



**UNIVERSITY SYSTEM OF MARYLAND  
BOARD OF REGENTS - AUDIT COMMITTEE  
OPEN MEETING AGENDA  
October 16, 2018**

1. [Information & Discussion – FY 2019 Audit Committee Work Plan](#) Mr. Mosca
  
  2. [Information & Discussion – FYE 2018 - System Wide Draft Financials, Balance Sheet & Statement of Changes](#) (affiliated foundations are not included) Ms. Denson  
Mr. Page
  
  3. [Information & Discussion – Review of BOR Policies](#) Mr. Mosca
    - Committee on Audit Charter
    - Committee on Audit Bylaws
  
  4. [Information & Discussion – Completed Office of Legislative Audit Activity](#) Mr. Mosca
  
  5. [Information & Discussion – Follow up of Action Items from Prior Meetings](#) Mr. Mosca  
Mr. Page
  
  6. [Approval - Convene to Closed Session](#) Ms. Fish
-



**BOARD OF REGENTS**

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

**TOPIC:** Information & Discussion – FY 2019 Audit Committee Work Plan

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** October 16, 2018

Attached is a schedule of the Audit Committee’s FY 2019 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 throughout the year.

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 2019**

| Objective                               |   | When Performed           |     |     |      |           |
|---|---|--------------------------|-----|-----|------|-----------|
|   |   | Audit Committee Meetings |     |     |      |           |
|   |   | Oct                      | Dec | Mar | June | As Needed |
| <b>Authority</b>                        |   |                          |     |     |      |           |
| 1                                       | The Committee, with the approval of the Board, is empowered to retain outside counsel or persons having special competence as necessary to assist the Committee in fulfilling its responsibility. |                          |     |     |      | x         |
| 2                                       | Resolve any disagreements between the independent auditor and management.   |                          |     |     |      | x         |
| <b>Composition of Committee Members</b> |   |                          |     |     |      |           |
| 3                                       | The Audit Committee shall comprise not less than 5 or more than 7 members. The majority of the members must be knowledgeable about financial matters.   | x                        |     |     |      |           |
| <b>Meetings</b>                         |   |                          |     |     |      |           |
| 4                                       | Meet at least 4 times per year.   | x                        | x   | x   | x    |           |
| <b>Responsibilities</b>                 |   |                          |     |     |      |           |
| <b>Internal Audit</b>                   |   |                          |     |     |      |           |
| 5                                       | Review with the Director of Internal Audit progress of completing the annual plan of activity.  | x                        | x   | x   | x    |           |
| 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    |           |
| <b>Independent Auditor</b>              |   |                          |     |     |      |           |
| 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                                      | Discuss the scope of external auditors' review of internal control over financial reporting.  |                          | x   |     |      |           |

**USM BOR Audit Committee  
Annual Work Plan  
FY 2019**

| Objective                  |  | When Performed<br>Audit Committee Meetings |     |     |      |           |
|----------------------------|--|--|-----|-----|------|-----------|
|                            |  | Oct  | Dec | Mar | June | As Needed |
| 15                         | Discuss/review results of A-133 Single Audit   |  |     | x   |      |           |
| 16                         | Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.                                  |  |     |     |      | x         |
| 17                         | Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.                        | x  | x   | x   | x    |           |
| <b>Financial Reporting</b> |  |  |     |     |      |           |
| 18                         | Review FYE Consolidated Financial Statements.  | x  | x   |     |      |           |
| 19                         | Review FYE Financial Dashboard Indicators.   |  | x   |     |      |           |
| 20                         | Review 12/31/17 six month Financial Statements.  |  |     | x   |      |           |
| <b>Other</b>               |  |  |     |     |      |           |
| 21                         | Regularly report to the Board of Regents about Committee activities.   |  |     |     |      | x         |
| 22                         | Confirm annually that all responsibilities outlined in the committee's charter have been carried out.  |  |     |     | x    |           |
| 23                         | 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         |
| 24                         | 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    |           |
| 25                         | Review policies pertaining to Audit Committee.   | x  |     |     | x    | x         |
| 26                         | 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    |           |
|                            |  |  |     |     |      |           |



**BOARD OF REGENTS**

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

**TOPIC:** FY 2018 Preliminary USM Financial Statements

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** October 16, 2018

**SUMMARY:**

A brief review of the unaudited preliminary University System of Maryland basic financial statements for the year ended June 30, 2018.

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, 2018 and 2017. The second part of the Financial Snapshot adjusts the publically reported balances to take into consideration for Board-approved claims and authorizations not yet expended or reflected the financial statements to arrive at a 'true' financial health ratio for internal management and decision-making purposes.

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, 2018 and 2017 prepared on an accrual basis of accounting. The final, audited financial statements for the University System of Maryland will be available in early 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 financial statements of the affiliated foundations, 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



**UNIVERSITY SYSTEM  
of MARYLAND**  
**Preliminary Financial Statements**  
**Years ended June 30, 2018 and 2017**

**Key points associated with FY 2018 preliminary financial statements:**

1. The total net position increase of \$343M (**A on page 1**) is comprised of an increase of \$123M in unrestricted net position (**B on page 1**), \$228M increase in net invested in capital assets (**C on page 1**) and \$8M decrease in restricted net position.
2. The increase in unrestricted net position reflects an increase from operating activities of more than \$216M offset by cash-funded spending on capital projects of \$93M.
3. The following institutions report the largest increases in unrestricted net position: UMB \$25M, UMCP \$23M, TU \$15M, and UMUC \$16M.
4. Based on preliminary financials, all institutions except for UMES met the President's fund balance goal for fiscal year 2018. UMES is reporting a \$2.5M decrease in unrestricted net assets (adjusted for net pension expense and change in revolving loan program) as a result of significant decreases in enrollment.
5. Endowment investments increase of \$65M (**E on page 1**) is the result of the creation of a \$50M quasi endowment to support facilities and renewal programs and a 9.1% investment return.
6. The net pension liability for FY18 and FY17 is \$1,130M and \$1,217M, respectively (**D on page 1**). The decrease is a reflection of the overall decrease in the Statewide pension liability due to investment results. The actual rate of return reflected in the FY17 State pension audit was 10.02% compared to 1.15% in the prior year. The allocation of the pension liability is based on USM's contribution to the pension plan in relation to total contributions made Statewide. USM's share of the Plan, based on the total contributions paid by USM institutions relative to all State agencies, increased from 5.49% to 5.54%. The net impact of pension related adjustments not including the FY18 required contributions of \$127M is an additional \$81M expense.
7. As shown on the 'Financial Snapshot' (**page 3**), the financial statements report an improvement in 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 + unfunded pension amounts + USM accrued leave liability + affiliated foundation unrestricted net assets) to debt outstanding, increased from 168% at June 30, 2017 to 185% at June 30, 2018 (**F on page 3**). Adjusting for Board-approved commitments and authorizations to spend not yet reflected in the financial statements, FY18 resulted in an increase in overall in 'true' financial standing, with the ratio of available resources to debt outstanding on an adjusted basis, improving to 133% from 119% in FY17 (**G on page 3**).

