. Furthermore, UMCP did not perform periodic reviews of user access to its financial accounting system to ensure that access to critical functions was assigned only as needed and in a manner that supports proper separation of duties. In addition, UMCP's computer network had security weaknesses and software vulnerability scanning was not performed over certain critical applications' servers.

Our audit also disclosed that UMCP procured services from two companies owned by UMCP employees or their spouses, and could not document that certain procurements from these companies were competitively procured and the related deliverables were received. In addition, purchases from one of these companies may be a violation of State ethics laws. In addition, UMCP did not ensure that all

The Warehouse at Camden Yards
351 West Camden Street · Suite 400 · Baltimore, Maryland 21201
410-946-5900 · Fraud Hotline 877-FRAUD-11
www.ola.state.md.us

Attachment B

employees terminated for improper activities were properly recorded in its personnel system and the Statewide listing of individuals banned from rehiring by the State. Finally, timesheets were not always signed by employees and approved by supervisory personnel as required by USM policy.

USM's response to this audit, on behalf of UMCP, is included as an appendix to this report. We reviewed the response and noted 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 that 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 course of this audit by UMCP. We also wish to acknowledge USM's and UMCP's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA
Legislative Auditor

Attachment B

Table of Contents

Background Information	5
Agency Responsibilities	5
Status of Findings From Preceding Audit Report	5
Findings and Recommendations	7
Student Accounts Receivable	
* Finding 1 – The University of Maryland, College Park (UMCP) did not ensure that all changes made to students’ residency status were subject to independent review.	7
Financial System Access	
Finding 2 – UMCP did not perform periodic reviews of user access to its financial accounting system. We identified several users who had unnecessary access or could process critical transactions without independent supervisory review and approval.	8
Information Systems Security and Controls	
Finding 3 – UMCP’s computer network had security weaknesses involving assignment of local administrative rights and management of malware protection software on workstations.	9
Finding 4 – UMCP did not perform software vulnerability scanning over certain critical applications’ servers and ensure that all University departments had necessary software scanning and remediation processes, including confirmation that vulnerabilities identified by other separately executed scanning efforts were resolved.	11
Questionable Transactions	
Finding 5 – UMCP procured services from two companies owned by UMCP employees or their respective spouses. In addition, UMCP could not document that certain procurements from these companies were competitively procured and the related deliverables were received.	12

* Denotes item repeated in full or part from preceding audit report

Attachment B

Payroll

Finding 6 – UMCP did not have a process to ensure all employees terminated for improper activities were properly recorded in the UMCP automated personnel system and the Statewide listing of banned employees to ensure they were not rehired.	15
* Finding 7 – Timesheets were not always signed by employees and approved by supervisory personnel as required by USM policy.	16
Audit Scope, Objectives, and Methodology	17
Agency Response	Appendix

* Denotes item repeated in full or part from preceding audit report

Attachment B

Background Information

Agency Responsibilities

The University of Maryland, College Park (UMCP) is a comprehensive research university for the State of Maryland and is the flagship institution of the University System of Maryland (USM). It offers baccalaureate, masters, and doctoral programs in the liberal arts and sciences and selected professional fields. For the Fall 2020 term enrollment totaled 40,709 students for all programs.

UMCP's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's accounting records, fiscal year 2020 revenues totaled approximately \$2.2 billion, including a State general fund appropriation of approximately \$535 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated October 11, 2018. As disclosed in Figure 1 on the following page, we determined that UMCP satisfactory addressed five of these findings. The remaining two findings are repeated in this report.

Attachment B

**Figure 1
Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
Finding 1	The University of Maryland College Park (UMCP) had not established sufficient procedures to ensure adequate and timely follow-up on delinquent student accounts.	Not Repeated
Finding 2	UMCP did not establish independent reviews of changes made to students' residency status.	Repeated (Current Finding 1)
Finding 3	UMCP did not assess mandatory fees on faculty and staff receiving tuition remission benefits, although required by Board of Regents policy.	Not Repeated
Finding 4	UMCP had not developed a policy to guide and direct UMCP departments in using a sensitive data management software product and monitoring of UMCP departments was not performed to ensure the software product was being executed on all departmental computer resources.	Not Repeated ¹
Finding 5	Controls over electronic timesheets for regular employees were not sufficient to ensure the validity of all time reported and payroll payments made.	Repeated (Current Finding 7)
Finding 6	UMCP did not establish adequate controls over financial aid award determinations.	Not Repeated
Finding 7	UMCP had not established adequate controls over dining services collections and did not ensure the accuracy of meal plan records.	Not Repeated

¹ Specific information on the current status of this cybersecurity-related finding will be redacted from the publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Attachment B

Findings and Recommendations

Student Accounts Receivable

Finding 1

The University of Maryland, College Park (UMCP) did not ensure that all changes made to students' residency status were subject to independent review.

