



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

October 23, 2024

1. [Information and Discussion – FY 2025 Audit Committee Work Plan](#) Mr. Mosca

 2. [Information, Discussion and Approval – Review of BOR Charge Policies](#) Mr. Mosca
 - Committee on Audit Charter
 - Committee on Audit Bylaws
 - VIII-7.10 – Policy on Reporting Suspected or Known Fiscal Irregularities
 - VI-1.5 – Policy on Reporting of Suspected Child Abuse and Neglect

 3. [Information and Discussion – FY 2024 System Wide Financials, Balance Sheet and Statement of Changes \(affiliated foundations are not included\)](#) Ms. Denson
Mr. Acton

 4. [Information and Discussion – Completed Office of Legislative Audit Activity](#) Mr. Mosca

 5. [Information and Discussion – Open Action Items from Prior Meetings](#) Mr. Mosca

 6. [Approval – Convene to Closed Session](#) Mr. Pope
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TOPIC: Information & Discussion – FY 2025 Audit Committee Work Plan

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

Attached is a schedule of the Audit Committee’s FY 2024 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.

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 2025**

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 Vice Chancellor for Accountability 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 Vice Chancellor for Accountability to discuss any matters that the committee or the VC 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 Single Audit.	x					
16	Discuss the scope of external auditors' review of internal control over financial reporting.		x				

**USM BOR Audit Committee
Annual Work Plan
FY 2025**

Objective	When Performed Audit Committee Meetings					Completed	
	Oct	Dec	Mar	June	As Needed		
17	Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.					x	
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 12/31/24 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	x	x	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	Update Regarding ERM and Crisis Management		x		x	x	
29	Receive updates of Cybersecurity environment and emerging risks.	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		

TOPIC: Review of Board of Regent Policies

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

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.
3. VIII-7.10 – Policy on Reporting Suspected or Known Fiscal Irregularities (Attachment C).
4. VI-1.5 – Policy on Reporting of Suspected Child Abuse and Neglect (Attachment D)

Procedures for Review of USM BOR Bylaws and Policy

BYLAWS:

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

BOR POLICIES:

7. All BOR policies should be reviewed on a 4-year cycle.
8. Each policy should be assigned to a BOR committee(s); assigned policies should be relevant to the committee's mission.
9. 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).
10. Policy reviews should include an update of policies, as needed, as well as the elimination of unneeded policies and/or merger of policies.
11. Policies may be reviewed out of cycle if problems arise with the policy implementation or to implement best practices.
12. 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

**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.

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

VIII-7.11 Policy on the Communication of Suspected Fraud, Unethical and Illegal ~~Business~~ Activity and Misconduct

(Approved by the Board of Regents, April 26, 2010)

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I. Purpose: The purpose of this policy is to establish the principle that University System of Maryland (USM) employees, students and others in the campus community are strongly encouraged to communicate suspected fraud or other financial irregularities, suspected illegal or unethical conduct, and any other suspected misconduct by employees or contractors to appropriate authorities in their institution or to the USM's Office of Internal Audit; to establish mechanisms that create a confidential and convenient USM "Hotline" for the reporting of such concerns; and, as a result, to advance the deterrence and detection of fraud, unethical practices, ~~and~~ financial irregularities, illegal or unethical misconduct or other misconduct at USM institutions.

II. Scope: This policy describes a non-retaliatory resource ("the ~~Fraud-USM~~ Hotline") for University stakeholders to report perceived fraud, theft and other suspected unethical or illegal business activity, perceived illegal or unethical conduct and other suspected misconduct. Fraud generally involves a willful or deliberate act, expression, omission or concealment with the intent of obtaining an unauthorized benefit, such as money or property, by deception or other unethical means.

Other incidents that may be reported to the ~~Fraud-USM~~ Hotline include:

- Forgery or unauthorized alteration of institution documents, including checks, bank drafts, computer files, or any other financial document;
- Misappropriation or theft of funds, securities, supplies, or other assets;
- Fraudulent activity relating to research grants and contracts;
- Impropriety in handling or reporting of money or financial transactions;
- Purposely reporting inaccurate financial information;
- Authorizing or receiving compensation for goods not received or services not performed;
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services/material to the institution that is not consistent with campus or USM policy;
- Destruction, removal, or inappropriate use of institution records, furniture, fixtures, and equipment; and/or unethical procurement practices.
- Using one's University position to obtain economic benefit for the employee, a relative, or a business in which the employee has an interest or is employed
- Illegal, unethical or criminal conduct affecting the University or a member of the University community

~~The Fraud Hotline is not intended to replace existing reporting mechanisms for~~

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~~matters such as employment related complaints, including complaints of discrimination; sexual and other unlawful harassment; and student academic and residential life problems; and health and safety hazards, and criminal behavior not related to financial irregularities. These matters should continue to be addressed through other, existing institution channels, which may include campus human resources, student affairs or law enforcement offices. Health and safety emergencies should be addressed urgently by contacting 911.~~

The USM ~~Fraud~~-Hotline is also not intended to supplant individual campus channels of communication for the reporting of suspected ~~financial~~ wrongdoing. Employees who know or suspect that other employees, business partners or

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Vendors, or other members of the campus community are engaged in a fraudulent, unethical or illegal activity or other misconduct are encouraged to report such activity to their supervisor, department head, responsible official, or campus Hotline. The USM ~~Fraud~~ Hotline provides an additional option for the confidential communication of such concerns.

III. Hotline Options and Operations: The USM provides ~~four~~ the following mechanisms for reporting suspected or known fraudulent, unethical or illegal activities to the USM Office of Internal Audit:

- A. Online: A hotline link provided on the homepage of the USM website and operated by USM's Office of Internal Audit.
- B. Telephone: A toll free telephone number operated by the USM's Office of Internal Audit, and voicemail messages recorded on the system are accessible only to the Internal Audit staff.
- ~~C. Fax: The Office of Internal Audit's direct fax number, which is accessible only to Internal Audit staff.~~
- C. U.S. Mail: Written communication by U.S. Mail to the headquarters of the Office of Internal Audit. Mail directed to the hotline is received by Internal Audit staff.
- D. Email: Written communication directed to [email address], accessible only to Internal Audit Staff.
- ~~D.E.~~ Text: Text messages directed to [telephone number], accessible only to Internal Audit Staff.