**UNIVERSITY SYSTEM OF MARYLAND  
BALANCE SHEETS  
JUNE 30, 2018 AND 2017**

|  | <b>2018</b>              | <b>2017</b>             |
|--|--------------------------|-------------------------|
| <b>ASSETS</b>  |                          |                         |
| <b>Current assets:</b>   |                          |                         |
| Cash and cash equivalents  | \$ 2,333,139,133         | \$ 2,173,087,940        |
| Accounts receivable, net   | 304,413,404              | 275,273,036             |
| Notes receivable, current portion, net                                   | 6,558,423                | 8,647,499               |
| Inventories  | 9,216,939                | 10,659,675              |
| Prepaid expenses and other   | 18,440,579               | 14,037,560              |
| <b>Total current assets</b>  | <b>2,671,768,478</b>     | <b>2,481,705,710</b>    |
| <b>Noncurrent assets:</b>  |                          |                         |
| Restricted cash and cash equivalents                                     | 95,785,038               | 100,060,603             |
| Endowment investments  | E 328,770,327            | E 264,216,610           |
| Other investments  | 16,827,818               | 11,087,345              |
| Notes receivable, net  | 36,777,741               | 41,911,500              |
| Capital assets, net  | 6,465,363,895            | 6,270,469,058           |
| <b>Total noncurrent assets</b>   | <b>6,943,524,819</b>     | <b>6,687,745,116</b>    |
| <b>Total assets</b>  | <b>9,615,293,297</b>     | <b>9,169,450,826</b>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                    |                          |                         |
| Unamortized loss on refundings of debt                                   | 16,987,930               | 19,798,069              |
| Deferred changes in pension expense                                      | 469,773,028              | 583,358,819             |
| <b>Total assets and deferred outflows of resources</b>                   | <b>\$ 10,102,054,255</b> | <b>\$ 9,772,607,714</b> |
| <b>LIABILITIES</b>   |                          |                         |
| <b>Current liabilities:</b>  |                          |                         |
| Accounts payable and accrued liabilities                                 | \$ 266,703,728           | \$ 269,144,379          |
| Accrued workers' compensation, current portion                           | 4,405,800                | 4,440,600               |
| Accrued vacation costs, current portion                                  | 105,995,954              | 104,818,549             |
| Revenue bonds and notes payable, current portion                         | 98,014,145               | 93,370,871              |
| Obligations under capital lease agreements, current portion              | 1,548,767                | 1,450,296               |
| Unearned revenues  | 288,687,952              | 239,825,944             |
| <b>Total current liabilities</b>   | <b>765,356,346</b>       | <b>713,050,639</b>      |
| <b>Noncurrent liabilities:</b>   |                          |                         |
| Accrued workers' compensation  | 24,966,200               | 25,163,400              |
| Accrued vacation costs   | 109,544,405              | 108,424,668             |
| Revenue bonds and notes payable  | 1,182,196,949            | 1,196,953,524           |
| Obligations under capital lease agreements                               | 4,497,360                | 6,046,126               |
| Net pension liability  | D 1,130,058,957          | D 1,216,808,542         |
| <b>Total noncurrent liabilities</b>                                      | <b>2,451,263,871</b>     | <b>2,553,396,260</b>    |
| <b>Total liabilities</b>   | <b>3,216,620,217</b>     | <b>3,266,446,899</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                     |                          |                         |
| Deferred service concession arrangement receipts                         | 288,931,472              | 307,287,513             |
| Deferred financing inflow, pension liability                             | 123,312,342              | 68,382,401              |
| <b>Total deferred inflows of resources</b>                               | <b>412,243,814</b>       | <b>375,669,914</b>      |
| <b>NET POSITION</b>  |                          |                         |
| Unrestricted   | B 1,242,670,876          | B 1,119,703,242         |
| Net investment in capital assets   | C 4,998,312,222          | C 4,770,197,890         |
| Restricted:  |                          |                         |
| Nonexpendable:   |                          |                         |
| Scholarships and fellowships   | 16,541,068               | 16,488,037              |
| Research   | 5,024,979                | 4,266,455               |
| Other  | 16,872,175               | 16,870,629              |
| Expendable:  |                          |                         |
| Scholarships and fellowships   | 36,949,109               | 35,299,757              |
| Research   | 76,936,727               | 75,456,300              |
| Loans  | 50,680,433               | 59,618,603              |
| Capital projects   | 2,184,122                | 6,351,336               |
| Other  | 27,018,513               | 26,238,652              |
| <b>Total net position</b>  | <b>A 6,473,190,224</b>   | <b>A 6,130,490,901</b>  |
| <b>Total liabilities, deferred inflows of resources and net position</b> | <b>\$ 10,102,054,255</b> | <b>\$ 9,772,607,714</b> |