Analysis

Changes in student residency status were not always subject to an independent review because the employee responsible for performing the review of changes on a test basis also processed certain of the related changes. During the audit period, changes made by this employee accounted for approximately 18 percent of the approximately 5,700 changes processed. As a result, improper residency status changes could be recorded without being readily detected. Our testing of residency changes, including certain changes made by the aforementioned employee, did not disclose any unsupported changes.

Accurate student residency determinations are critical because of the significant differences between in-state and out-of-state student tuition rates. For example, the undergraduate tuition for Maryland residents was \$8,824 for the 2021 academic year, whereas the undergraduate tuition rate for out-of-state students was \$34,936. A similar condition regarding the lack of independent reviews of residency status were commented upon in our preceding audit report.

Recommendation 1

We recommend that UMCP ensure that an employee independent of the student residency change process performs a documented review of the propriety of these changes, at least on a test basis (repeat).

Attachment B

Financial System Access

Confidentiality Notice – Finding 2 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 2

UMCP did not perform periodic reviews of user access to its financial accounting system (FAS). We identified several users who had unnecessary access or could process critical transactions without independent supervisory review and approval.

Analysis

UMCP did not perform periodic reviews to ensure the propriety of user access to its financial accounting system (FAS). According to UMCP records, there were 2,268 active FAS users as of February 2021. We reviewed 81 users with access to certain critical activity within FAS and identified 9 users who had unnecessary access. These 9 users consisted of 4 former employees who still had access to add or change vendor information and/or create payment requests and disbursement vouchers in the system and 5 current employees who had the same capabilities even though not required for their job responsibilities. In addition, 7 of the 9 users with unnecessary access could initiate a purchase order and the related payment without independent oversight.

In addition, we noted 19 other users who could process payments without supervisory review and approval, and who could also add or change vendor information. Although UMCP generated a report of all vendor additions and changes, we found that this report was not regularly reviewed to ensure the transactions were proper.

FAS is used to process all non-payroll payments at UMCP. Fiscal Year 2020 expenditures for UMCP totaled \$591.6 million. University System of Maryland (USM) *IT Security Standards* require a documented process for annual verification of users' access rights and monitoring of the security controls over a USM institution's information systems, including periodic reviews of user accounts and access for propriety.

Recommendation 2

We recommend that UMCP

- a. periodically generate reports of critical user access capabilities in its FAS, and review the reports to ensure that access is assigned only to those employees who require such capabilities to perform their normal job duties, and in a manner that provides for an adequate separation of duties;**

Attachment B

- b. remove unnecessary access capabilities in a timely manner, including those noted in this finding; and**
- c. periodically review output reports of vendor additions and changes for propriety.**

Information Systems Security and Controls

Background

The UMCP Division of Information Technology (DIT) provides critical network services to the UMCP campus maintaining two data centers, a wide area network, and local area networks in all campus buildings. The UMCP network, which included approximately 40,000 users and 35,000 computers, was connected to the internet, networkMaryland and the Maryland Research Educational Network. Firewalls existed to protect the network edge and its data centers. UMCP maintained certain significant network accessible applications, including separate student information, human resources, and financial accounting systems.

UMCP uses a decentralized computer operations and maintenance approach, with final responsibilities resting with University departments. However, the DIT also made certain information technology (IT) support services available to University departments for achieving necessary IT operations security. These support services included workstation and network support, directory services, malware protection software, software vulnerability scanning, and firewall services. Many departments used these DIT provided services; however, others did not, leaving them responsible for greater IT security operations, including functions for assigning local administrative rights and installing software security updates.

Confidentiality Notice – Finding 3 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 3

UMCP’s computer network had security weaknesses involving assignment of local administrative rights and management of malware protection software on workstations.

Analysis

UMCP’s computer network had security weaknesses involving assignment of local administrative rights and management of malware protection software on workstations. We noted the following conditions:

- Local administrative rights were not properly restricted. We reviewed 16 UMCP workstations and identified 11 user accounts defined on 9 workstations

Attachment B

where users had unnecessary workstation administrative rights, despite not working as network or system administrators. These 9 workstations existed within University departments which performed their own workstation maintenance, versus using DIT support services. Consequently, if malware infected these workstations, the malware could run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. *USM IT Security Standards* require that institutions implement and document processes that minimize provisioning of local administrative rights so that only those employees who require it are given those rights.

- UMCP did not have assurance that malware protection software was installed on all of its active computers. As of March 9, 2021, we determined that 2,515 of 7,070 active computers tested were not defined for management by the malware protection software's central management server. As a result UMCP did not have assurance that these computers either had malware protection software installed or that it was operational. *USM IT Security Standards* require that institutions "implement appropriate desktop solutions [on all institutionally-owned desktop and laptop computers that store and/or access confidential information] that, to the extent possible, detect malware and update automatically to identify new threats".

