

R30B36
University System of Maryland Office
University System of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$18,609	\$14,298	\$18,500	\$4,202	29.4%
Contingent & Back of the Bill Reductions	0	0	-\$11	-\$11	
Adjusted General Funds	\$18,609	\$14,298	\$18,490	\$4,191	29.3%
Special Funds	721	1,002	845	-157	-15.7%
Contingent & Back of the Bill Reductions	0	0	11	11	
Adjusted Special Funds	\$721	\$1,002	\$855	-\$146	-14.6%
Other Unrestricted Funds	4,630	9,198	5,272	-3,926	-42.7%
Adjusted Other Unrestricted Funds	\$4,630	\$9,198	\$5,272	-\$3,926	-42.7%
Total Unrestricted Funds	23,959	24,499	24,617	118	0.5%
Adjusted Total Unrestricted Funds	\$23,959	\$24,499	\$24,617	\$118	0.5%
Restricted Funds	3,046	3,500	3,500	0	0.0%
Adjusted Restricted Funds	\$3,046	\$3,500	\$3,500	\$0	0.0%
Adjusted Grand Total	\$27,006	\$27,999	\$28,117	\$118	0.4%

- General funds for the University System of Maryland Office (USMO) increase \$4.2 million, or 29.3%, in the fiscal 2013 allowance after adjusting for the \$10,785 that is contingent on enactment of the Budget Reconciliation and Financing Act of 2012, which would be replaced by the same from the Higher Education Investment Fund (HEIF). HEIF declines \$0.1 million, or 14.6%, due to the use of the fund balance in fiscal 2012. Overall, State funds increase \$4.0 million.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>
Regular Positions	104.00	104.00	104.00	0.00
Contractual FTEs	<u>8.00</u>	<u>7.00</u>	<u>7.00</u>	<u>0.00</u>
Total Personnel	112.00	111.00	111.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	2.03	1.95%
Positions and Percentage Vacant as of 12/31/11	8.00	7.70%

- The fiscal 2013 allowance does not provide for any new regular positions.

Analysis in Brief

Major Trends

Community College Transfers Grow: Transfers from Maryland community colleges grew 6.1% in fiscal 2011, totaling 10,029 students. Four community colleges accounted for 60.8% of all transfers while four University System of Maryland (USM) institutions enrolled approximately 75.0% of the community college transfers.

Enrollment Growth Slows at Shady Grove: After two years of rapid growth at the Universities of Shady Grove of over 25.0%, enrollment slowed to 4.7% in fiscal 2011. Enrollment at University System of Maryland at Hagerstown increased 0.6%.

Issues

Economic Development and Technology Commercialization: While Maryland institutions have performed well in obtaining funding for basic research, they have not been as successful in transferring research discoveries to the marketplace. Therefore, in 2011, with an increasing focus on economic development, the Board of Regents established a standing Committee on Economic Development and Technology Commercialization.

Fundraising Campaign Coming to a Close: Fiscal 2012 is the last year of USM's multiyear campaign to raise \$1.7 billion. USM institutions have surpassed this goal and raised \$1.8 billion as of December 31, 2011.

Repeat Audit Findings: In January 2012, the Office of Legislative Audits issued its audit of USMO in which there were seven findings, three of which were repeat findings from the last audit.

Recommended Actions

1. Add language reducing the University System of Maryland Office general funds.

Updates

Performance of USM Endowment: Endowment assets under management as of December 31, 2011, totaled \$785.1 million, of which approximately \$33.6 million were assets of six community colleges. Total endowment assets under management as of June 30, 2011, were approximately \$799.9 million. Overall, the foundation's preliminary investment return from July 1 to December 31, 2011, was -4.6%.

R30B36
University System of Maryland Office
University System of Maryland

Operating Budget Analysis

Program Description

The University System of Maryland Office (USMO) is the staff agency to the University System of Maryland (USM) Board of Regents. The office advocates on behalf of the 11 institutions, two regional higher education centers, and one research institute; facilitates collaboration and efficiencies among institutions; and provides information to the public. It includes the Chancellor; executive and administrative staff; and the central services of budget, accounting, auditing, information technology, capital planning, advancement, and public and governmental relations.

The mission of USMO is to provide leadership, planning, and resource management to advance the quality and accessibility of USM services and increase synergies among the USM institutions.

The goals of USMO are to:

- promote access to USM institutions through cooperation;
- promote operational synergies;
- promote private support for USM; and
- provide financial stewardship to maximize the effectiveness and efficiency of USM operations.