**UNIVERSITY OF SYSTEM OF MARYLAND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

|  | <u>2018</u>          |                         | <u>2017</u>             |
|--|----------------------|-------------------------|-------------------------|
| <b>OPERATING REVENUES:</b>                     |                      |                         |                         |
| Tuition and fees                               | \$ 1,710,920,032     |                         | \$ 1,628,712,485        |
| Less: scholarship allowances                   | <u>(322,828,367)</u> | \$ 1,388,091,665        | <u>(295,368,216)</u>    |
| Federal grants and contracts                   |                      | 718,688,150             | 677,154,092             |
| State and local grants and contracts           |                      | 210,692,967             | 205,676,639             |
| Nongovernmental grants and contracts           |                      | 230,028,168             | 233,649,313             |
| Sales and services of educational departments  |                      | 328,786,554             | 344,781,319             |
| Auxiliary enterprises:                         |                      |                         |                         |
| Residential facilities                         | 197,159,431          |                         | 195,806,549             |
| Less: scholarship allowances                   | <u>(11,583,970)</u>  | 185,575,461             | <u>(11,150,722)</u>     |
| Dining facilities                              | 131,941,768          |                         | 130,336,470             |
| Less: scholarship allowances                   | <u>(5,830,948)</u>   | 126,110,820             | <u>(6,381,458)</u>      |
| Intercollegiate athletics                      | 137,466,663          |                         | 131,608,613             |
| Less: scholarship allowances                   | <u>(6,237,079)</u>   | 131,229,584             | <u>(5,662,790)</u>      |
| Bookstore                                      | 16,695,599           |                         | 18,113,990              |
| Less: scholarship allowances                   | <u>(1,587,569)</u>   | 15,108,030              | <u>(1,421,595)</u>      |
| Parking facilities                             | 43,666,133           |                         | 44,068,363              |
| Less: scholarship allowances                   | <u>(139,226)</u>     | 43,526,907              | <u>(207,745)</u>        |
| Other auxiliary enterprises revenues           | 150,706,520          |                         | 149,037,183             |
| Less: scholarship allowances                   | <u>(29,142)</u>      | 150,677,378             | <u>(29,633)</u>         |
| Other operating revenues                       |                      | <u>78,569,129</u>       | <u>76,997,357</u>       |
| <b>Total operating revenues</b>                |                      | <u>3,607,084,813</u>    | <u>3,515,720,214</u>    |
| <b>OPERATING EXPENSES:</b>                     |                      |                         |                         |
| Instruction                                    |                      | 1,341,989,472           | 1,304,339,999           |
| Research                                       |                      | 1,048,328,939           | 1,006,751,565           |
| Public service                                 |                      | 162,474,866             | 159,815,026             |
| Academic support                               |                      | 467,971,957             | 451,797,952             |
| Student services                               |                      | 268,552,764             | 242,660,746             |
| Institutional support                          |                      | 534,093,589             | 507,673,901             |
| Operation and maintenance of plant             |                      | 373,884,439             | 353,917,522             |
| Scholarships and fellowships                   |                      | 120,668,204             | 110,187,780             |
| Auxiliary enterprises:                         |                      |                         |                         |
| Residential facilities                         |                      | 170,607,965             | 164,714,199             |
| Dining facilities                              |                      | 119,195,039             | 116,287,542             |
| Intercollegiate athletics                      |                      | 125,176,052             | 121,791,690             |
| Bookstore                                      |                      | 17,948,666              | 18,098,762              |
| Parking facilities                             |                      | 32,884,807              | 31,198,308              |
| Other auxiliary enterprises expenses           |                      | 127,378,767             | 122,364,240             |
| Hospital                                       |                      | <u>210,967,837</u>      | <u>207,609,768</u>      |
| <b>Total operating expenses</b>                |                      | <u>5,122,123,363</u>    | <u>4,919,209,000</u>    |
| <b>Operating loss</b>                          |                      | <u>(1,515,038,550)</u>  | <u>(1,403,488,786)</u>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>        |                      |                         |                         |
| State appropriations                           |                      | 1,328,645,088           | 1,295,338,118           |
| Pell grants                                    |                      | 162,894,822             | 147,457,189             |
| Gifts  |                      | 68,538,021              | 50,652,089              |
| Investment Income                              | 65,115,458           |                         | 65,280,437              |
| Less: investment expense                       | <u>(1,051,608)</u>   | 64,063,850              | <u>(714,292)</u>        |
| Interest on indebtedness                       |                      | (41,485,749)            | (42,826,529)            |
| Other revenues, (expenses), gains and (losses) |                      | <u>10,718,936</u>       | <u>13,326,667</u>       |
| <b>Total nonoperating revenues</b>             |                      | <u>1,593,374,968</u>    | <u>1,528,513,679</u>    |
| <b>Income before other revenues</b>            |                      | <u>78,336,418</u>       | <u>125,024,893</u>      |
| <b>OTHER REVENUES:</b>                         |                      |                         |                         |
| Capital appropriations                         |                      | 228,308,886             | 208,834,385             |
| Capital gifts and grants                       |                      | 35,240,920              | 21,435,670              |
| Additions to permanent endowments              |                      | <u>813,099</u>          | <u>297,575</u>          |
| <b>Total other revenues</b>                    |                      | <u>264,362,905</u>      | <u>230,567,630</u>      |
| <b>Increase in net position</b>                |                      | 342,699,323             | 355,592,523             |
| <b>Net position - beginning of year</b>        |                      | <u>6,130,490,901</u>    | <u>5,774,898,378</u>    |
| <b>Net position - end of year</b>              |                      | <u>\$ 6,473,190,224</u> | <u>\$ 6,130,490,901</u> |





**Financial Snapshot**  
**As of June 30, 2018 Compared with 2017**

|  | <u>June 30, 2018</u>    | <u>June 30, 2017</u>    |
|--|-------------------------|-------------------------|
| <b>From the June 30, 2018 preliminary statements and 2017 audit financial statements</b>     |                         |                         |
| USM Unrestricted Net Position  | \$ 1,242,670,876        | \$ 1,119,703,242        |
| Unfunded pension amounts   | 783,598,271             | 701,832,124             |
| USM Accrued Leave  | 215,540,359             | 213,243,217             |
| Affiliated foundations unrestricted net assets   | <u>143,632,009</u>      | <u>143,632,009</u>      |
| <b>Available funds</b>   | <u>\$ 2,385,441,515</u> | <u>\$ 2,178,410,592</u> |
| <b>Debt Outstanding</b>  | \$ 1,286,257,221        | \$ 1,297,820,817        |
| <b>Ratio of Available Resources to Debt Outstanding Per Financial Statements</b>             | <b>185% F</b>           | <b>168% F</b>           |
| <b>Claims against the June 30 available resources not reflected in financial statements:</b> |                         |                         |
| Available funds per financial statements   | \$ 2,385,441,515        | \$ 2,178,410,592        |
| Cash-funded capital projects not fully spent at June 30,                                     | (258,622,512)           | (249,419,018)           |
| Future years cash-funded committed but not yet authorized                                    | <u>(197,250,000)</u>    | <u>(191,475,000)</u>    |
| <b>Adjusted available funds</b>  | <u>\$ 1,929,569,003</u> | <u>\$ 1,737,516,574</u> |
| Debt outstanding per financial statements  | \$ 1,286,257,221        | \$ 1,297,820,817        |
| Revenue bond-funded projects authorized but debt not yet issued                              | <u>168,041,595</u>      | <u>168,376,186</u>      |
| <b>Adjusted total debt outstanding</b>   | <u>\$ 1,454,298,816</u> | <u>\$ 1,466,197,003</u> |
| <b>Ratio of Available Resources to Debt Outstanding, Adjusted</b>                            | <b>133% G</b>           | <b>119% F</b>           |

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

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**TOPIC:** Review of Board of Regent Policies

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** October 16, 2018

**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 December 21, 2016. No modifications are currently recommended.
2. The Board of Regents Bylaws Section 3. Last reviewed October 16, 2017. 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:

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BOARD ACTION:

DATE:

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SUBMITTED BY: David Mosca

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## **Attachment A**

### **University System of Maryland Board of Regents Audit Committee Audit Committee Charter Revised - December 21, 2016**

#### **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 members of the Committee. 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 others 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 chairman may request that members of management and the representatives of the independent auditor 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.