Recommendation 3

We recommend that UMCP

- a. limit the assignment of administrative rights on workstations to system and network administrators and those users specifically allowed such rights, with any such assignments to non-IT administrators being justified, approved, documented, and regularly reviewed to determine whether such rights are still needed;**
- b. ensure that malware protection software is installed and maintained on all computers by regularly monitoring related software management consoles to verify all computers' malware protection software status, document these reviews and adjustment actions, and retain this documentation for future reference; and**
- c. strongly consider requiring that workstations' maintenance and software support for all administrative UMCP departments be placed under DIT provided enterprise services, in order to achieve broad compliance with USM security guidelines.**

Attachment B

Confidentiality Notice – Finding 4 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 4

UMCP did not perform software vulnerability scanning over certain critical applications' servers and ensure that all University departments had necessary software scanning and remediation processes, including confirmation that vulnerabilities identified by other separately executed scanning efforts were resolved.

Analysis

UMCP did not perform software vulnerability scanning over certain critical applications' servers and ensure that all University departments had necessary software scanning and remediation processes, including confirmation that vulnerabilities identified by other separately executed scanning efforts were resolved. Despite DIT having offered software vulnerability scanning services to University departments, as of December 2020 scanning was not performed on certain critical UMCP servers for up to 32 months. Our review of software scanning history reports determined that several critical UMCP applications' servers including servers for the student and financial related systems had not been scanned since April 2018.

Additionally, DIT did not ensure that all UMCP departments' systems were scanned for known vulnerabilities. Specifically, DIT personnel advised us that DIT generated software vulnerability scans upon request by departmental system owners. However, DIT did not verify that other departments which had not made such requests alternately performed their own software scans. Lastly, DIT personnel advised us that DIT did not ensure that vulnerabilities reported by periodic software scans were resolved. Specifically, DIT provided scan reports it generated to the departmental system owners for remediation; however, DIT did not monitor departmental remediation efforts for software vulnerabilities identified by either those DIT scans or department generated scanning. As such, DIT did not have assurance that UMCP departmental system owners were remediating identified software vulnerabilities in a timely manner, in accordance with USM IT guidelines.

For attack purposes, malicious parties scan for and exploit significant computer systems software vulnerabilities as a means to compromise and control IT systems. The USM *IT Security Standards*, require that "Institutions must conduct regular assessments to identify computer system vulnerabilities and to take remedial action before the systems are compromised."

Attachment B

Recommendation 4

We recommend that UMCP

- a. require that all University departments authorize DIT to perform periodic software vulnerability scanning and reporting of critical computer system resources; and
- b. implement DIT monitoring procedures to ensure that all system owners validate and remediate software vulnerability scanning results on a timely basis, with such efforts being documented and retained.

Questionable Transactions

Finding 5

UMCP procured services from two companies owned by UMCP employees or their respective spouses. In addition, UMCP could not document that certain procurements from these companies were competitively procured and the related deliverables were received.

Analysis

UMCP procured services from two companies owned by UMCP employees or their respective spouses. In addition, UMCP could not document that certain procurements from these companies were competitively procured and the related deliverables were received. We performed a comparison of UMCP employees (regular and contractual) to UMCP vendors (from its disbursement files) based on match criteria identified by our professional judgment. From that match result, we selected five vendors for further review based on several risk factors, such as employment dates and total payments to the vendor. Our review disclosed questionable relationships involving four employees (one contractual and three regular) and two vendors. The three other vendors did not present a potential conflict of interest or had relationships that had been approved in accordance with existing USM policies.

Audiovisual Services Obtained from a UMCP Contractual Employee's Company

UMCP could not provide documentation of competitive procurements for payments totaling \$540,700 made to a company owned by a UMCP contractual employee.² The company performed audiovisual equipment installations and maintenance and other miscellaneous services for UMCP since at least September 2011, and the employee had worked for UMCP on a part-time contractual basis since 2008. Our review disclosed that UMCP could not provide documentation

² The \$540,700 was comprised of payments totaling \$347,400 made to the company from the beginning of our audit period on July 1, 2017, through June 30, 2021, and the balance of \$193,300 was paid to the company prior to our audit period.

Attachment B

that these services were competitively procured.³ In addition, UMCP could not provide us with signed contracts for preventive maintenance services obtained from the company valued at \$66,000 and could not provide documentation that the related services were received.

Although we did not identify any evidence that the contractual employee was directly involved in the procurement and monitoring processes, the employee worked for the department that awarded these procurements to the company. We consulted senior management personnel at the State Ethics Commission who advised us that unless formally designated as a public official by their employing State agency a contractual State employee is generally excluded from State ethics laws, which prohibits a regular State employee from having an interest in an entity that does business with the agency where the employee works.⁴

Consequently, the UMCP contractual employee's financial interest in or ownership of the company would not violate any provisions of State ethics laws. However, the lack of competitive procurement does violate USM's *Procurement Policies and Procedures*, which generally require competitive procurement for goods and services exceeding \$25,000. The *Procurement Policies and Procedures* further state that procurements exceeding \$25,000 may be awarded without competition if there is only one vendor that can satisfy the requirements and there is written justification documenting the conditions that preclude the use of a competitive procurement process. Although justification was prepared for some of these procurements making up the \$540,700 in payments, the justification prepared did not support the use of the sole source procurement method based on criteria in USM's *Procurement Policies and Procedures*.