Upon receipt of an allegation the Office of Internal Audit will evaluate the submission and determine an appropriate strategy for investigating and resolving the situation. As appropriate, institution officials or the Office of the Attorney General ~~and~~ may be asked to conduct or participate in an investigation. Decisions regarding the appropriate response to a report made on the Hotline are otherwise wholly within the discretion of the Office of Internal Audit.

IV. Protections for Hotline Reporters: Persons who make reports to the USM ~~Fraud~~ Hotline will have the following protections:

- A. Non-Retaliation: Persons using the USM ~~Fraud~~ Hotline will have the full protections of Maryland's Whistleblower Act for state employees (Maryland Code §§ 5-301 ~~thru~~ through 5-13-314 of the State Personnel and Pensions Article).

No faculty, administrator, staff, student, or other member of the campus community may be subject to interference, coercion or reprisal for making a ~~fraud~~ hotline report in good faith. The USM and its institutions will not retaliate against any person making a good faith report of an unethical or

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illegal act or other misconduct, and will not knowingly permit retaliation by any manager, supervisor, faculty, or administrator.

~~B.~~ Confidentiality: Individuals reporting via the Hotline may choose to identify themselves or remain anonymous. The identity of any person reporting an incident will be used for investigative purposes only and will not be disclosed outside of the investigative team, except under narrow circumstances where

Attachment C

disclosure is expressly required by law or necessary to protect the safety of the reporting individual or others. Strict confidentiality otherwise shall be maintained over Hotline documents at all times, and hotline cases should not be discussed with anyone outside of the investigative personnel.

V. Reporting by the Office of Internal Audit: On an annual basis, the Office of Internal Audit will prepare a USM Hotline Summary Report. The report will be presented to the Board of Regents for review and approval.

The Director of Internal Audit will, on a case-by-case basis, determine if an ~~fraud~~ audit report will be issued for allegations investigated by the Office of Internal Audit. When a report is issued it will include the results of the investigation, and if appropriate, recommendations for further action.

VI. Effective Date: This policy shall become effective on 04/16/2010.

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VI – 1.50 Policy on the Reporting of Suspected Child Abuse and Neglect (Approved by the Board of Regents on December 9, 2011)

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I. PURPOSE

The purpose of this policy is to provide guidance to staff, faculty, and students of the University System of Maryland (USM) community regarding the mandatory requirements in Maryland law that govern the reporting of suspected cases of child abuse and child neglect; and to affirm the commitment of the USM to the protection of the safety and welfare of children who come into contact with the USM community.

II. AUTHORITY

The reporting requirements addressed in this policy implement the mandatory child abuse and neglect reporting provisions of the Family Law Article of the Maryland Annotated Code, Sections 5-701 through 5-708, as they apply to the USM.

III. DEFINITIONS

A. "Abuse" means:

1. The physical or mental injury of a child by a parent or other person who has permanent or temporary care or custody of the child, or by any household or family member, under circumstances indicating that the child's health or welfare is harmed or at substantial risk of being harmed; or
2. Sexual abuse of a child, whether physical injuries are sustained or not, defined as any act that involves sexual molestation or exploitation of a child by a parent or other person who has permanent or temporary care or custody or responsibility for supervision of a child, or by any household or family member.

B. "Child" means any individual under the age of 18 years.

C. "Local department of social services" means the department of social services for the jurisdiction in which:

1. The child resides; or
2. The abuse or neglect occurred, or,
3. If neither location is known, the jurisdiction in which the institution is located.

D. "Mental injury" means the observable, identifiable, and substantial impairment of a child's mental or psychological ability to function.

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- E. "Neglect" means the failure to give proper care and attention to a child, including leaving the child unattended, by a parent or other person who has permanent or temporary care or custody or responsibility for supervision of the child under circumstances indicating:
1. That the child's health or welfare is harmed or placed at substantial risk of harm; or
 2. Mental injury to the child or a substantial risk of mental injury.
- F. "Professional employee" means a person employed by the USM as a:
1. Faculty member;
 2. Administrator;
 3. Coach; or
 4. Other employee who provides academic support, student service, or institutional support activities, whose duties require either a college degree or comparable experience.

IV. REPORTING REQUIREMENTS

A. Reporting Requirements for USM Professional Employees.

A USM health practitioner, police officer, or other professional employee ("the professional employee") of a USM institution, when acting in a professional capacity, who has reason to believe that a child has been abused or neglected, shall report this suspicion as follows:

1. An oral report shall be made as immediately as is practicable, within 48 hours of the event that caused the employee to believe that a child has been subject to abuse or neglect:
 - a. To the local police department or the local department of social services; and
 - b. When acting as a staff member of a USM institution, to the President of the institution, or the person or persons designated by the President to receive such reports ("the President's Designee").
2. A written report shall also be provided to the local department of social services within 48 hours of the event that caused the employee to believe that a child has been subject to abuse or neglect.
 - a. The employee shall provide a copy of the written report to the institution President, or the President's Designee.

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- b. The report shall include the following information, to the extent that it is known by the employee:
 - i. The name, age, and home address of the child;
 - ii. The name and home address of the parent or other person responsible for the care of the child;
 - iii. The child's whereabouts;
 - iv. The nature and extent of the suspected abuse or neglect, including any information regarding possible previous instances of abuse or neglect; and
 - v. Any other information that may help to identify the person responsible for the abuse or neglect or determine the cause.
3. A copy of the written report also shall be sent to the local State's Attorney, if abuse is suspected.
4. The above reporting requirements apply regardless of generally accepted confidentiality privileges otherwise applicable to professional-client relationships, except that they may not apply to attorneys or members of the clergy under the specific circumstances described in Family Law Article Section 5-705(a)(2) and (3).

B. Reporting Requirements for All Other Persons.

Members of the USM community other than a USM professional employee acting as a staff member of a USM institution, including other staff, students, and contractors on campus, are also required to report suspected child abuse or neglect as follows:

1. Such individuals shall report orally or in writing to:
 - a. The local department of social services or local law enforcement agency; and
 - b. The President of the institution or the President's Designee, if the suspected child abuse or neglect:
 - i. Took place in institution facilities or on institution property;
 - ii. Was committed by a current or former employee or volunteer of the USM;
 - iii. Occurred in connection with an institution sponsored, recognized or approved program, visit, activity, or camp, regardless of location; or
 - iv. Took place while the victim was a registered student at the institution.
2. The report shall include the information listed in Section IV.A.2 above, to the extent that it is known by the individual making the report.
3. The requirement to report suspected abuse or neglect to the President or the President's designee under section B.1.b, above, is subject to generally accepted confidentiality privileges applicable to professional-client relationships.