## **Attachment B**

### **Board of Regents Bylaws**

#### **Section 3. Committee on Audit.**

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.

**Attachment C**

USM BOR Policy Review Schedule  
 Committee on Audit  
 October 16, 2018

| Policy Number | Policy Name   | Last Updated | Last Reviewed | Next Committee Review Date |
|---------------|---|--------------|---------------|----------------------------|
|               |   |              |               |                            |
| 1-7.00        | Policy on Public Ethics of Members of the Board of Regents                              | Aug-99       | Oct-16        | FY 2020                    |
| VIII-7.10     | Policy on Reporting Suspected or Known Fiscal Irregularities                            | Jun-17       | Jun-17        | FY 2020                    |
| VIII-7.11     | Policy on the Communication of Suspected Fraud, Unethical and Illegal Business Activity | Apr-10       | Apr-17        | FY 2020                    |
| VIII-7.20     | Policy on External Audits   | Jun-18       | Jun-18        | FY 2021                    |
| VIII-7.30     | Policy on Responses to Legislative Audits   | Jun-18       | Jun-18        | FY 2021                    |
| VIII-7.50     | USM Office of Internal Audit Charter  | Jun-18       | Jun-18        | FY 2019                    |
| Charter       | Committee On Audit  | Dec-16       | Oct-17        | FY 2019                    |
| Bylaws        | Committee On Audit  | unknown      | Oct-17        | FY 2019                    |





## Attachment A

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### **Summary Analysis of Findings in OLA's Report of UMCP**

The Office of Legislative Audits (OLA) Audit period covered March 2014 – June 2017. OLA reports one IT finding and six non-IT findings (one repeat). OLA is also currently conducting a broader audit of IT/IS security at UMCP and will issue a separate report when completed. The following is a summary of OLA's findings.

**Finding 1:** Student Accounts Receivable. OLA states that UMCP had not established sufficient procedures to ensure adequate follow up on delinquent student accounts. OLA notes:

- Six students were inappropriately allowed to register for classes with past due balances,
- Two students with current debt of \$67K had written numerous bad checks totaling \$224K.
- Five delinquent accounts totaling \$205K were forwarded to the state's central collections unit (CCU) significantly late.

*UMCP generally disagrees that the accounts were sent to CCU late noting that the students were in payment plans which allows them to register for classes. UMCP agreed with the flaws in processes pertaining to bad checks and agrees that documentation and monitoring of payment plans should be improved.*

**Finding 2:** Student Accounts Receivable. OLA notes weaknesses in controls over student residency changes. These include ensuring that reviews of residency changes are independently performed.

**Finding 3:** Student Accounts Receivable. OLA states that UMCP inappropriately waived student fees to faculty and staff taking courses at UMCP, thereby awarding benefits to which they were not entitled. BOR Policy states "Tuition remission does not include mandatory fees, which remain the responsibility of the eligible employee or retiree." Undergraduate fees waived totaled approximately \$154,000 for 183 faculty and staff.

*UMCP has previously noted that the services provided in relation to student fees are already provided to them as employees.*

**Finding 4:** Information Systems security and Control. OLA recommends that UMCP develop a policy to guide departments on identification, control and security of Personally Identifiable Information (PII).

**Finding 5:** Payroll. OLA notes that 7,800 electronic timesheets for FY 2017 were not signed off by the employee and supervisor. This may have resulted in errors and irregularities of not recording leave taken, which ultimately results in errors in leave payouts. Additionally, these records serve as the official record of time worked and they should be accurately recorded and approved.

## Attachment A

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**Finding 6:** Student Financial Aid. OLA notes that UMCP needs to independently review and approve manual adjustments made to student cost of attendance budgets (a basis for financial aid award amounts) and application data.

**Finding 7:** Dining Services. OLA notes that the employee who reconciles student meal plan records to student AR records, also had the capability to record transactions (repeat finding). OLA also notes that Dining Services does not use the initial record of collections to verify deposits.

Attachment B

Audit Report

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

September 2018

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DRAFT

## Attachment B

**For further information concerning this report contact:**

**Department of Legislative Services**

**Office of Legislative Audits**

301 West Preston Street, Room 1202

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit 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 March 5, 2014 and ending June 30, 2017. 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 sufficient controls had not been established to ensure adequate and timely follow-up on delinquent student accounts, and to verify the propriety of changes made to student residency status, such as from out-of-state to in-state. A student's residency status significantly affects the amount of tuition charged to the student.

Our audit also disclosed that most campus departments had not taken adequate steps to identify all stored personally identifiable information (PII), such as names and related social security numbers, and to establish policies to guide and direct such activities. As of November 1, 2017, only 10 of the 120 defined UMCP departments had executed a data management software product to scan their servers for PII, and that the last significant effort to review UMCP department servers for PII existence had ended during the Summer of 2014.

Furthermore, we found that electronic employee timesheets were frequently not signed by the employee nor approved by supervisory personnel to substantiate the recorded work time. We also noted internal control

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weaknesses over certain financial aid transactions, as well as collections and meal plan records at UMCP's Dining Services.

The USM Office's response to this audit, on behalf of UMCP, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMCP.

Respectfully submitted,

Thomas J. Barnickel III, CPA  
Legislative Auditor

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## Table of Contents

|   |    |
|---|----|
| <b>Background Information</b>   | 5  |
| Agency Responsibilities   | 5  |
| Status of Findings From Preceding Audit Report  | 5  |
| <b>Findings and Recommendations</b>   | 6  |
| <b>Student Accounts Receivable</b>  |    |
| Finding 1 – The University of Maryland College Park (UMCP) had not established adequate and timely follow-up on delinquent student accounts.  | 6  |
| Finding 2 – UMCP did not establish independent reviews of changes made to students’ residency status.   | 8  |
| Finding 3 – Mandatory fees were not assessed on faculty and staff receiving tuition remission benefits, although required by Board of Regents policy.   | 8  |
| <b>Information Systems Security and Control</b>   |    |
| 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 department computer resources. | 9  |
| <b>Payroll</b>  |    |
| Finding 5 – Controls over electronic timesheets for regular employees were not sufficient to ensure the validity of all time reported and payroll payments made.  | 11 |
| <b>Student Financial Aid</b>  |    |
| Finding 6 – UMCP did not establish adequate controls over financial aid award determinations.   | 12 |

|   |          |
|---|----------|
| <b>Dining Services</b>  |          |
| * Finding 7 – UMCP had not established adequate controls over dining services collections and did not ensure the accuracy of meal plan records. | 13       |
| <b>Audit Scope, Objectives, and Methodology</b>   | 14       |
| <b>Agency Response</b>  | Appendix |

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



## **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. It offers baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields. For the Fall 2017 term, enrollment totaled 40,521.