Services Obtained from a Company owned by a UMCP Employee's Spouse

A UMCP employee awarded a \$45,000 contract to a company owned by the employee's spouse to provide consulting services under a research grant awarded to UMCP. In addition, two other UMCP employees that worked in the same UMCP department also worked on this contract as employees of the company. None of these three employees had disclosed their relationship with the company as required by USM policy. UMCP management, including individuals approving the grant and contract, advised us that they were not aware of these relationships until we brought it to their attention.

³ Documentation for services obtained prior to July 2017, which was prior to the start of the current audit period, was previously destroyed in accordance with UMCP's document retention policies.

⁴ Contractual State employees designated as public officials by their employing agencies are subject to the financial disclosure and conflict of interest provisions in State ethics laws. Since the UMCP contractual employee did not have this designation, they would not be subject to these provisions of State ethics laws.

Attachment B

UMCP also could not provide us with documentation (such as timesheets) to support the propriety of amounts paid to the company or that related services were received. Since the UMCP employee whose spouse owned the company was responsible for monitoring work performed by the company and approval of the related invoices, there was a lack of independent assurance that the contract with this company was valid and the related payments were proper. Furthermore, we were unable to determine if there were overlapping hours worked by these two employees related to their contractual and UMCP work.

The aforementioned relationships could be a violation of USM policy and State ethics law. Although USM's *Policy on Conflicts of Interest in Research or Development* allows an employee to have a relationship with an entity engaged in research (which would otherwise be prohibited by State ethics laws), if the relationship is disclosed and approved by the applicable institution in accordance with the *Policy*, UMCP was unable to provide us with the required disclosure and approval. In addition, we consulted senior management personnel at the State Ethics Commission who advised us that the financial interest and employment relationships between these three UMCP employees and the company could potentially be a violation of several State ethics laws.

Recommendation 5

We recommend that UMCP

- a. competitively procure services in accordance with USM's *Procurement Policies and Procedures* and ensure formal written contracts are executed, as required;**
- b. ensure that contractually obligated services are provided and that invoices are supported with documentation to enable verification of amounts billed;**
- c. refer the potential violations of State ethics laws to the State Ethics Commission and take action to comply with any decisions that the Commission provides on these matters;⁵ and**
- d. consult with legal counsel and take appropriate legal action to recover amounts paid in which there was no evidence that the goods and services were received.**

⁵ Referral of a matter to the Commission does not mean that a violation took place. Any final decision as to whether violations of State ethics laws did or did not occur would ultimately be made by the Commission.

Attachment B

Payroll

Finding 6

UMCP did not have a process to ensure all employees terminated for improper activities were properly recorded in the UMCP automated personnel system and the Statewide listing of banned employees to ensure they were not rehired.

Analysis

UMCP did not have a process to ensure all employees terminated for improper activities were properly recorded in the UMCP automated personnel system and the Statewide listing of banned employees to ensure they were not rehired. During our audit, UMCP advised us of three employees who were terminated due to questionable financial activity (such as improper use of a UMCP purchasing card). However, these employees were not recorded as “terminated with prejudice” on the UMCP personnel system nor added to the Statewide database used to prevent reemployment in State government, as required by USM policy. UMCP management agreed that these three employees should have been recorded as being “terminated with prejudice” on its automated personnel system and added to the Statewide database. Based on our review of State records, as of December 2021, the aforementioned three individuals were not employed elsewhere in the State.

According to UMCP records, during calendar year 2020, 1,340 non-student employees were terminated, none were recorded as “terminated with prejudice” in UMCP’s system and added to the Statewide database. As a result, these individuals could be rehired by State agencies.

Recommendation 6

We recommend that UMCP

- a. establish procedures to ensure terminated employees who should be classified as “terminated with prejudice” are properly recorded as such in its records and in the Statewide database, and**
- b. consult with legal counsel and determine if the aforementioned three terminated employees can be retroactively recorded as “terminated with prejudice” on UMCP records and added to the Statewide database.**

Attachment B

Finding 7

Timesheets were not always signed by employees and approved by supervisory personnel as required by USM policy.

Analysis

Timesheets were not always signed by employees and approved by supervisory personnel as required by USM policy. UMCP utilized electronic timesheets requiring on-line signature and approval. Based on a report generated from UMCP's payroll system⁶ for fiscal year 2020, there were 3,436 instances (related to 480 employees) of no employee signature and documented supervisory approval for the applicable pay period timesheets. This included 57 employees for whom there was no signed and approved timesheet for all 26 pay periods in the year (accounting for 1,482 instances).

UMCP's Policy on Procedures for Sick Leave and Positive Time Reporting by Faculty Members requires faculty members to complete positive time reports and that those records be signed by the employees and their supervisors. In addition, *Board of Regents' Policy on Work Schedules for Regular Non-Exempt and Exempt Staff Employees* requires that work days and leave hours be recorded for all exempt staff employees via a positive or exception based time keeping method, and that all nonexempt employees record all hours worked and leave hours on their timesheets.