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C. Questions Regarding the Reporting Requirements.

Questions regarding the applicability of these requirements to a particular individual or situation may be directed to the local department of social services or the President's Designee for the reporting of suspected abuse or neglect.

D. Reporting of Past Abuse or Neglect.

The obligation to report suspected child abuse or neglect applies, even if the individual who may have been the victim of past child abuse or neglect is no longer a child at the time when the past abuse or neglect is disclosed or otherwise suspected.

V. POLICY IMPLICATIONS AND CONSEQUENCES

A. Immunity.

Under State law (Family Law Article Section 5-708), any individual who in good faith makes or participates in making a report under the law shall be immune from any civil liability or criminal prosecution. In addition, any person who in good faith makes or participates in making a report under this policy shall be free from any reprisal at the institution that might otherwise result from compliance with the policy.

B. Failure to Report.

Any employee of the USM who fails to report suspected child abuse or neglect in violation of this policy may be subject to discipline for professional misconduct, up to and including termination of the employee's employment with or appointment to the USM.

C. Confidentiality.

The confidentiality of a report of suspected child abuse or neglect, including the identity of an individual who makes a report under this policy, the individual suspected of abuse or neglect, and the child who may have been abused or neglected, will be protected consistent with relevant federal and state laws.

VI. RESPONSIBILITIES OF THE INSTITUTION

Each institution of the USM shall take the following actions to implement this policy and support compliance with State law requirements:

A. President's Designee.

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The President of the institution shall designate the person or persons to receive oral and written reports of suspected child abuse or neglect from employees, students, and others at the institution.

B. Information Dissemination.

Employees, students and other members of the campus community shall be informed through employee or student handbooks, institution websites, and other appropriate means of communication of:

1. The requirements of this policy and relevant state law requirements;
2. Institution policies and procedures for compliance with the policy; and
3. Contact information for the local department of social services, local law enforcement agency, State's Attorney, and the President's Designee for the reporting of suspected child abuse or neglect.

C. Training.

Employees and students who have regular contact with children shall receive periodic training in the requirements of this policy.

D. Cooperation with Other Agencies.

The institution shall cooperate fully and appropriately with any investigation of suspected child abuse or neglect by a local department of social services or law enforcement agency. If the individual suspected of child abuse or neglect is an employee, student, or contractor of the institution, the institution shall coordinate its own investigation or other activities in response to a report with the appropriate local agency.

E. Disciplinary Action.

Each institution shall ensure that its own policies and procedures for addressing alleged employee and contractor misconduct include provisions and measures to respond swiftly and appropriately to reports of suspected child abuse and neglect.

F. Reporting to the Chancellor and Board of Regents.

The President shall inform the Chancellor and the Chancellor shall inform the full Board of Regents of any serious incident arising at an institution under this policy, consistent with the confidentiality requirements of federal and state law.

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VII. IMPLEMENTATION

A copy of this policy shall be provided to all faculty, staff, and students of each USM institution within one week of the Board's approval of the policy. All other requirements of the policy shall be implemented at each institution no later than January 31, 2012.

USM BOR Policy Review Schedule
 Committee on Audit
 October 23, 2024

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	Dec-22	FY 2027
VIII-7.10	Policy on Reporting Suspected or Known Fiscal Irregularities	Jun-17	Dec-22	FY 2027
VIII-7.11	Policy on the Communication of Suspected Fraud, Unethical and Illegal Business Activity	Apr-10	Dec-22	FY 2025
VIII-7.20	Policy on External Audits	Jun-18	Apr-24	FY 2028
VIII-7.30	Policy on Responses to Legislative Audits	Jun-18	Apr-24	FY 2028
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 2025
VI-1.50	Policy on the Reporting of Suspected Child Abuse and Neglect	Dec-11	Dec-11	FY 2025
Charter	Committee On Audit	Oct-21	Oct-23	FY 2025
Bylaws	Committee On Audit	Oct-19	Oct-23	FY 2025

TOPIC: FY 2024 Preliminary USM Financial Statements

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

SUMMARY:

A brief review of the unaudited preliminary University System of Maryland basic financial statements for the year ended June 30, 2024.

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, 2024, and 2023. 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, 2024, and 2023 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 System's component, 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
STATEMENTS OF NET POSITION
JUNE 30, 2024 AND 2023**

	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,268,660,320	\$ 3,270,618,496
Accounts receivable, net	452,684,486	440,016,302
Leases receivable, current portion, net	4,823,701	5,568,123
Notes receivable, current portion, net	1,912,429	2,946,582
Inventories	10,066,041	9,727,249
Prepaid expenses and other	25,586,266	23,361,322
Total current assets	3,763,733,243	3,752,238,074
Noncurrent assets:		
Restricted cash and cash equivalents	78,853,576	32,217,427
Endowment investments	520,121,280	445,202,520
Other investments	52,844,227	43,540,519
Leases receivable, net	15,133,010	8,700,878
Notes receivable, net	7,155,314	9,446,751
Capital assets, net	7,749,310,455	7,603,663,404
Total noncurrent assets	8,423,417,862	8,142,771,499
Total assets	12,187,151,105	11,895,009,573
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refundings of debt	1,889,845	4,861,048
Asset retirement obligations	10,640,037	11,194,989
Deferred changes, pension expense	473,869,714	314,484,404
Total assets and deferred outflows of resources	\$ 12,673,550,701	\$ 12,225,550,014
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 500,488,840	\$ 434,628,650
Accrued workers' compensation, current portion	4,196,550	4,352,250
Accrued vacation costs, current portion	147,066,625	135,247,076
Obligations under subscription arrangements, current portion	17,698,615	14,520,081 D
Obligations under lease arrangements, current portion	18,650,613	17,894,865
Revenue bonds and notes payable, current portion	88,211,885	94,879,968
Unearned revenues	448,897,732	552,258,883
Total current liabilities	1,225,210,860	1,253,781,773
Noncurrent liabilities:		
Accrued workers' compensation	23,780,450	24,662,750
Accrued vacation costs	187,649,883	185,654,115
Obligations under subscription arrangements	25,709,415	28,461,743 D
Obligations under lease arrangements	68,040,885	71,722,661
Revenue bonds and notes payable	1,132,796,290	1,145,361,845
Net pension liability	1,499,173,353	1,304,919,638 F
Total noncurrent liabilities	2,937,150,276	2,760,782,752
Total liabilities	4,162,361,136	4,014,564,525
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement receipts	226,929,964	246,838,739
Deferred inflows related to leases	18,648,322	13,940,687
Deferred changes, pension expense	74,145,765	116,254,540
Total deferred inflows of resources	319,724,051	377,033,966
NET POSITION		
Unrestricted	1,656,848,838	1,553,647,706 B
Net investment in capital assets	6,248,784,299	6,015,846,849 C
Restricted:		
Nonexpendable:		
Scholarships and fellowships	21,495,617	21,439,572
Research	7,637,941	7,636,977
Other	16,929,356	16,928,834
Expendable:		
Scholarships and fellowships	72,058,008	78,559,144
Research	113,313,016	78,683,998
Loans	16,826,883	22,664,745
Capital projects	2,972,633	4,891,748
Other	34,598,923	33,651,950
Total net position	8,191,465,514	7,833,951,523
Total liabilities, deferred inflows of resources and net position	\$ 12,673,550,701	\$ 12,225,550,014 A