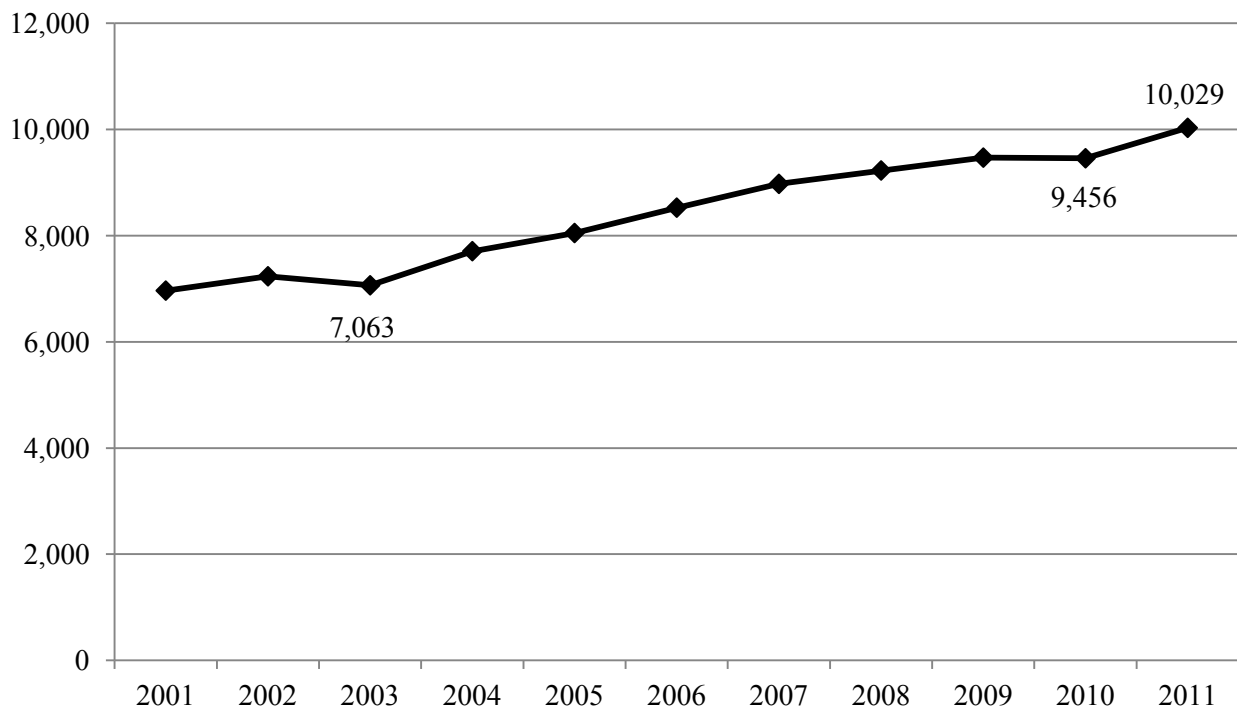
Performance Analysis: Managing for Results

Community College Transfers Grow

USMO tracks the number of community college students transferring to USM institutions as a measure of meeting the goal of promoting access to USM institutions. Furthermore, increasing transfers is a key component to USM meeting its and the State's college completion goal. In fiscal 2011, 19,242 students transferred to a USM institution, representing 17.7% of all undergraduate students attending USM institutions. Of these students, 10,029 came from Maryland community colleges.