UMCP's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, as well as restricted revenues, such as federal grants and contracts. According to the State's accounting records, fiscal year 2017 revenues totaled approximately \$2 billion, including a State general fund appropriation of approximately \$487 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 May 11, 2015. We determined that UMCP satisfactorily addressed six of these findings. The remaining finding is repeated in this report.

## Findings and Recommendations

### Student Accounts Receivable

#### **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.**

#### **Analysis**

UMCP did not have sufficient procedures requiring independent reviews to ensure that all eligible delinquent student accounts were referred to the State's Central Collection Unit (CCU) in a timely manner, and that students with unpaid account balances from prior semesters were prevented from registering for classes. In addition, UMCP did not have formal, written procedures regarding installment payment plans, as required by University System of Maryland (USM) policy, which may have contributed, at least in part, to these conditions.

According to UMCP's records, student accounts receivable totaled approximately \$12.7 million as of June 30, 2017, and delinquent accounts totaling \$3 million were referred to CCU during fiscal year 2017. Revenues from tuition and fees during fiscal year 2017 totaled approximately \$594 million. We tested 18 delinquent student accounts with balances totaling approximately \$385,000 as of June 30, 2017, including 8 accounts that had already been referred to CCU. Our test disclosed the following conditions related to 6 student accounts:

- Five delinquent student accounts totaling \$205,000 had not been transferred to CCU within the required period established by CCU regulations, as modified for UMCP. This included 2 accounts with balances totaling \$44,000 and \$57,000 that, at the time of our review, had been delinquent for two months and three years, respectively, beyond when the accounts should have been transferred. UMCP had transferred the other 3 accounts, totaling approximately \$104,000, from 6 to 30 months late.
- Six students (including the 5 students noted above) were permitted to register for classes even though they had outstanding account balances from one or more prior semesters. In one instance, the student accumulated an additional \$51,733 in debt during the period from the first delinquent semester in the Fall of 2013 through June 30, 2017. UMCP stated that these students had installment payment plans, allowing them to register with unpaid balances. However, formally documented payment plans with established payment due

dates, specifying the consequences of late payments, had not been established. Rather, the plans referred to were notes written in the automated student accounts receivable records.

- Two of the aforementioned 6 students had written numerous checks totaling \$224,000 in payment of their accounts that had been returned by the bank for insufficient funds; however, UMCP continued to accept personal checks from these students in payment for subsequent semesters rather than require account payments to be made with a guaranteed form of payment, such as a certified check. As of June 30, 2017, debts owed by these students totaled approximately \$63,000 and related to semesters dating back to Fall 2015.

The USM Board of Regents' *Policy on Payment of Tuition and Fees* states that tuition and fees are due and payable in full by the due date, unless the student is covered by a specific exemption, such as pending financial aid or a current payment plan. The *Policy* further requires that appropriate administrative action (such as barring class attendance) be initiated if timely payment is not received. CCU regulations, as amended for UMCP, require that each semester's delinquent accounts be transferred to CCU at the end of the final registration period of the subsequent semester. The *Policy* also requires each institution to provide written procedures, which must be approved by the president of the University, for installment payment plans to extend the tuition and fee due dates.

#### **Recommendation 1**

**We recommend that UMCP**

- establish procedures requiring independent reviews to ensure that all eligible (delinquent) student accounts, including the accounts we noted, are referred to CCU in a timely manner;**
- ensure that students with outstanding account balances are not permitted to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy*;**
- ensure that students who had previously attempted to satisfy their debt with a bad check are required to pay subsequent debts with a guaranteed form of cash payment (such as a certified check); and**
- develop written and properly approved procedures for installment payment plans for tuition and fees.**

**Finding 2**

**UMCP did not establish independent reviews of changes made to students' residency status.**

**Analysis**

Changes in student residency status were not subject to an independent review. Although output reports of residency status changes in UMCP's automated records were generated for subsequent review, the person responsible for performing the review was also responsible for making changes. During the audit period, changes made by this employee accounted for approximately 15 percent of the 4,500 changes processed. As a result, improper residency status changes could be recorded without being readily detected.

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 \$8,315 for the 2017 academic year, whereas the undergraduate tuition rate for out-of-state students was \$30,179.

**Recommendation 2**

**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, as reflected on the aforementioned output reports, at least on a test basis.**

**Finding 3**

**UMCP did not assess mandatory fees on faculty and staff receiving tuition remission benefits, although required by Board of Regents policy.**

**Analysis**

UMCP did not assess mandatory fees, such as athletic and recreation services fees, on UMCP faculty and staff receiving tuition remission for courses taken at UMCP. The Board of Regents' *Policy on Tuition Remission and Tuition Reimbursement for Regular and Retired Nonexempt and Exempt Staff and Faculty Employees of the University Systems of Maryland* states that tuition remission does not include mandatory fees, which remain the responsibility of the eligible employee or retiree.

During our audit period, which spanned from the Spring 2014 semester through the Spring 2017 semester, using a report generated by UMCP, we identified 181 faculty and staff who received the tuition remission benefit for undergraduate

courses taken at UMCP. Based upon our estimates, the related fees that were not assessed totaled approximately \$154,000. In addition, using the same report, we identified 588 faculty and staff that received the tuition remission benefit for graduate level work completed through UMCP. We were unable to readily determine the amount of fees not assessed to these graduate students because of the range of fees that could have been charged. For example, the fees were approximately \$400 per semester for a student taking a graduate level course on campus; however, the fees were reduced for students taking an on-line course. UMCP advised us that, since UMCP employees already have access to services supported by student mandatory fees, it has waived these fees for employees who take advantage of tuition remission. UMCP further advised that it will seek guidance on this matter from USM and University Counsel.