**UNIVERSITY OF SYSTEM OF MARYLAND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024			2023		
OPERATING REVENUES:						
Tuition and fees	\$ 1,840,281,459			\$ 1,776,662,985		
Less: scholarship allowances	(451,258,174)	\$ 1,389,023,285	32.6 %	(402,468,846)	\$ 1,374,194,139	33.3 %
Federal grants and contracts		1,006,901,325	23.6		953,874,024	23.1
State and local grants and contracts		304,946,788	7.1		277,496,646	6.7
Nongovernmental grants and contracts		319,987,078	7.5		317,951,633	7.7
Sales and services of educational departments		420,793,718	9.8		411,628,170	10.0
Auxiliary enterprises:						
Residential facilities	229,145,688			215,887,920		
Less: scholarship allowances	(24,261,606)	204,884,082	4.8	(16,520,371)	199,367,549	4.8
Dining facilities	146,382,337			150,819,587		
Less: scholarship allowances	(12,322,220)	134,060,117	3.1	(8,663,551)	142,156,036	3.4
Intercollegiate athletics	174,020,257			154,888,205		
Less: scholarship allowances	(9,880,934)	164,139,323	3.8	(8,510,515)	146,377,690	3.5
Bookstore	14,625,835			14,874,198		
Less: scholarship allowances	(2,088,672)	12,537,163	0.3	(2,174,553)	12,699,645	0.3
Parking facilities	39,686,722			42,664,914		
Less: scholarship allowances	(14,562,578)	54,249,300	1.3	(157,119)	42,507,795	1.0
Other auxiliary enterprises revenues	148,535,908			166,037,955		
Less: scholarship allowances	(13,792,756)	162,328,664	3.8	(456,638)	165,581,317	4.0
Other operating revenues		98,297,572	2.3		90,444,137	2.2
Total operating revenues		4,272,148,415	100.0		4,134,278,781	100.0
OPERATING EXPENSES:						
Instruction		1,707,130,731	24.7		1,600,428,234	25.7
Research		1,370,503,300	19.9		1,243,956,697	19.9
Public service		620,707,994	9.0		573,243,117	9.2
Academic support		653,034,311	9.5		558,525,052	8.9
Student services		432,019,292	6.3		358,122,854	5.7
Institutional support		749,191,773	10.9		617,157,870	9.9
Operation and maintenance of plant		474,057,141	6.9		468,746,425	7.5
Scholarships and fellowships		129,990,485	1.9		137,101,779	2.2
Auxiliary enterprises:						
Residential facilities		198,537,390	2.9		191,683,735	3.1
Dining facilities		158,336,409	2.3		144,142,417	2.3
Intercollegiate athletics		182,762,951	2.7		168,220,152	2.7
Bookstore		14,134,091	0.2		14,695,038	0.2
Parking facilities		30,713,865	0.4		27,324,429	0.4
Other auxiliary enterprises expenses		161,945,265	2.4		159,279,496	2.5
Total operating expenses		6,883,064,998	100.0		6,262,627,295	100.2
Operating loss		(2,610,916,583)			(2,128,348,514)	
NONOPERATING REVENUES (EXPENSES)						
State appropriations		2,210,802,047	81.6		1,953,912,133	80.4
Pell grants		207,182,346	7.7		179,807,022	7.4
Other nonoperating grants		7,416,275	0.3		59,342,332	E 2.4
Gifts		104,440,884	3.9		65,435,471	2.7
Investment Income	200,279,611			139,254,630	G	
Less: investment expense	(1,633,356)	198,646,255	7.3	(1,771,876)	137,482,754	5.7
Interest on indebtedness		(31,733,005)	(1.2)		(35,940,588)	(1.5)
Other revenues, (expenses), gains and (losses)		11,257,221	0.4		71,486,779	2.9
Total nonoperating revenues (expenses)		2,708,012,023	100.0		2,431,525,903	100.0
Income (loss) before other revenues		97,095,440			303,177,389	
OTHER REVENUES:						
Capital appropriations		258,238,816	99.2		305,138,195	96.1
Capital gifts and grants		2,122,205	0.8		12,166,701	3.8
Additions to permanent endowments		57,530	-		173,059	0.1
Total other revenues		260,418,551	100.0 %		317,477,955	100.0 %
Increase (decrease) in net position		357,513,991			620,655,344	
Net position - beginning of year		7,833,951,523			7,213,296,179	
Net position - end of year		\$ 8,191,465,514			\$ 7,833,951,523	