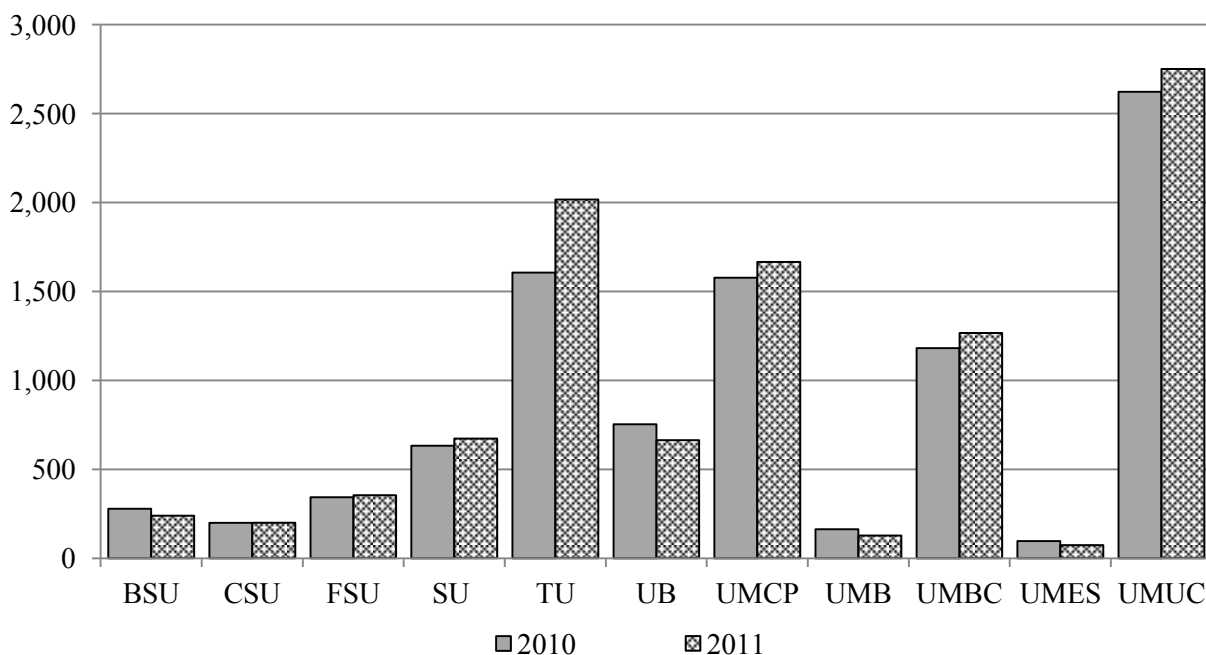
While there was a slight decline of Maryland community college students transferring to a USM institution in fiscal 2010, it rebounded in fiscal 2011, increasing 6.1% as shown in **Exhibit 1**. Overall, four community colleges accounted for 60.8% of all transfers: Montgomery College; Community College of Baltimore County; Anne Arundel Community College; and Prince George’s Community College. Approximately 75% of all transfers enrolled at four institutions, as depicted in the **Exhibit 2**. In fiscal 2011, the University of Maryland University College (UMUC) and Towson University (TU) accounted for almost half the total transfer enrollments with 4,767 students. University of Maryland, College Park (UMCP) and University of Maryland Baltimore County (UMBC) enrolled 29.2% of all transfers. TU experienced a 25.0% increase in transfers with the addition of 410 students in fiscal 2011 while UMUC had a modest increase of 128 transfers.

Exhibit 1
Transfer Students from Maryland Community Colleges to USM Institutions
Fiscal 2001-2011



Source: Source: Governor’s Budget Books, Fiscal 2013; University System of Maryland

Exhibit 2
Institutions Receiving Maryland Community College Transfer Students
Fiscal 2010-2011



BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 TU: Towson University
 SU: Salisbury University
 UB: University of Baltimore

UMB: University of Maryland, Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore
 UMUC: University of Maryland University College

Source: University System of Maryland

Enrollment Growth Slows at Shady Grove

USM also provides access to its institutions through two regional higher education centers: the Universities of Shady Grove (USG) and the University System of Maryland at Hagerstown (USMH). Total full-time equivalent student (FTES) enrollments at the centers are shown in the **Exhibit 3**. After two years of rapid growth at USG of over 25.0%, enrollment growth slowed to 4.7% in fiscal 2011. While enrollment in UMCP's programs account for 42.6% of all students, there was a slight 0.1% decline in enrollment.

Exhibit 3
Full-time Equivalent Student Enrollment
Fiscal 2005-2011

Universities at Shady Grove							
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bowie State University	13.0	13.8	12.5	10.3	14.4	15.3	13.0
Salisbury University					9.3	22.8	23.1
Towson University	62.8	69.2	79.5	70.1	97.5	108.8	107.8
Univ. of Baltimore			12.1	37.0	43.6	61.7	69.4
Univ. of Maryland, Baltimore	146.1	142.7	152.9	188.3	264.4	371.9	418.2
Univ. of Maryland Baltimore County	90.4	109.6	111.9	135.2	175.5	215.0	243.8
Univ. of Maryland, College Park	473.7	529.4	628.9	646.0	818.5	995.8	994.4
Univ. of Maryland Eastern Shore	32.2	33.6	34.8	38.0	48.2	66.7	74.8
Univ. of Maryland University College	372.9	293.3	301.5	288.2	312.4	372.2	391.1
Total	1,191.1	1,191.6	1,334.1	1,413.1	1,783.8	2,230.2	2,335.6

The University System of Maryland at Hagerstown							
	<u>2005*</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Frostburg State Univ.	74.4	174.3	167.0	194.9	187.0	193.6	180.9
Salisbury Univ.	0.0	0.0	0.0	8.6	20.3	28.5	29.0
Towson Univ.	0.0	0.0	14.2	30.1	32.6	47.7	52.7
Univ. of Maryland, Baltimore	0.0	4.6	0.0	0.0	0.0	0.0	0.0
Univ. of Maryland, College Park	0.0	0.3	1.2	2.0	1.5	1.1	7.2
Univ. of Maryland University College	0.0	4.5	3.1	0.4	5.6	8.0	10.8
Total	74.4	183.7	185.5	236.0	247.0	278.9	280.6

* Fiscal 2005 is enrollment in spring semester only. University System of Maryland at Hagerstown opened in January 2005.