According to the State's records, UMCP's payroll expenditures totaled approximately \$1.4 billion during fiscal year 2020 and there were 9,929 regular employees. A similar condition was commented upon in our preceding audit report.

Recommendation 7

We recommend that UMCP establish adequate monitoring procedures and controls to ensure that all timesheets are signed by the applicable employee and approved by appropriate supervisory personnel (repeat).

⁶ We tested this report and found it to be reliable for our purposes.

Attachment B

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland, College Park (UMCP) for the period beginning July 1, 2017 and ending December 31, 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 UMCP'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 procurements and disbursements, student accounts receivable, cash receipts, student financial aid, payroll, corporate purchasing cards, and construction. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to UMCP by the USM Office. These support services (such as bond financing) are included within the scope of our audit of the USM Office. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal assistance programs and an assessment of UMCP'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 tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2017 to December 31, 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 UMCP operations. Generally,

Attachment B

transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in the finding, 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). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from UMCP's financial system for the purpose of testing certain areas, such 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.

UMCP'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 UMCP, 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.

Attachment B

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 UMCP'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 UMCP that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to UMCP and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from the USM Office, on behalf of UMCP, to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. 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

Attachment B



3300 METZEROTT ROAD // ADELPHI, MD 20783
WWW.USMD.EDU // 301.445.1923

OFFICE OF ADMINISTRATION AND FINANCE

September 16, 2022

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

Re: University System of Maryland – University of Maryland, College Park
Period of Audit: July 1, 2017 through December 31, 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 – University of Maryland, College Park. Our comments refer to the individual items in the report.

Sincerely,

Ellen Herbst
Senior Vice Chancellor for Administration and Finance

Enclosures

- cc: Dr. Darryll J. Pines, President, University of Maryland, College Park
- Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents
- Dr. Jay A. Perman, Chancellor, University System of Maryland
- Ms. Celeste Denson, Comptroller, USM Office
- Mr. David Mosca, Vice Chancellor for Accountability, USM Office
- Mr. Michael C. Eismeier, Assistant Vice Chancellor, Information Technology and Deputy Chief Information Officer, USM Office
- Mr. Carlo Colella, Vice President, Administration and Finance, UMCP
- Mr. Gregory Oler, Vice President for Finance and Chief Financial Officer, UMCP
- Mr. Jeffrey Hollingsworth, Vice President of Information Technology and CIO, UMCP

INSTITUTIONS // BOWIE STATE UNIVERSITY • COPPIN STATE UNIVERSITY • FROSTBURG STATE UNIVERSITY • SALISBURY UNIVERSITY
TOWSON UNIVERSITY • UNIVERSITY OF BALTIMORE • UNIVERSITY OF MARYLAND, BALTIMORE • UNIVERSITY OF MARYLAND, BALTIMORE COUNTY
UNIVERSITY OF MARYLAND CENTER FOR ENVIRONMENTAL SCIENCE • UNIVERSITY OF MARYLAND, COLLEGE PARK • UNIVERSITY OF MARYLAND
EASTERN SHORE • UNIVERSITY OF MARYLAND GLOBAL CAMPUS **REGIONAL CENTERS** // UNIVERSITIES AT SHADY GROVE • UNIVERSITY SYSTEM
OF MARYLAND AT HAGERSTOWN • UNIVERSITY SYSTEM OF MARYLAND AT SOUTHERN MARYLAND

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Student Accounts Receivable

Finding 1

The University of Maryland, College Park (UMCP) did not ensure that all changes made to students' residency status were subject to independent review.

We recommend that UMCP ensure that an employee independent of the student residency change process performs a documented review of the propriety of these changes, at least on a test basis (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	February 2022
Please provide details of corrective action or explain disagreement.	The employee responsible for committee changes had to process regular residency changes temporarily due to staffing. The committee changes continued to be reviewed on a test basis, however, the regular residency changes were not subject to review. As of February 2022, the process developed in the previous audit has been reinstated. Regular and committee residency changes are reviewed on a test basis by an independent employee and this review is documented.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Financial System Access

Confidentiality Notice – Finding 2 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 2
 UMCP did not perform periodic reviews of user access to its financial accounting system (FAS). We identified several users who had unnecessary access or could process critical transactions without independent supervisory review and approval.