**University System of Maryland
Preliminary Financial Snapshot
June 30, 2024 and 2023**

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
From the June 30, 2024 preliminary financial statements and 2023 audited financial statements		
USM unrestricted net position	\$ 1,656,848,838	\$ 1,553,647,706 B
Net pension liability	1,499,173,353	1,304,919,638 F
USM accrued leave	334,716,508	320,901,191
Affiliated foundations unrestricted net assets	<u>373,772,602</u>	<u>373,772,602</u>
Available funds	<u><u>\$ 3,864,511,301</u></u>	<u><u>\$ 3,553,241,137</u></u>
Debt outstanding	\$ 1,307,699,377	\$ 1,329,859,339
Ratio of available resources to debt outstanding per financial statements	296%	267% K
Claims against the June 30 available resources not reflected in financial statements:		
Available funds per financial statements	\$ 3,864,511,301	\$ 3,553,241,137
Cash-funded capital projects not fully spent at June 30,	(421,000,000)	(216,854,321)
Future years cash-funded capital projects committed but not yet authorized	(121,000,000)	(194,893,849)
Noncapital cash-funded projects not yet authorized	<u>(68,486,443)</u>	<u>(68,486,443)</u>
Adjusted available funds	<u><u>\$ 3,322,511,301</u></u>	<u><u>\$ 3,073,006,524</u></u>
Debt outstanding per financial statements	\$ 1,307,699,377	\$ 1,329,859,339
Revenue bond-funded projects authorized but debt not yet issued	111,418,481	214,849,316
Deferred Service Concessions arrangements	226,929,964	246,838,739
Future obligations pending construction	525,000,000	609,000,000
Future obligations pending approval	<u>84,000,000</u>	<u></u>
Adjusted total debt outstanding	<u><u>\$ 2,255,047,822</u></u>	<u><u>\$ 2,400,547,394</u></u>
Ratio of available resources to debt outstanding, adjusted	147%	128% J

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.

**Preliminary Financial Statements
Years ended June 30, 2024 and 2023**

Key points associated with FY 2024 preliminary financial statements:

1. For discussion purposes, included are the preliminary Statements of Position and Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2024 and 2023.
2. The total net position increase of \$358M (**A on Statements of Net Position**) is comprised of an increase of \$103M in unrestricted net position (**B on Statements of Net Position and Financial Snapshot**), \$233M increase in net invested in capital assets (**C on Statements of Net Position**) and \$22M increase in restricted net position.
3. The attached preliminary financial statements reflect the implementation of GASB No. 96, *Subscription-based Information Technology Arrangements*, which requires financial statements to include a balance sheet liability for the present value of future subscription payments for what were formerly considered operating expenses. The calculated total of subscriptions payable as of June 30, 2024 and 2023 was approximately \$43M (**D on Statements of Net Position**).
4. USM institutions were awarded \$574M under the Department of Education's HEERF Program (Higher Education Emergency Relief Fund). Revenue recognized of \$7M for the period ending June 30, 2024 compared to \$61M for the period ending June 30, 2023 is recorded as 'Nonoperating grants' (**E on Statements of Revenues, Expenses and Changes in Net Position**). Cumulatively, the System has recognized approximately \$560M in HEERF funds to date. BSU has unspent HEERF Funds as of June 30, 2024. They have until June 30, 2025 to expend the remaining funds.
5. The net pension liability and related deferred balances as of June 30, 2024, and 2023 were \$1,099M and \$1,107M, respectively (**F on Statement of Net Position and Financial Snapshot**). The calculated pension liability increased by more than \$194M from FY23 to FY24 as a result of increased service costs and an investment return of 3.1% in FY23. 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, 2024 and 2023 was \$200M and \$139M respectively. (**G on Statements of Revenues, Expenses and Changes in Net Position**) This increase investment income is primarily a result of a 9% rate of return for FY24 compared to 6% in FY23 on endowment investments. Interest earned on cash held by the State increased from an interest rate of 3.07% in FY23 to 4.36% in FY24.
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 296% at June 30, 2024, increasing from 267% at June 30, 2023 (**K on Financial Snapshot**). Per guidance from our financial advisor, PFM we now including in total debt outstanding deferred service concession arrangements (represents liability associated

with student housing public private partnerships (P3s)) of \$227M and \$247M at June 30, 2024 and 2023, respectively(**I on the Statements of Net Position**). The rating agencies are now treating these arrangements as direct debt of the System.

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 FY24 resulted in an increase in overall 'true' financial standing, with the ratio of available resources to debt outstanding on an adjusted basis, improving from 128% at the end of FY23, to 147% at the close of FY24 (**J on Financial Snapshot**).

TOPIC: Update of Office of Legislative Audit Activity

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

Since the Committee's June 2024 meeting, the Office of Legislative Audits (OLA) has issued audit reports for the University of Maryland Global Campus (summarized in Attachment A), Frostburg State University (summarized in Attachment B), the University System of Maryland Office (summarized in Attachment C) and the University of Maryland Baltimore County (summarized in Attachment D).

The Joint Audit and Evaluation Committee (JCEL) requested that leadership from UMGC, FSU, USMO and the Board of Regents participate in a hearing in Annapolis on November 13, 2024. The hearing is likely the result of significant findings reported in OLA's audit of UMGC and disagreement regarding reported information/recommendations in the audits of UMGC, FSU and USMO.

In attachment E is a summary of audit findings reported in each institution's most recent audit report.

In order to help assure findings are addressed by each institution, the USMO requests a status update from institution Presidents 90 days following the report issuance. The Office of Internal Audit conducts follow up audit engagements approximately 45 days after receiving the institution's status update.

OLA Engagements Currently Active:

- Bowie State University,
- University of Maryland, Baltimore,
- University of Baltimore and
- University of Maryland College Park,

Attachments

FISCAL IMPACT: none

CHANCELLOR'S RECOMMENDATION: none

COMMITTEE ACTION: None

DATE:

BOARD ACTION: None

DATE:

SUBMITTED BY: David Mosca 10-23-2024

Summary Analysis of Discussion Note Findings in OLA’s UMGC Audit

The Office of Legislative Audits (OLA) issued its final report on UMGC in August for the period October 1, 2018, and ending December 31, 2022. OLA completed its fieldwork in early 2023. OLA reports seven findings and five of these appear significant. Three relate to UMGC’s ongoing relationships with UMGC Ventures, AccelerEd and HelioCampus and two relate to UMGC’s oversight of its \$500M marketing contracts.

In the background section of the report, OLA conveys that UMGC would not provide information and documentation related to Ventures, AccelerEd and HelioCampus which limited their work. OLA notes that UMGC responses included “N/A” (not applicable) or “out of scope” for the information and documentation requests.

The discussion note findings are summarized as follows:

UMGC Relationship with Ventures, AccelerEd (AE) and HelioCampus (HC)

Finding 1: OLA raises questions as to whether UMGC’s continued relationship with Ventures and its affiliates is in the best interest of UMGC and the State, including being the primary revenue source for Ventures and AccelerEd.