Source: Universities of Shady Grove; University System of Maryland at Hagerstown

USMH experienced a 0.6% increase in enrollments in fiscal 2011. This was due to enrollment in Frostburg State University (FSU) programs decreasing 12.7 FTES which was offset by an increase of 14.4 FTES at other institutions. FSU attributes the decrease to an enrollment decline in its master's level teacher education program and to more students in its Master of Business Administration program taking courses online. Enrollment in UMCP's programs grew 6.1 FTES due

to the initial offering of its doctorate in education degree in leadership fall 2010. This is a collaborative effort with FSU which will take over the program and continue to offer it at USMH and at FSU. Additionally, Coppin State University (CSU) is scheduled to begin offering its Health Information Management program at USMH in fall 2012 and its Sports Management program the following year.

The Chancellor should comment on the practicality of CSU offering programs at USMH and if it can afford to divert resources from its Baltimore campus that could be used to improve student success.

Proposed Budget

The general fund allowance for fiscal 2013 is 29.3%, or \$4.2 million, higher than in fiscal 2012 after adjusting for the contingent reduction of \$10,785 of general funds to be replaced with the Higher Education Investment Fund (HEIF), as shown in **Exhibit 4**. When accounting for the 14.6%, or \$0.1 million, decline in the HEIF due to the use of fund balance in fiscal 2012, the overall growth in State funds is 26.4%, or \$4.0 million, above fiscal 2012.

Exhibit 4
Proposed Budget
University System of Maryland Office
(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Adjusted</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$18,609	\$14,298	\$18,490	\$4,191	29.3%
HEIF	721	1,002	855	-146	-14.6%
Total State Funds	19,330	15,300	19,345	4,045	26.4%
Other Unrestricted Funds	4,630	9,198	5,272	-3,926	-42.7%
Total Unrestricted Funds	23,959	24,499	24,617	118	0.5%
Restricted Funds	3,046	3,500	3,500	0	0.0%
Total Funds	\$27,006	\$27,999	\$28,117	\$118	0.4%

HEIF: Higher Education Investment Fund

Note: Fiscal 2013 general funds and HEIF are adjusted by \$10,785 to reflect a decrease in general funds which is offset by a corresponding increase in HEIF contingent upon legislation. Numbers may not sum to total due to rounding.

Source: Governor's Budget Book, Fiscal 2013

Other current unrestricted funds decline 42.7%, or \$3.9 million, in fiscal 2013 which is offset by the \$4.0 million increase in State funds. This is related to language in the fiscal 2012 budget that reduced USMO's general fund appropriation \$4.0 million that was replaced by the institutions either through a transfer from their fund balance or with other current unrestricted revenues. **Exhibit 5** shows the allocation of the administrative cost which was based on each institution's share of general funds and HEIF. The University of Maryland Center for Environmental Science was exempted from this allocation due to the costs it incurred with the start up of the Socio-Environmental Synthesis Center.

Exhibit 5
Allocation of Administrative Costs
Fiscal 2012

University of Maryland, Baltimore	\$706,202
University of Maryland, College Park	1,582,096
Bowie State University	136,389
Towson University	347,979
University of Maryland Eastern Shore	122,898
Frostburg State University	127,527
Coppin State University	145,214
University of Baltimore	116,044
Salisbury University	151,541
University of Maryland University College	124,634
University of Maryland Baltimore County	365,756
University of Maryland Center of Environmental Science	0
University System of Maryland Office	73,720
Total	\$4,000,000

Source: University System of Maryland Office

The rationale for reducing USMO's general fund appropriation in fiscal 2012 remains applicable in fiscal 2013. The fiscal 2013 allowance includes \$9.5 million for USG and USMH, \$0.4 million for the teacher education program, and \$9.0 million to support USMO operations which includes the Chancellor's Office, Academic Affairs, Administration and Finance, and Advancement and Public Relations. A majority of USMO's functions benefit USM institutions such as providing central coordination of operating and capital budgets, academic planning and accountability, and serving as a liaison with various stakeholders. In addition to the \$9.0 million of State funds, USMO also receives approximately \$4.0 million in additional funding from institutions who are billed for overhead and internal audit services. **Since USMO acts on behalf and for the direct benefit of all**

the institutions and currently bills institutions for some services, the Department of Legislative Services (DLS) recommends USMO's fiscal 2013 general fund appropriation be reduced by \$4.0 million with some or all of the reduction replaced by transfers from the fund balance, reducing system operations, or assessing system administrative costs to institutions.