We recommend that UMCP

- a. periodically generate reports of critical user access capabilities in its FAS, and review the reports to ensure that access is assigned only to those employees who require such capabilities to perform their normal job duties, and in a manner that provides for an adequate separation of duties;
- b. remove unnecessary access capabilities in a timely manner, including those noted in this finding; and
- c. periodically review output reports of vendor additions and changes for propriety.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The compensating control of multi-factor authentication was not included in the analysis. For the 4 former employees, their logins were revoked, therefore, they could not access the financial system.		
Recommendation 2a	Agree	Estimated Completion Date:	July 2023
Please provide details of corrective action or explain disagreement.	UMCP is in the process of implementing a new financial system which is a role based security system, while our current system is a user based security system. UMCP will review user access for those identified in the audit; however, a periodic review of user access will be obsolete with the new financial system.		
Recommendation 2b	Agree	Estimated Completion Date:	October 2022
Please provide details of corrective action or explain disagreement.	UMCP will perform an assessment of those users identified in the finding and determine if user access can be removed. In some instances, it is necessary for individuals to have these overlapping capabilities. In these instances, reports will be generated and monitored by an independent party.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Recommendation 2c	Agree	Estimated Completion Date:	October 2022
Please provide details of corrective action or explain disagreement.	UMCP will implement a review of vendor additions and changes for those users identified in this finding until the replacement system is fully implemented.		

Information Systems Security and Controls

Confidentiality Notice – Finding 3 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 3 UMCP’s computer network had security weaknesses involving assignment of local administrative rights and management of malware protection software on workstations.
--

We recommend that UMCP

- a. limit the assignment of administrative rights on workstations to system and network administrators and those users specifically allowed such rights, with any such assignments to non-IT administrators being justified, approved, documented, and regularly reviewed to determine whether such rights are still needed;
- b. ensure that malware protection software is installed and maintained on all computers by regularly monitoring related software management consoles to verify all computers’ malware protection software status, document these reviews and adjustment actions, and retain this documentation for future reference; and
- c. strongly consider requiring that workstations’ maintenance and software support for all administrative UMCP departments be placed under DIT provided enterprise services, in order to achieve broad compliance with USM security guidelines.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	January 2023
Please provide details of corrective action or explain disagreement.	UMCP will explore, procure, and implement technologies that can limit, document, and review administrative rights on workstations.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Recommendation 3b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	Malware protection software is installed and maintained on all computers managed. IT Security regularly monitors malware alerts on managed consoles to verify all computers' malware protection software status. Reviews and actions are documented.		
Recommendation 3c	Agree	Estimated Completion Date:	February 2023
Please provide details of corrective action or explain disagreement.	University Policy X-1.0(A) establishes that those using university information technology resources are responsible for complying with security standards set forth by the Vice President/Chief Information Officer (VP/CIO).UMCP agrees this should be seriously considered. In conjunction with relevant divisional Vice Presidents, DIT will determine the feasibility, scope, and timeline for such a shift.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Confidentiality Notice – Finding 4 has been deemed to be a cybersecurity-related audit finding subject to redaction in the publicly available report.

Finding 4
UMCP did not perform software vulnerability scanning over certain critical applications’ servers and ensure that all University departments had necessary software scanning and remediation processes, including confirmation that vulnerabilities identified by other separately executed scanning efforts were resolved.

We recommend that UMCP

- a. require that all University departments authorize DIT to perform periodic software vulnerability scanning and reporting of critical computer system resources; and
- b. implement DIT monitoring procedures to ensure that all system owners validate and remediate software vulnerability scanning results on a timely basis, with such efforts being documented and retained.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	March 2023
Please provide details of corrective action or explain disagreement.	IT Security will offer vulnerability scanning as service to all UMCP departments. Due to UMCP being de-centralized onboarding units will be encouraged. All designated departments deemed “sensitive” for the purposes of cybersecurity will be required quarterly vulnerability scanning and reporting.		
Recommendation 4b	Agree	Estimated Completion Date:	March 2023
Please provide details of corrective action or explain disagreement.	IT Security will implement procedures and offer consulting to ensure all system owners remediate high or medium discovered vulnerabilities in a timely basis.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Questionable Transactions

Finding 5
UMCP procured services from two companies owned by UMCP employees or their respective spouses. In addition, UMCP could not document that certain procurements from these companies were competitively procured and the related deliverables were received.

We recommend that UMCP

- a. competitively procure services in accordance with USM’s *Procurement Policies and Procedures* and ensure formal written contracts are executed, as required;
- b. ensure that contractually obligated services are provided and that invoices are supported with documentation to enable verification of amounts billed;
- c. refer the potential violations of State ethics laws to the State Ethics Commission and take action to comply with any decisions that the Commission provides on these matters; and
- d. consult with legal counsel and take appropriate legal action to recover amounts paid in which there was no evidence that the goods and services were received.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 5a	Agree	Estimated Completion Date:	August 2022
Please provide details of corrective action or explain disagreement.	UMCP will ensure competitive procurements are initiated in accordance with policies, as required.		
Recommendation 5b	Agree	Estimated Completion Date:	August 2022
Please provide details of corrective action or explain disagreement.	Invoices shall contain detail that corresponds to the obligation as required by the contract. UMD will seek additional supporting documentation from the sub recipient or seek appropriate reimbursement if questions arise regarding pricing or deliverables.		
Recommendation 5c	Agree	Estimated Completion Date:	November 2022

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Please provide details of corrective action or explain disagreement.	<p>For the contractual employee, OLA stated in its analysis that the SEC was consulted and contractual employees are not subject to the provisions of the State Ethics Law.</p> <p>For the regular employee, the University will disclose this relationship to the SEC and follow any guidance received.</p>		
Recommendation 5d	Agree	Estimated Completion Date:	November 2022
Please provide details of corrective action or explain disagreement.	UMCP will seek advice from legal counsel regarding the items identified in the analysis.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Payroll

Finding 6
 UMCP did not have a process to ensure all employees terminated for improper activities were properly recorded in the UMCP automated personnel system and the Statewide listing of banned employees to ensure they were not rehired.