### **Recommendation 3**

**We recommend that UMCP assess mandatory fees on UMCP faculty and staff receiving tuition remission, as required by the aforementioned Board of Regents' Policy, unless it receives approval from the Board to waive such fees.**

## **Information Systems Security and Control**

### **Background**

UMCP's Division of Information Technology (DIT) manages the development, maintenance, and support of UMCP's information technology infrastructure including related networking, telecommunications, and business information systems. DIT maintains a campus-wide network, supporting both administrative and academic operations at UMCP. DIT also maintains critical UMCP applications such as the student administration and payroll and human resources application systems. DIT jointly maintains the financial application system with the UMCP Comptroller's Office.

### **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 department computer resources.**

### **Analysis**

UMCP had not developed a policy to guide and direct UMCP departments in using a sensitive data management software product for discovering, managing, and securing all stored personally identifiable information (PII). In addition,

UMCP's DIT was not monitoring UMCP departments to ensure that each department executed the software product on their computer resources and took the necessary actions to ensure that PII data was protected by adequate safeguards. We also found that very few UMCP departments had performed automated server scanning with the product.

We reviewed the software product's management console as of December 18, 2017 and determined that 120 UMCP departments were defined for use of the product, and, that substantial scanning had been performed against workstations and laptops for identifying PII stored on these devices. However, the UMCP departments had done very limited scanning of servers for PII identification. UMCP personnel advised us that as of November 1, 2017, only 10 of the 120 defined UMCP departments had executed the software product against their servers, and that the last significant effort to review UMCP department servers for PII existence had ended during the Summer of 2014. According to DIT personnel, since a policy did not exist governing use of the software product and monitoring was not performed to ensure consistency within each department, UMCP's departments had control over the manner in which the scanning software was executed.

PII is commonly associated with identity theft and should be protected by appropriate information system security controls. USM's *IT Security Standards* require, from a risk management perspective, that institutions implement processes that include identification of systems that process and/or store confidential information. These *Standards* also require that confidential data be protected by encryption, or other equally secure safeguards.

#### **Recommendation 4**

##### **We recommend that UMCP**

- a. develop a policy applicable to all departments, for PII identification and control, which addresses scanning coverage (including servers), frequency, activity reporting, and includes departmental status reporting of their confidential data (PII) protection measures relative to USM's *IT Security Standards* requirements; and**
- b. assign responsibility to a Campus unit to monitor UMCP departments' compliance with the newly developed policy.**

## Payroll

### Finding 5

**Controls over electronic timesheets for regular employees were not sufficient to ensure the validity of all time reported and payroll payments made.**

#### Analysis

Controls over electronic timesheets for regular employees were not sufficient to ensure the validity of all time reported and payroll payments made. Generally, UMCP employees prepared their timesheets on an automated payroll system and supervisors approved their employees' timesheets on that system. However, we found that timesheets were not always signed by the employees and approved by supervisory personnel. According to the State's records, UMCP's payroll expenditures totaled approximately \$1.3 billion during fiscal year 2017 and there were 9,333 regular employees.

Based on a report generated for us by UMCP from its payroll system for fiscal year 2017, there were approximately 7,800 instances (related to over 900 employees) in which there was no employee signature attesting to the accuracy of the employees' time and no documented supervisory approval on a timesheet for the applicable pay period. This included 95 employees for whom there was no signed and approved timesheet for all 26 pay periods in the year (accounting for 2,470 instances). We tested this report and found it to be reliable for our purposes. The lack of a signed and approved timesheet for a regular employee will not prevent the related payroll payment from being processed. Nevertheless, signed and approved timesheets serve as a validated record of time worked and leave taken, as well as appropriate support for payroll payments made. Consequently, it is imperative that all employee timesheets be signed by the employee and approved by appropriate supervisory personnel.

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. The aforementioned 9,333 regular employees includes faculty, exempt, and non-exempt employees.

**Recommendation 5**

**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.**

**Student Financial Aid**

**Finding 6**

**UMCP did not establish adequate controls over financial aid award determinations.**

**Analysis**

UMCP had not established sufficient controls over significant aspects of the student financial aid award process. Specifically, manual adjustments to student cost of attendance budgets, as well as verifications of student financial aid application data, were not subject to independent supervisory review. The accuracy and validity of these two functions are critical to ensuring the propriety of financial aid awards made to students. According to UMCP's records, during fiscal year 2017, financial aid awarded to students totaled approximately \$305 million, including \$171 million in federal aid.

A student's cost of attendance budget, which includes tuition and fees, room and board, transportation, and other personal expenses, is used to help determine the maximum amount of financial aid to which the student is entitled. These budgets may be adjusted based on individual student situations, such as variations in costs due to actual tuition charges, loan origination fees, or premium meal plans, and these adjustments should be independently reviewed.

Furthermore, there was no independent review of the verifications of student financial aid application data. The employees who performed these verifications for selected students were also responsible for submitting any corrected application data, which resulted in the removal of the hold placed on the student's account while the verification audit was performed. However, there was no independent review of these verifications and, therefore, there was no assurance that they were properly performed and recorded.

**Recommendation 6**

**We recommend that UMCP ensure that manual adjustments to student cost of attendance budgets, as well as verifications of student financial aid application data, are subject to documented independent review, at least on a test basis.**



## Dining Services

### **Finding 7**

**UMCP had not established adequate controls over dining services collections and did not ensure the accuracy of meal plan records.**

### **Analysis**

UMCP had not established adequate controls to ensure its Dining Services cash and check collections, which totaled \$2.4 million during fiscal year 2017, were deposited. In addition, adequate controls had not been established to ensure the accuracy of its student meal plan records. Meal plan revenue totaled approximately \$39.6 million for the same period.

The procedures used by Dining Services to ensure that all collections were deposited were inadequate since the initial record of collections was not used in this process. Rather, deposit records were compared to documentation of collections that was subsequently prepared during the deposit process. Consequently, there was a lack of assurance that all collections were deposited.

The employee who periodically performed reconciliations of student meal plan records in the Dining Services system with student accounts receivable records also had the capability to record transactions, such as additional meal purchases and refunds, in both systems without approval. As a result, improper or unauthorized adjustments, such as to increase student meal points, could be processed without detection. Each semester, student meal plan purchases were uploaded from the student accounts in the accounts receivable records to the student accounts in the Dining Services automated records. Additional meal plan purchases or plan changes made by the students during the semester were manually recorded in both the accounts receivable and Dining Services systems. A similar condition was commented upon in our preceding audit report.