USM Regional Higher Education Centers Proposed Budgets

Established as a regional higher education center in 1992 to serve evening and part-time undergraduate and graduate students, USG was created by USM in 2000 to include upper-level daytime undergraduate programs with seven USM institutions offering 14 baccalaureate programs. In 2001, UMCP took over the administrative functions of the campus from UMUC, with the director reporting to UMCP's Provost. Currently, nine USM institutions offer 38 undergraduate and 31 graduate programs.

USMH opened in January 2005 in a building the State bought from the city of Hagerstown for \$10.00 and invested \$15.4 million to renovate and equip. FSU provides management and administrative support with the director reporting to the President. USMH offers classes mainly in the evening with a majority of students enrolled in graduate programs. Five institutions offer 12 undergraduate and seven graduate programs.

Both centers have similar governance structures with the overall policymaking responsibility residing with the Governing Council comprised of provosts from the participating USM institutions and the USM Senior Vice Chancellor for Academic Affairs. Additionally, both have a Board of Advisors comprised of business, political, and community leaders representing the interests of the community.

The proposed fiscal 2013 budgets for USG and USMH are shown in **Exhibit 6**. USG's budget increases \$73,000, or 0.5%, over fiscal 2012. General funds remain unchanged at the fiscal 2011 level of \$7.3 million, accounting for 51.5% of USG's revenues in fiscal 2013. USG also receives funding for enrollment growth from those institutions whose enrollment is expected to increase, although this amount has remained at \$3.3 million since fiscal 2009. Non-State supported revenues increase \$55,000 due to 9.9% growth in student fees.

As with USG, general funds in the fiscal 2013 allowance for USMH remain at the fiscal 2011 level of \$1.9 million, accounting for 97.4% of total revenues. Total revenues decline due to a \$15,000 decrease in rental revenues. The allowance provides \$255,000 for academic incentive fees that are used to reduce the financial risk to a USM institution of bringing a new academic program to USMH. These incentives are provided to partner institutions for a predetermined amount of time until a program is financial viable. In fiscal 2013, USMH will provide \$100,000 to TU for nursing, which it has been receiving since fiscal 2006; \$50,000 to FSU for psychology; \$50,000 to UMCP for the doctorate in education degree; and \$50,000 is proposed for CSU for Health Information Management and Sports Management programs.

Exhibit 6
Proposed Budget
University System of Maryland Regional Higher Education Centers

Universities at Shady Grove					
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 12-13</u>	<u>% Change</u>
	<u>Actual</u>	<u>Budgeted</u>	<u>Estimate</u>	<u>Change</u>	<u>Prior Year</u>
Expenditures					
Salaries and Wages	\$5,041,740	\$5,654,000	\$5,745,000	\$91,000	1.6%
Operating Expenses	9,070,079	8,376,000	8,358,000	-18,000	-0.2%
Total Operating Expenses	\$14,111,819	\$14,030,000	\$14,103,000	\$73,000	0.5%
State Supported Revenues					
General Funds	\$7,260,990	\$7,260,990	\$7,260,990	\$0	0.0%
Enrollment Funding	3,262,847	3,262,000	3,262,000	0	0.0%
Institutional Partners Classroom & Office fees	732,865	700,000	700,000	0	0.0%
Student Technology Fee	277,844	236,000	250,000	14,000	5.9%
Other Usage Revenue (copier, postage, etc)	381,863	381,000	385,000	4,000	1.0%
Total State Supported Revenues	\$11,916,409	\$11,839,990	\$11,857,990	\$18,000	0.2%
Non-State Supported					
Student Fees	\$1,238,286	\$1,091,000	\$1,145,000	\$54,000	9.9%
Conference Center Revenues	1,022,374	1,099,010	1,100,010	1,000	0.1%
Transfer to Fund Balance	-65,250	0	0		
Total Non-State Supported Revenues	\$2,195,410	\$2,190,010	\$2,245,010	\$55,000	2.5%
Total Revenues	\$14,111,819	\$14,030,000	\$14,103,000	\$73,000	0.5%