We recommend that UMCP

- a. establish procedures to ensure terminated employees who should be classified as “terminated with prejudice” are properly recorded as such in its records and in the Statewide database, and
- b. consult with legal counsel and determine if the aforementioned three terminated employees can be retroactively recorded as “terminated with prejudice” on UMCP records and added to the Statewide database.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 6a	Agree	Estimated Completion Date:	June 2022
Please provide details of corrective action or explain disagreement.	UMCP will ensure that “termination with prejudice” is considered for employment actions that could be considered negligible.		
Recommendation 6b	Agree	Estimated Completion Date:	December 2022
Please provide details of corrective action or explain disagreement.	UMCP’s Office of General Counsel will consult with the Office of the Attorney General for a written opinion.		

Attachment B

University System of Maryland University of Maryland, College Park

Agency Response Form

Finding 7

Timesheets were not always signed by employees and approved by supervisory personnel as required by USM policy.

We recommend that UMCP establish adequate monitoring procedures and controls to ensure that all timesheets are signed by the applicable employee and approved by appropriate supervisory personnel (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	We agree that signing of timesheets is an ongoing issue; we have seen great improvements from last audit. More than 50% of timesheet non-compliance comes from employment classes that do not earn leave and are governed by a separate employment contract.		
Recommendation 7	Agree	Estimated Completion Date:	July 2023
Please provide details of corrective action or explain disagreement.	The University is in the process of implementing a new human resource management system which will replace the current timekeeping system. All exempt employees (including faculty) will move to an exception based system.		

Attachment B

AUDIT TEAM

Michael J. Murdzak, CPA
Audit Manager

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

J. Alexander Twigg
Senior Auditor

Eric Alexander, CPA, CISA
Edward O. Kendall, CISA
Information Systems Senior Auditors

Marina I. Bulatova
Adam D. Dean
Jordan T. Duke, CFE
Andrew W. Mills
Stacey D. Streett
Staff Auditors

Vickey K. Micah
Charles O. Price
Malcolm J. Woodard
Information Systems Staff Auditors

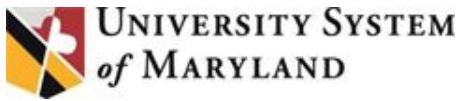
USM Summary of Audit Findings per Office of Legislative Audits September 30, 2022	OLA Report Issued:													Total
	May-21	Sep-19	Aug-20	Oct-19	Aug-20	Dec-21	Jul-19	Jan-20	Jun-19	Sep-22	Jan-19	Nov-19	Sep-19	
	BSU	CSU	FSU	SU	TU	UB	UMB	UMBC	UMCES	UMCP	UMES	UMGC	USMO	
Fiscal Compliance														
Cash			1					1						2
Student Accounts Receivable					1		1		1		1.5			4.5
Student Refund Validity Not Confirmed and Issuance Not Verified	0.5													0.5
Grants Accounts Receivable									1					1
Centers and Institutes													1	1
Purchases and Disbursements	0.5	1		1			1	1						3.5
Payroll										2				4
Procurement/Contract Monitoring	0.5		2							0.5	1.5			4.5
Conflict of Interest							1			0.5				1.5
Employee Compensation		1										1		2
Financial Account Reconciliations											1		1	1
Financial Aid Adjustments	0.5	1					0.5	1						3
Financial Aid Awards Without Independent Review	0.5			1	1									2.5
Financial Aid Awards Lacked Written Eligibility Criteria		1												1
Financial Aid Application Data Verification Without Independent Review							0.5							0.5
Food Services Contract											0.5			0.5
Foundation(s)				1							1			2
Interagency Agreements														1
Student Residency Verification		1								1	0.5	1	1	3.5
Verification of Vendor Safeguarding Student Sensitive Personal Information (SOC 2 Report)	0.5			1	1	1								3.5
IT Areas:														
Information Technology:	4	1	2	1	0	2	0	1	0	3	3	2	1	20
Total number of findings per OLA Audit report	7	6	5	5	3	7	2	4	1	7	9	4	3	63

Note: Fractions represent instances where an audit finding fits in more than one category.
 * Contains a repeat finding