### **Recommendation 7**

**We recommend that UMCP**

- a. ensure that deposit verifications are performed using the initial record of collections, and**
- b. ensure that the individual responsible for performing the reconciliation of student meal plan records in the Dining Services system with the student accounts receivable records is independent of the related recordation functions (repeat).**

## **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 March 5, 2014 and ending June 30, 2017. 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, information systems security and control, payroll, student financial aid, and corporate purchasing cards. Our audit included certain support services (such as the processing of vendor payment transmittals) provided by UMCP on a centralized basis for several other units of USM. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include the computer operations of the UMCP Division of Information Technology (DIT) as it relates to services primarily provided to other USM institutions. A separate audit of the DIT is conducted. Our audit also 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 financial 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.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of UMCP's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk.

Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 systems for the purpose of testing certain areas, such as financial aid and student accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect 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.

The response from the USM Office, on behalf of UMCP, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the USM Office regarding the results of our review of its response.

DRAFT

AUDIT TEAM

**William R. Smith, CPA**  
Audit Manager

**Richard L. Carter, CISA**  
Information Systems Audit Manager

**Sandra C. Medeiros**  
**W. Thomas Sides**  
Senior Auditors

**Edwin L. Paul, CPA, CISA**  
Information Systems Senior Auditor

**Sierra M. Jones-Ward**  
**Zain Khalid**  
**Alice Z. Liu, CPA**  
**Joshua A. Naylor**  
**Jason M. Wittcop**  
Staff Auditors

**Robert H. Dean**  
**Roman J. Gouin**  
Information Systems Staff Auditors

**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

**Student Accounts Receivable**

**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.**

**Recommendation 1**

**We recommend that UMCP**

- a. establish procedures requiring independent reviews to ensure that all eligible (delinquent) student accounts, including the accounts we noted, are referred to CCU in a timely manner;**
- b. ensure that students with outstanding account balances are not permitted to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy*;**
- c. ensure that students who had previously attempted to satisfy their debt with a bad check are required to pay subsequent debts with a guaranteed form of cash payment (such as a certified check); and**
- d. develop written and properly approved procedures for installment payment plans for tuition and fees.**

**University response**

- a. The University has already established extensive procedures which includes independent reviews to verify student accounts prior to referral to CCU. As mentioned above, these accounts were in payment plans established by prior administrators. In accordance with policy, accounts were not sent to CCU until deemed delinquent. During the review procedure, when the University determined the delinquency status, the account was referred, timely, to CCU.

OLA considered the account delinquent when there was an outstanding balance after the first semester. UMCP determined delinquency when payment arrangements were considered in default and any good faith effort ceased. While we are currently under a new administration with a more conservative approach to payment plans and a 99.5% collection rate, the prior administrations were operating under the appropriate authority to make these determinations.

**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

- b. The University will continue to comply with the BOR Policy regarding students with outstanding balances. As stated in the finding, these students were in payment plans and therefore eligible to continue registering for classes. We agree that the documentation of these plans was not sufficient to support the student status. The Office of Student Financial Services & Cashiering (OSFS&C) will develop procedures for documentation of the installment payment plans under recommendation (d) and will ensure that pertinent information is included in the electronic notes system.
- c. The University agrees with this recommendation. The intensive manual process of reviewing for bad checks caused the oversight of these two students. OSFS&C has a new processor that has significantly reduced the number of paper checks and reduced the turnaround time for returned electronic checks.
- d. The University agrees with this recommendation; procedures for Internal Installment Plans are being developed by the OSFS&C.

**Finding 2**

**UMCP did not establish independent reviews of changes made to students' residency status.**

**Recommendation 2**

**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, as reflected on the aforementioned output reports, at least on a test basis.**

**University response**

The University agrees with this recommendation. An independent employee will review student residency changes, and document said review, on a test basis.

**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

**Finding 3**

**UMCP did not assess mandatory fees on faculty and staff receiving tuition remission benefits, although required by Board of Regents policy.**

**Recommendation 3**

**We recommend that UMCP assess mandatory fees on UMCP faculty and staff receiving tuition remission, as required by the aforementioned Board of Regents' *Policy*, unless it receives approval from the Board to waive such fees.**

**University response**

The University believes we were operating within the scope of policy. The University will seek guidance from USM and Legal Counsel on the interpretation of the Policy and, if appropriate, will seek an exemption from the Board.

**Information Systems Security and Control**

**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 department computer resources.**

**Recommendation 4**

**We recommend that UMCP**

- a. develop a policy applicable to all departments, for PII identification and control, which addresses scanning coverage (including servers), frequency, activity reporting, and includes departmental status reporting of their confidential data (PII) protection measures relative to USM's *IT Security Standards* requirements; and**
- b. assign responsibility to a Campus unit to monitor UMCP departments' compliance with the newly developed policy.**



**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

**University response**

- a. UMCP will enhance the IT Security Standard over confidential data to include a biennial review of the confidential data on campus. The review is referred to as the Data Landscape Questionnaire which is a campus initiative to review all data on campus and ensure security over that data. The tool referred to in the audit finding to identify personally identifiable information (PII) would not function on our servers due to the magnitude of information. When the tool did process, it provided countless false hits that it was deemed useless. The tool is available to departments but will not be required by policy.
  
- b. The UMCP IT Environment is decentralized; therefore, the standards are the departments' responsibility to perform the tasks. DIV IT is responsible for ensuring all departments respond to the Data Landscape Questionnaire. DIV IT will use the Data Landscape Questionnaire to review department's security measures on a test basis.

**Payroll**

**Finding 5**

**Controls over electronic timesheets for regular employees were not sufficient to ensure the validity of all time reported and payroll payments made.**

**Recommendation 5**

**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.**

**University response**

The University agrees with this recommendation. UMCP has communicated the importance of signing and approving timesheets to all faculty and staff. Data reports are available to identify employees and supervisors who have not signed or approved timesheets. The University will perform periodic reviews of the Data reports to identify timesheets that are not compliant.

**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

**Student Financial Aid**

**Finding 6**

**UMCP did not establish adequate controls over financial aid award determinations.**

**Recommendation 6**

**We recommend that UMCP ensure that manual adjustments to student cost of attendance budgets, as well as verifications of student financial aid application data, are subject to documented independent review, at least on a test basis.**

**University response**

The University agrees with this recommendation. An independent employee will review changes to Cost of Attendance and Verifications of Financial Aid, and document said review, on a test basis.

**Dining Services**

**Finding 7**

**UMCP had not established adequate controls over dining services collections and did not ensure the accuracy of meal plan records.**

**Recommendation 7**

**We recommend that UMCP**

- a. ensure that deposit verifications are performed using the initial record of collections, and**
- b. ensure that the individual responsible for performing the reconciliation of student meal plan records in the Dining Services system with the student accounts receivable records is independent of the related recordation functions (repeat).**

**RESPONSE TO LEGISLATIVE AUDIT REPORT  
UNIVERSITY SYSTEM OF MARYLAND  
UNIVERSITY OF MARYLAND, COLLEGE PARK  
MARCH 5, 2014 TO JUNE 30, 2017**

**University response**

- a. The University agrees with this recommendation. Dining Services has already implemented a procedure to independently verify deposits using initial records of collection.
  