University System of Maryland at Hagerstown					
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 12-13</u>	<u>% Change</u>
	<u>Actual</u>	<u>Budgeted</u>	<u>Estimate</u>	<u>Change</u>	<u>Prior Year</u>
Expenditures					
Salaries and Wages	\$567,956	\$589,789	\$591,404	\$1,615	0.3%
Operating Expenses	1,334,612	1,351,803	1,335,188	-16,615	-1.2%
Total Operating Expenses	\$1,902,568	\$1,941,592	\$1,926,592	-\$15,000	-0.8%
State Supported Revenues					
General Funds	\$1,891,592	\$1,891,592	\$1,891,592	\$0	0.0%
Non-State Supported					
Rental, Testing, & Other	50,060	50,000	35,000	-15,000	-30.0%
Transfer to Fund Balance	-39,084	0	0	0	
Total Revenues	\$1,902,568	\$1,941,592	\$1,926,592	-\$15,000	-0.8%

Source: Universities at Shady Grove; University System of Maryland at Hagerstown

Issues

1. Economic Development and Technology Commercialization

While Maryland institutions have performed well in obtaining funding for basic research, comparing favorably with institutions in competitor states, they have not been as successful in transferring research discoveries to the marketplace. Furthermore, while the State offers a number of programs and incentives to encourage and support the creation of start-up companies, these programs do not necessarily provide adequate support for technology transfer efforts at institutions.

Early measures used to gauge the success of how well universities are able to translate basic research into commercial success include number of patents filed, license agreements executed, and formation of new companies. Measures such as revenues from license fees, royalties, and number of products successfully introduced in the market provide an indication of commercial interest in university research. USM currently tracks and reports on some of these measures in its Dashboard Indicators as shown in **Exhibit 7**.

Exhibit 7
2010 Technology Transfer Measures

	<u>UMCP</u>	<u>UMBC</u>	<u>UMB</u>	<u>Total</u>
U.S. patents issued	16	9	15	40
Adjusted gross license income received	\$686,665	\$63,162	\$1,375,250	\$2,125,077
Licenses and options executed	13	4	12	29

UMB: University of Maryland, Baltimore
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park

Source: University System of Maryland Dashboard Indicators 2011

Overall, when compared to some of the top 40 public research institutions, USM tends to be at the low end for patents issued and lags in terms of licensing revenue, as shown in **Exhibit 8**.

In 2005, the Board of Regents formed a Technology Transfer Workgroup to consult with USM technology transfer officers and outside experts in technology commercialization. The workgroup focused on increasing technology commercialization effectiveness, resources, and communication within USM research-intensive universities and linking USM with the State, corporations, and other stakeholders in technology-led economic development.

Exhibit 8
Select Research Institution
Patents and Licensing Revenue
Calendar 2010

	<u>Patents Issued</u>	<u>Licensing Revenue</u>
Ohio State University	38	\$1,907,046
Pennsylvania State University	54	2,271,002
University of Washington	69	69,032,163
University of Michigan	82	39,822,113
University of Illinois	94	13,417,311

Source: University of Maryland, College Park

In 2008, the Chancellor identified the State's competitiveness, which included institutions' contributions to translational research and growth in the knowledge-based economy, as a priority. To this end, a Presidential Task Force on Research and Economic Development was established whose charge included proposing economic development initiatives and identifying deficiencies in USM and the State's infrastructure to support commercialization and technology-based economic development. One of the task force's recommendations, which was incorporated into USM's strategic plan, calls for the creation of 325 new companies.

In 2011, with an increasing focus on economic development, the Board of Regents voted to establish the Technology Transfer Workgroup as a standing committee on Economic Development and Technology Commercialization. Since its creation, the committee has undertaken a number of tasks including:

- revising the promotion and tenure policy to recognize technology transfer activities. This modified policy has been approved by the Council of University System Faculty and all Provosts and will be submitted to the Committee on Education Policy for preliminary approval in March 2012;
- updating the 2002 USM economic impact study which will be completed in summer 2012;
- tracking start-up companies based on a four tier reporting system which reflects not only those companies generated as a result of university owned intellectual property but also businesses created as a result of significant university support;

- tracking progress on recommendations developed by USM’s Cyber Security Task Force; and
- adding a technology transfer component to the annual performance review of the Presidents of research institutions.