- A. OLA states that UMGC has accounted for all of AE’s revenue (between 99% and 91%) since its creation in 2017 and remains solely dependent on UMGC as a going concern. AE was established to provide services to other institutions for a fee.
- B. OLA states the UMGC could not explain critical aspects of Venture’s sale of a controlling interest in HC in 2019. These aspects include the basis for sales price or the basis for the distribution of the sales proceeds of \$26.3M (\$16M was donated to the USM Foundation for UMGC purposes).
- C. OLA states that Ventures made a \$1.1M capital contribution to HC after the sale of its contribution which was not subject to review and approval by UMGC. OLA also notes that the fair market value of Ventures’ share of HC declined from \$10M in 2020 to \$7.1M in 2022 as a result of losses incurred.

Finding 2: UMGC obtained \$187.1 in IT services from Ventures and its subsidiaries without competitive procurement and without verifying the amounts were proper.

- A. OLA reports that UMGC did not attempt to competitively procure IT services but depended solely on Ventures to ensure that the best qualified and most advantageous vendor was obtained for IT services. OLA also notes that UMGC’s agreements with Ventures required that Ventures use AE for IT services.

UMGC disagrees based on this statute: Education § 12-113 provides that State Finance & Procurement Division II does not apply to transactions between a HIEDA and the institution that established, financed, or operated the HIEDA. UMGC’s agreements

with the HIEDAs it established, financed, or operated would be exempt from SF&P Division II and not subject to competitive procurements.

Auditor’s Comment: The response indicates disagreement and notes that, by law, transactions with the HIEDA that UMGC established are not subject to competitive procurement requirements. The report acknowledges this fact but also notes that the law does not prohibit competitive procurement and that competitive procurement helps to ensure that the most capable vendor is selected at a competitive cost. In light of the significant issues noted in this report and the unique relationship between UMGC and Ventures, we continue to believe UMGC should take steps to ensure IT services are procured on a competitive basis.

- B. Invoices received from Ventures for IT services did not include a breakdown of costs incurred and services provided. While these are fixed price contracts, OLA opines that UMGC should require this information on invoices.
- C. UMGC did not verify the propriety of contingency fees charged by AE. The fixed price contracts included a contingency fee of 10% of total costs (\$11.3M) from 2020 – 2023. Per OLA, UMGC refused to provide information other than to say that the agreement was fixed price. [It does not appear that there was an understanding of what the contingency fees could be used for.]

Finding 3: UMGC did not monitor an IT project being developed by Ventures and was ultimately determined to be unusable and abandoned after UMGC expended \$25.7M.

- A. OLA states that UMGC did not monitor an IT project to establish a new student information system (SIS) for UMGC’s use. UMGC paid Ventures \$25.7M before it was determined to be unusable and abandoned. While the completed schedule was extended, status reports from AE did not include concerns that the successful completion of the project was in question.
- B. The project was cancelled after UMGC received a report from an independent vendor conveying significant deficiencies with the status and direction of the project. OLA states there were several oversight and management issues related to Ventures and its affiliate that in OLA’s opinion directly contributed to the project’s failure.
- C. OLA also notes that UMGC did not attempt to obtain a refund or liquidated damages from Ventures. UMGC subsequently updated its existing SIS for \$719,000.

Advertising Contracts

In the background of this section, OLA notes the use of two competitively procured advertising contracts totaling \$500M to increase out-of-state enrollment. OLA emphasizes that out of state enrollment remained static from FY 2019 – 2022.

Finding 4: UMGC did not have formal documented procedures for assigning work to pre-qualified vendors for two master advertising contracts totaling \$500M. Also, the

related statements of work were not sufficiently detailed to allow for effective monitoring by UMGC. (It appears that \$175M was spent by UMGC toward these contracts between February 2019 – December 2022.)

OLA reports that UMGC did not have a formal documented procedure for selecting vendors from contracted lists. Additionally, related statements of work lacked comprehensive descriptions of the work to be performed and did not include performance measures to determine how successful the advertisements were in increasing enrollment.

[UMGC respectfully disagrees with OLA and includes commentary to defend its position].

Auditor’s Comment: UMGC disagrees with using competitive procurement within prequalified vendors, noting that it is not necessary or practical given its business model for advertising. As noted in the report, it was UMGC’s initial intention to provide for competition among the prequalified vendors. With competitive procurement, UMGC would still be in a position to determine and select the most capable and cost-effective vendor. Consequently, we continue to believe that the use of a competitive procurement process within the prequalified vendors is appropriate.

Finding 5: UMGC did not adequately justify two sole source procurements of advertising services and did not consolidate procurements that OLA believes circumvented USM Procurement Policies and procedures.

OLA reports that UMGC entered into two sole source contracts totaling \$3.1M during FY220 – FY2023.

OLA infers that UMGC circumvented the sole source procurement policy by entering into two contracts rather than consolidating into one. If these contracts were consolidated it would have required USM’s VPAF approval and may have needed BPW approval for contracts exceeding \$1M.

Other Findings

Finding 6: Cash Receipts

OLA states that UMGC did not adequately control and account for collections which totaled \$7.3 million in FY 2022.

- A. Checks received by mail were not always recorded in UMGC’s check log.
- B. UMGC’s deposit verifications were inadequate because of the inaccurate check log.

Finding 7: Student Residency Status

OLA states that UMGC's procedures for residency changes were not sufficiently comprehensive. This resulted in 67% of residency changes not being subject to an independent review and approval.

Summary Analysis of the Office of Legislative Audit's Report of FSU

The Office of Legislative Audits (OLA) issued its final report on Frostburg State University (FSU) in September 2024. The period audited was from August 26, 2019, to July 15, 2023. OLA notes no IT/IS findings and seven fiscal compliance findings (one is classified as a repeat).

The seven fiscal compliance discussion note findings are summarized as follows. Note in its response FSU disagreed with the analysis in finding 1 and disagreed with OLA's recommendation 2.d:

The findings are summarized as follows:

Contracts and Disbursements (Disagreement)

Finding 1: OLA states that FSU did not exercise due diligence or comply with policy when it procured a new financial aid system. FSU expended approximately \$680K but plans to discontinue use of the system starting Fall 2024. FSU disagrees with OLA's statement that due diligence did occur but concedes that it wasn't documented. Additionally, FSU disagrees that the amount expended on the new financial aid system exceeded the amount it would have expended on its existing system. FSU calculates the additional spending totaled \$108K. OLA makes the following recommendations:

- A. Comply with BOR policy on sole source procurement and exercise sufficient due diligence when procuring future contracts.
- B. Include language for liquidated damages in future contracts.