- b. The University agrees with this recommendation. While the initial procedure remains, Dining Services has already implemented an additional independent review of the reconciliation by an individual who does not have recordation access to student accounts.



**BOARD OF REGENTS**

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

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

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** October 16, 2018

**SUMMARY:**

See Attachments:

**Attachment A:** Listing of Open Action Items From 2016 – 2018 Audit Committee Meetings.

**Attachment B:** Re: Survey of Dining Services Vendor Payments to Institutions. The Office of Legislative Audit reported a discussion note (draft finding) in which \$1.3 million in payments made to UMES from its dining service vendor were deposited in UMES' Foundation account. In response the Committee requested a survey of all USM institutions to identify whether this is occurring elsewhere.

**FISCAL IMPACT:** none

**CHANCELLOR'S RECOMMENDATION:** none

COMMITTEE ACTION: none

DATE:

BOARD ACTION: none

DATE:

SUBMITTED BY: David Mosca

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USM Board of Regents  
 Action Items From 2016 - 2018 Audit Committee Meetings  
 16-Oct-18

Action Item

Status

**From June 2018 Audit Committee Meeting**

|    |   |  |
|----|---|--|
| 1. | Add UMES as one of the independent auditors audit schools and report on the effectiveness of its control environment and make recommendations for improvement.  | SB & Co. to report back in December Audit Committee Meeting.                 |
| 2. | SB & Co. to let the Audit Committee know how the Universities fared in the cybersecurity assessment.  | SB & Co. to report back in December Audit Committee Meeting.                 |
| 3. | Review the process of how Foundations submit annual independent audit reports to USM.   | Dave Mosca to follow up and report back in December Audit Committee Meeting. |
| 2. | The Committee asked how signing bonuses or other like payments made by dining services vendors to the institutions are treated for all USM Universities. This is contextual to a UMES OLA finding in which the dining services vendor was contractually required to make approximately \$1.3 million to UMES' Foundation. | Bob Page to follow up and report back in October Audit Committee Meeting.    |

**From March 2018 Audit Committee Meeting**

|    |  |  |
|----|--|--|
| 1. | Provide Committee with Internal Audit's Risk Assessment Areas for Intercollegiate Athletics. | Completed in June 2018 Audit Committee Meeting |
| 2. | Determine if there are hotline or similar reporting mechanisms for summer camp participants. | Completed in June 2018 Audit Committee Meeting |

**From December 2017 Audit Committee Meeting**

|    |  |   |
|----|--|---|
| 1. | Consider including a Shady Grove facilities audit in Internal Audit's annual plan of activity. | Dave Mosca to Follow up. SG has \$300 - \$500K annual facilities management costs. SG uses UMCP's contractors. Considering for 2019 audit plan. |
|----|--|---|

**From March 2016 Audit Committee Meeting**

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

Note: Action items concluded prior to the June 2018 BOR Audit Committee meetings are not included in this schedule.



### Follow-up to questions from June 6, 2018 Board of Regents Audit Committee meeting

**Question:** In response to a finding in the Legislative Auditor discussion notes presented to UMES in May concerning the deposit of monies into the USM Foundation, the arrangements and exposure associated with other USM institutions was raised.

**Answer:** Below is a table showing dining services arrangements, and the disposition of funds received from institutions' dining services providers.

| Institution | Dining services provider  | Non-contingent funds received from dining services provider?                        | Where were funds deposited (institution accounts, foundation)?                             |
|-------------|---------------------------|---|--|
| UMB         | No formal dining services | N/A   | N/A  |
| UMCP        | Institution provided      | N/A   | N/A  |
| BSU         | Thompson Hospitality      | \$4M over 10 years  | Institution accounts   |
| TU          | Compass Group/Chartwells  | \$3.15M total over 10 years   | Capital campaign designated contribution of \$50k a year has been deposited to foundation* |
| FSU         | Compass Group/Chartwells  | none  | Institution accounts   |
| CSU         | Aramark                   | Annual \$20k scholarship payment and annual \$65k 'President Catering' fund payment | Institution accounts   |
| UB          | No formal dining services | N/A   | N/A  |
| SU          | Institution provided      | N/A   | N/A  |
| UMBC        | Compass Group/Chartwells  | \$65k annual donation for scholarships  | Foundation*  |
| UMUC        | No formal dining services | N/A   | N/A  |

\* both Towson University and UMBC have indicated that upon consideration of the UMES discussion note, and the statutory provisions relating to university revenues, they will both change the arrangements to have all dining services funds deposited into university accounts.



**BOARD OF REGENTS**

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

**TOPIC:** Convening Closed Session

**COMMITTEE:** Audit Committee

**DATE OF COMMITTEE MEETING:** October 16, 2018

**SUMMARY:**

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

**ALTERNATIVE(S):** No alternative is suggested.

**FISCAL IMPACT:** There is no fiscal impact.

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

COMMITTEE ACTION:

DATE:

BOARD ACTION:

DATE: 10-16-2018

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



STATEMENT REGARDING CLOSING A MEETING  
OF THE USM BOARD OF REGENTS

Date: October 16, 2018  
Time: 1:00 PM  
Location: University System of Maryland Office

STATUTORY AUTHORITY TO CLOSE A SESSION

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

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



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

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

- Administrative Matters

TOPICS TO BE DISCUSSED:

Legislative audit matters that are ongoing and, therefore, confidential; discussion of investigative matters which may lead to criminal prosecution; calendar year 2018 internal audit plan of activity; and the committee meeting separately with the independent auditors and the director of internal audit.

REASON FOR CLOSING:

- 1) To maintain confidentiality of discussions of ongoing investigations by the USM Office of Internal Audit's and outside agencies, which potentially could result in criminal prosecutions (§3-305(b)(12));
- 2) To maintain the confidentiality of matters involved in ongoing legislative audits, as required by Section 2-1226 of the State Government Article of the Annotated Code of Maryland (§3-305(b)(13));
- 3) To carry out an administrative function: discussion of calendar year 2018 audit plan of activity by the USM Office of Internal Audit (§ 3-103(a)(1)(i)); and
- 4) To carry out an administrative function: the Committee's separate meetings with the independent auditors and the Director of Internal Audit (§3-103(a)(1)(i)).