Maryland Innovation Initiative

In order to promote technology transfer from Maryland’s public and private nonprofit research institutions, an Administration bill (Senate Bill 239/House Bill 442 of 2012) would establish the Maryland Innovation Initiative. The initiative, to be administered by the Maryland Technology Development Corporation, would provide grant funding to support a variety of technology transfer activities including pre-commercial research on intellectual property, evaluating the feasibility for commercialization, and assessing intellectual property issues. In order to qualify, participating institutions must provide at least \$250,000 annually to the initiative. In addition, the bill authorizes USM to undertake “high impact developmental activities” that support job creation and workforce development, technology transfer, commercialization and entrepreneurship, and increase sponsored research; the bill also modifies the required approvals for related transactions.

The Chancellor should comment on efforts to strengthen and enhance USM’s technology transfer activities, including encouraging coordination and collaboration among the research institutions’ technology transfer offices.

2. Fundraising Campaign Coming to a Close

Fiscal 2012 is the last year of USM’s fundraising campaign that began in fiscal 2005 with the goal of raising \$1.7 billion. As of December 31, 2011, USM has surpassed its goal by raising \$1.8 billion, as shown in **Exhibit 9**. In fiscal 2011, total contributions increased 6.4%. Seven institutions exceeded their goals, with UMBC and FSU surpassing their targets by \$18.1 million and \$2.7 million, respectively. UMCP, with a target of \$1.0 billion is within \$89.8 million of achieving its goal. **The Chancellor should comment on plans for the next capital campaign.**

Exhibit 9
USM Institutional Fundraising
Fiscal 2005-2011
(\$ in Thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 as of 12/31/11</u>	<u>Campaign Goal</u>	<u>Total Raised as of 12/31/11</u>	<u>% of Goal</u>
UMB	\$53,009	\$58,811	\$65,967	\$68,730	\$80,429	\$75,701	\$90,772	\$40,913	\$650,000	534,872	82%
UMCP	123,881	131,940	121,930	129,223	115,204	106,469	105,031	57,884	1,000,000	910,202	91%
BSU	470	263	1,160	1,160	2,015	1,341	1,223	1,090	15,000	9,351	62%
TU	13,629	5,070	6,063	6,477	7,039	6,861	5,486	2,199	50,000	52,648	105%
UMES	3,476	1,004	901	2,827	1,706	1,188	3,937	424	14,000	15,287	109%
FSU	1,604	1,093	2,591	1,979	2,788	3,283	3,630	996	15,000	17,747	118%
CSU	1,730	348	464	676	1,053	1,103	1,433	663	15,000	7,471	50%
UB	6,849	5,370	3,049	9,718	2,399	9,167	3,147	3,181	40,000	42,192	105%
SU	1,591	13,853	12,883	3,801	2,730	5,440	6,599	1,852	35,000	39,595	113%
UMUC	5,202	990	1,773	4,784	7,186	1,612	4,333	1,857	26,000	28,101	108%
UMBC	13,310	14,095	20,569	13,435	10,344	7,730	10,525	2,975	100,000	118,107	118%
UMCES	361	210	2,395	516	726	1,472	670	131	8,000	6,638	83%
UMBI	2,194	3,156	1,238	10,639	20	69	0	n/a	n/a	17,257	n/a
USMO	239	266	123	3,454	303	1,022	0	437	n/a	6,341	n/a
USM	\$227,545	\$236,469	\$241,106	\$257,419	\$233,942	\$222,458	\$236,786	\$114,602	\$1,700,000	\$1,805,809	106%

BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 TU: Towson University
 SU: Salisbury University

UB: University of Baltimore
 UMB: University of Maryland, Baltimore
 UMBC: University of Maryland Baltimore County
 UMBI: University of Maryland Biotechnology Institute
 UMCES: University of Maryland Center of Environmental Science

UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore
 UMUC: University of Maryland University College
 USM: University System of Maryland
 USMO: University System of Maryland Office

Note: UMBI campaign funds were transferred with the faculty and/or programs for which those funds were raised. The USM Foundation has reassigned most of these funds to the appropriate institutions. Since the funds were raised under the auspices of UMBI, those funds will not be attributed to the receiving institutions. Most of the funds are restricted operational funds and, therefore, will be spent down over the next few years.

Source: University System of Maryland

3. Repeat Audit Findings

In January 2012, the Office of Legislative Audits issued its audit of USMO citing seven findings, three of which were repeat findings from the last audit. The first pertains to the endowment funds in which USMO was found not to be in compliance with certain legal requirements and board policies. Specifically, the Board of Regents have not adopted investment policies as required by the investment agreement and law, and USMO did not ensure that institutions receiving administrative cost distributions from the endowment fund submitted the required annual reports for fiscal 2008 to 2010.