Finding 2: OLA states that FSU did not attempt to competitively procure mental health services and did not obtain the required BPW approval when contract costs exceeded \$1 million. OLA also notes an overpayment of at least \$9,600. FSU disagrees that there was an overpayment. OLA and makes the following recommendations:

- A. Use competitive procurement for future psychological support services.
- B. Better prepare and document required justifications for emergency and sole-source procurements.
- C. Obtain required BPW approval when contract costs exceed \$1 million.
- D. Take steps to recover any overpayments.

Finding 3: OLA states that FSU did not verify that its use of contracts procured by other entities was in the best interest of FSU as required by BOR policy. OLA also notes that FSU did not verify the rates it was charged with related contracts. OLA makes the following recommendations:

- A. FSU verify its use of contracts established by other organizations, institutions, or agencies is in the best interest of FSU, and that the contracts were properly procured (repeat); and
- B. FSU verify amounts invoiced by vendors are consistent with established contract rates (repeat).

Student Accounts Receivable

Finding 4: OLA states that FSU did not establish sufficient controls over student residency determinations and certain adjustments recorded in student accounts. OLA makes the following recommendations:

- A. Ensure independent supervisory reviews of initial residency determinations and changes are conducted and documented.
- B. Ensure independent verifications of non-cash credit adjustments are performed by an independent employee.

Student Financial Aid

Finding 5: OLA states that FSU did not ensure that all institutional aid awards reflected the student's residency status at the time of award. OLA notes that it identified errors totaling approximately \$64,000. OLA makes the following recommendations:

- A. Ensure that independent supervisory reviews of all initial student residency determinations and residency status changes recorded in the student accounts receivable system are conducted and documented, and
- B. B. Ensure that an independent verification of non-cash credit adjustments is performed utilizing a report generated by an independent employee.

Payroll

Finding 6: OLA states that FSU did not ensure that critical payroll related transactions were independently reviewed for propriety. OLA makes the following recommendations:

- A. Use available output reports to independently verify leave balance adjustments to ensure that only valid adjustments have been processed and take appropriate corrective action when errors are noted, including those noted above; and
- B. Perform independent supervisory reviews of other earnings transactions to support documentation.

Cash Receipts

Finding 7: OLA states inadequate segregation of duties exists regarding cash receipts. OLA notes that employees responsible for verifying that collections were deposited also had access to the related collections prior to deposit. OLA makes the following recommendation:

FSU should ensure that an employee without access to collections verifies all recorded collections to deposit. We advised FSU on accomplishing the necessary separation of duties using existing personnel.

Summary Analysis of the Office of Legislative Office's Audit of the University System of Maryland Office

The Office of Legislative Audits (OLA) issued its final report of the University of Maryland System Office (USMO) in September 2024. The period audited was from August 20, 2018, to September 30, 2022. OLA notes two IT/IS findings and four fiscal compliance findings (one is classified as a repeat). The IT/IS findings are redacted from OLA's report.

The four fiscal compliance findings are summarized as follows. Note in its response USMO disagreed with the first finding and agreed with the other three:

Fiscal Compliance:

Finding 1: Contracts Procured by Other Agencies (DISAGREEMENT)

OLA states that USMO does not require USM institutions to document the steps they take to comply with BOR policy requirements for the use of contracts procured by other entities. In addition, we noted that in June 2024 (subsequent to our audit) the BOR approved the removal from its policies of the requirement to ensure that the use of such contracts was in the best interest of the applicable institution. OLA questions the removal of that important requirement (OLA is referring to a sentence in the policy that states that the use of these contracts is acceptable provided that the use of these contracts is in the best interest of the institution).

OLA wants USMO to require USM institutions to document for each contract the steps taken to comply with BOR policy requirements for using such contracts (1). OLA also recommends that USMO develop and propose to the BOR any necessary action to ensure that the BOR policies include a requirement that the use of such contracts is in the best interest of the institution (2).

(1) USMO disagrees with OLA's recommendations and responded that Cooperative purchasing is an authorized procurement method under the USM Procurement Policies and Procedures. A procurement officer is granted authority to determine the best procurement method to utilize to meet the needs of their institution. USM Procurement Policies do authorize institutions to develop their own policies and procedures as long as they are consistent with the USM Procurement Policies: "Each institution of the USM shall be responsible for developing policies and procedures for use of the following methods that are consistent with those set forth below and with the needs of the Individual institutions" of USM could therefore require the documentation suggested by OLA, but it is not a requirement of the USM Procurement Policies.

(2) The USM Procurement Policies authorize the use of contracts established by other Organizations, Agencies or Institutions after a procurement process (including Sole

Source or Negotiated Procurement) and provided that the terms of the applicable contract do not prohibit use by the University System of Maryland.

Finding 2: Student Financial Aid

OLA recommends that USMO develop a policy that requires USM institutions to consider tuition remission when awarding financial aid, and if revision to current BOR policies and procedures is necessary to implement this requirement, the Office should develop and propose to the BOR the necessary revision.

Finding 3: Centers and Institutes

OLA states that USMO does not maintain a current and comprehensive listing of all Centers and institutes established by USM institutions and did not ensure that the establishment of these Centers and Institutes had been adequately justified by the respective institutions. OLA also recommends that the USMO ensure that any required approval from the Chancellor or BOR has been obtained. (repeat finding)

Finding 4: Cash Receipts

OLA states that USMO does not adequately safeguard cash receipts. OLA notes that the individual responsible for initially recording checks is only in the office two days a week and the mail received while this individual was away remained unsecured. OLA recommends that USMO secure all collections prior to deposit and conduct timely deposit verifications, which include agreement of the initial record of checks received to validated deposit documentation from the bank.

Summary Analysis of the Office of Legislative Office's Audit of the University of Maryland Baltimore County

The Office of Legislative Audits (OLA) issued its final report of the University of Maryland Baltimore County (attached) on October 17, 2024. The period audited was from August 26, 2019, to July 15, 2023. OLA notes one cybersecurity finding and one fiscal compliance finding (neither is classified as a repeat). The cybersecurity finding is recacted from the report.

UMBC has agreed with OLA's findings which are summarized as follows:

Finding 1: Cybersecurity [REDACTED]

Finding 2: Employee Time Records

OLA states that UMBC did not ensure that employee work time was recorded and approved (timesheets) in a timely manner. Several examples of timesheets were identified as not being completed or reviewed within a reasonable timeframe. OLA also makes note of one employee who has not completed a timesheet from May 2015 – October 20 and four employees who have not submitted and/or approved timesheets for periods of up to one year.