II	Non-II	Total
20	43	63.00

USM Summary of Audit Findings per Office of Legislative Audits As of September 30, 2022	OLA Report Issued:													Total
	May-21	Sep-19	Aug-20	Oct-19	Aug-20	Dec-21	Jul-19	Jan-20	Jun-19	Sep-22	Jan-19	Nov-19	Sep-19	
	BSU	CSU	FSU	SU	TU	UB	UMB	UMBC	UMCES	UMCP	UMES	UMGC	USMO	
Change in Total OLA Report Findings *	2	-1	1	1	-6	0	-6	-3	0	0	-4	1	0	-15
Change in Total REPEAT Findings *	2	0	1	0	-1	-1	1	0	1	1	1	1	1	7
	BSU	CSU	FSU	SU	TU	UB	UMB	UMBC	UMCES	UMCP	UMES	UMGC	USMO	Total
Total Current OLA Report Findings	7	6	5	5	3	7	2	4	1	7	9	4	3	63
Total Repeat Findings (included in Total)	2	2	1	0	0	0	1	0	1	2	2	1	1	13

Note 1 (*) - Change represents difference from most recent year's audit report to its previous report.
 UMCP IT report noted 2 repeat findings that have been combined into 1 finding in the December 2014 report.



BOARD OF REGENTS

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

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

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

SUMMARY:

See Attachment: Listing of Open Action Items From 2019 – 2022 Audit Committee Meetings.

Items covered in today's meeting:

1. Update of Fundraising Foundation Policy Development.
2. Provide Committee an Annual Analysis Report of OLA Findings – Included in FY 2023 Work Plan.

attachment

FISCAL IMPACT: none

CHANCELLOR'S RECOMMENDATION: none

COMMITTEE ACTION: none

DATE:

BOARD ACTION: none

DATE:

SUBMITTED BY: David Mosca

USM Board of Regents
 Action Items From 2019 - 2022 Audit Committee Meetings
 10-Jun-22

Action Item

Status

From June 2022 Audit Committee Meeting

1.	Update of Fundraising Foundation Policy Development.	Included in October 2022 Committee Meeting
----	--	--

From March 2022 Audit Committee Meeting

1.	Update of Fundraising Foundation Policy Development.	Included in October 2022 Committee Meeting
2.	Provide Committee Updates of Prosecution of Former Employee's Theft of Computer Equipment- UMCP	No progress since the June 2022 Meeting

From December 2021 Audit Committee Meeting

1.	Update of Fundraising Foundation Policy Development.	Included in October 2022 Committee Meeting
2.	Provide Committee an annual analysis report of OLA findings.	Included in FY 2023 Audit Committee Work Plan

From October 2021 Audit Committee Meeting

1.	Obtain review of Fundraising Foundation Policy by the OAG.	Completed.
2.	ERM and Crisis Management Work Group should ask presidents for top 5 risks in terms of likelihood and impact. Consider putting these in heat map for reporting.	Compiled via 2022 Performance Evaluations and reported to the ERM and CM Work Group.

From June 2021 Audit Committee Meeting

1.	Obtain review of Fundraising Foundation Policy by the OAG.	Included in October 2022 Committee Meeting
----	--	--

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 October 2022 Committee Meeting
----	---	--

From October 2019 Audit Committee Meeting

1.	Universities shall submit their ERM plan of implementation to the Audit Committee and annually produce risk dashboards. Internal Audit should audit implementation of ERM.	Ongoing.
----	--	----------

Note: Action items concluded prior to the June 2022 BOR Audit Committee meetings are not included in this schedule.



STATEMENT REGARDING CLOSING A MEETING
OF THE USM BOARD OF REGENTS

Date: October 21, 2022
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) [x] To consult with counsel to obtain legal advice on a legal matter.
- (8) [] To consult with staff, consultants, or other individuals about pending or potential litigation.
- (9) [] To conduct collective bargaining negotiations or consider matters that relate to the negotiations.

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

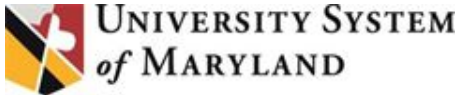
- Administrative Matters

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 2022 internal audit plan of activity; legislative audits currently in progress and the committee meeting separately with the independent auditors and the VC of accountability; seek legal advice regarding fundraising foundation policy and discuss BOR audit self-assessment.

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 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 2022 audit plans of activity by the USM Office of Internal Audit (§ 3-103(a)(1)(i));
- 5) To carry out an administrative function: the Committee's separate meetings with the independent auditors and the VC of Accountability (§3-103(a)(1)(i));
- 6) Received legal advice regarding certain changes recommended to fundraising foundation policy.
- 7) To carry out an administrative function: discussion the Board of Regent's Audit Committee self-assessment (§ 3-103(a)(1)(i));



BOARD OF REGENTS

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

TOPIC: Convening Closed Session

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 21, 2022

SUMMARY:

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

ALTERNATIVE(S): No alternative is suggested.

FISCAL IMPACT: There is no fiscal impact.

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

COMMITTEE ACTION:

DATE: 10-21-2022

BOARD ACTION:

DATE:

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