USM
Summary of Audit Findings per
Office of Legislative Audits
As of 10/11/24

OLA Report Issued:														
	5/12/2021	11/6/2023	9/11/2024	3/5/2024	3/22/2024	12/3/2021	3/1/2023	10/11/2024	2/5/2024	9/27/2022	12/15/2022	8/20/2024	9/11/2024	
	BSU	CSU	FSU	SU	TU	UB	UMB	UMBC	UMCES	UMCP	UMES	UMGC	USMO	Total
Fiscal Compliance														
Business Initiatives/Relationships	-	-	-	-	-	-	-	-	-	-	-	1.00	-	1.00
Cash	-	1.00	1.00	-	-	-	1.00	-	-	-	-	1.00	1.00	5.00
Center and Institutes	-	-	-	-	-	-	-	-	-	-	-	-	1.00	1.00
Conflict of Interest	-	-	-	-	-	1.00	-	-	-	0.50	-	-	-	1.50
Employee Compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Account Reconciliations	-	-	-	-	-	-	-	-	-	-	1.00	-	-	1.00
Financial Aid Adjustments	0.50	-	0.50	-	-	0.50	1.00	-	-	-	-	-	1.00	3.50
Financial Aid Awards Without Independent Review	0.50	-	-	-	-	-	-	-	-	-	-	-	-	0.50
Financial Aid Awards Without Written Eligibility Criteria	-	2.00	-	-	-	-	-	-	-	-	-	-	-	2.00
Food Services Contract	-	-	-	-	-	-	-	-	-	-	1.00	-	-	1.00
Grants Accounts Receivable	-	-	-	-	-	-	1.00	-	-	-	-	-	-	1.00
Interagency Agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
N/A	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll	-	-	1.00	-	-	1.00	1.00	1.00	-	2.00	-	-	-	6.00
Procurement / Contract Monitoring	0.50	1.00	3.00	-	-	-	-	-	-	0.50	-	4.00	1.00	10.00
Purchases and Disbursements	0.50	-	-	-	-	-	-	-	-	-	-	-	-	0.50
Student Accounts Receivable	-	-	0.50	-	-	1.00	-	-	-	-	0.50	-	-	2.00
Student Refund Validity Not Confirmed and Issuance Not Verified	0.50	-	-	-	-	-	-	-	-	-	-	-	-	0.50
Student Residency Verification	-	1.00	1.00	-	-	-	1.00	-	-	1.00	0.50	1.00	-	5.50
Verification of Financial Aid Application Data Without Independent Review	-	-	-	-	-	0.50	-	-	-	-	-	-	-	0.50
Verification of Vendor Safeguarding Student Sensitive Personal Information (SOC 2 Report)	0.50	-	-	-	-	1.00	-	-	-	-	-	-	-	1.50
IT Areas														
Redacted				1.00										1.00
Redacted	2.00				1.00	2.00		1.00		1.00	2.00			9.00
Redacted	1.00			1.00			1.00			2.00	1.00		2.00	8.00
Redacted	1.00													1.00
Total number of findings per OLA Audit report	7.00	5.00	7.00	2.00	1.00	7.00	6.00	2.00	-	7.00	6.00	7.00	6.00	63.00
														63.00

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

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

SUMMARY:

Attachment: Register of Open Action Items From 2023 – 2024 Audit Committee Meetings.

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 2023 - 2024 Audit Committee Meetings
 23-Oct-24

Action Item

Status

From June 2024 Audit Committee Meeting

1.	Monitor Progress of UMGC's OLA audit results.	Update to be provided for October Audit Committee meeting.
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From April 2024 Audit Committee Meeting

1.	Modify comparison report of USM characteristics with other institutions that have the same bond rating (UMGC endowment per student, footnotes, and report heading - peers vs. institutions with same rating).	Will be included with the annual report for March 2025 audit committee meeting.
4.	Invite Mandiant to make a presentation to audit committee at a future meeting. Include discussion regarding vulnerability trends.	In process.
5.	Verify outsourcing of firm to monitor UMBC's Title IX function per terms of settlement with DOJ.	Outsourcing approved by BOPW in April 2024. Work estimated to begin in summer of 2024 and funded by DOJ. In process.

Note: Action items concluded prior to the June 2024 BOR Audit Committee meeting are not included in this schedule.

TOPIC: Convening Closed Session

COMMITTEE: Audit Committee

DATE OF COMMITTEE MEETING: October 23, 2024

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: 12-23-2024

BOARD ACTION:

DATE:

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



STATEMENT REGARDING CLOSING A MEETING
OF THE USM BOARD OF REGENTS

Date: October 23, 2024

Time: Approximately 11:00 AM

Location: Zoom

STATUTORY AUTHORITY TO CLOSE A SESSION

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

(1) To discuss:

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

Discussion of personnel matters as these arise related to matters on the closed session agenda; discussion of legal matters with Counsel of the Higher Education Division of the Maryland Office of the Attorney General and receipt of legal advice; discussion of legislative audit matters that are confidential by statute as these are ongoing; discussion of investigative matters involving actual or potential criminal conduct which may lead to criminal prosecution, meeting separately with independent auditor's engagement partner and USM's VC of accountability; discussion of IT security matters that pose

vulnerabilities of networks, critical IT infrastructure and information resources; and consideration of calendar year 2024 internal audit plan of activity.

REASON FOR CLOSING:

- 1) To maintain the confidentiality of personnel matters involved in various topics on the closed session agenda, including legal advice, investigations of possible criminal activity and ongoing legislative audits (General§3-305(b)(1))
- 2) To maintain confidentiality and attorney-client privilege regarding legal advice received from the OAG's Higher Education Division (§3-305(b)(7));
- 3) To maintain confidentiality of discussions of investigations involving possible criminal behavior, which 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 maintain confidentiality of USM's cybersecurity to avoid disclosing risk vulnerability of networks, critical IT infrastructure and information resources; (§3-305(b)(15);
- 5) To carry out an administrative function: discussion of calendar year's 2024 audit plan of activity by the USM Office of Internal Audit (§ 3-103(a)(1)(i); and
- 6) To carry out an administrative function: the Committee's separate meeting with the VC of Accountability and independent auditors (§3-103(b)(1)(ii).