There were two information technology repeat findings. One related to USMO's internal network not being adequately protected from security risks related to wireless connections in which anyone using a wireless network access device within the vicinity of the building could gain network level access to the internal network or intercept and read wireless network traffic associated with the employee access points. The last repeat finding found sensitive personal and financial information for prospective USM students were unnecessarily stored on a publicly accessible web server.

The Chancellor should comment on the status of steps to address these findings.

Recommended Actions

1. Add the following language to the general fund appropriation:

Further provided that the appropriation herein for the University System of Maryland Office (USMO) shall be reduced by \$4,000,000. USMO may (1) replace some or all of the reduction with a transfer from fund balance; (2) reduce system operations, including the Universities at Shady Grove and University System of Maryland at Hagerstown; or (3) assess system administrative costs to the institutions. Authorization is hereby provided to process a current unrestricted fund budget amendment up to \$4,000,000 to replace general funds.

Explanation: Since USMO acts on behalf and for the direct benefit of all the institutions and currently bills institutions for some services, its fiscal 2012 general fund appropriation was reduced \$4.0 million with institutions providing funds for these services. As the rationale for this reduction remains applicable in fiscal 2013, USMO's fiscal 2013 general fund appropriation is reduced by \$4.0 million with some or all of the reduction replaced by transfers from the fund balance, reducing system operations, or assessing system administrative costs to institutions.

Updates

1. Performance of USM Endowment

The University System of Maryland Foundation, Inc. is a not-for-profit corporation and is separate from USM. The foundation's mission is to strengthen the capacity of USM institutions to broaden access to high quality education, meet the workforce needs of the State, and conduct research. To that end, the foundation provides advocacy, fundraising, investment management services, and financial stewardship of funds under management. The foundation manages assets for USM and all USM institutions and the research center except for Salisbury University. The foundation also invests funds for six community colleges.

Endowment assets under management as of December 31, 2011, totaled \$785.1 million, of which approximately \$33.6 million were assets of the six community colleges. Total endowment assets under management as of June 30, 2011, were approximately \$799.9 million. Overall, the foundation's preliminary investment return from July 1 to December 31, 2011, was -4.6%, which compares favorably with a composite benchmark rate (rates of returns for the individual asset classes or an index) of -7.0%. For fiscal 2011, the endowment fund earned a total return of 18.7%, net of fees and expenses compared with a benchmark rate of 19.7%.

Current and Prior Year Budgets

Current and Prior Year Budgets University of Maryland System Office (\$ in Thousands)

	General	Special	Federal	Other	Total	Restricted	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Fiscal 2012							
Legislative							
Appropriation	\$38,409	\$0	\$0	\$13,951	\$52,360	\$19,900	\$72,260
Deficiency							
Appropriation	0	0	0	0	0	0	0
Budget							
Amendments	-19,800	721	0	-8,689	-27,768	-16,400	-44,168
Reversions and							
Cancellations	0	0	0	-530	-530	-404	-934
Actual							
Expenditures	\$18,609	\$721	\$0	\$4,732	\$24,062	\$3,096	\$27,158
Fiscal 2012							
Legislative							
Appropriation	\$14,222	\$1,002	\$0	\$4,758	\$19,981	\$2,991	\$22,972
Budget							
Amendments	77	0	0	4,441	4,518	509	5,026
Working							
Appropriation	\$14,298	\$1,002	\$0	\$9,198	\$24,499	\$3,500	\$27,999

Note: Numbers may not sum to total due to rounding.

Fiscal 2011

For fiscal 2011, general funds for USMO decreased \$19.8 million through a budget amendment related to the realignment of funds to various institutions reflecting the reorganization of the University of Maryland Biotechnology Institute (UMBI). Special funds, comprised of HEIF, increased \$0.7 million through a budget amendment as authorized in the fiscal 2011 budget bill. Other unrestricted funds declined by a total of \$8.7 million which was mainly related to the reorganization of UMBI. Decreases include:

- \$3.7 million in federal grants and contracts;
- \$3.1 million in the sales and services of educational activities;
- \$1.1 million in miscellaneous income;
- \$0.7 million in State contracts and grants; and
- \$0.5 million in private gifts and grants.

Increases included \$0.3 million for the University of Maryland Academic Telecommunications Systems (UMAT) and \$0.1 million from institutions for overhead.

Cancellations of unrestricted funds totaled \$0.5 million due to the final closeout of UMBI and lower than anticipated expenditures for UMAT and other activities.

Restricted funds decreased \$16.4 million through budget amendments primarily due to the UMBI reorganization which included \$11.5 million in federal grants and contracts; \$3.5 million in State grants and contracts; and \$1.9 million in private gifts and grants. There was a decrease of \$0.5 million related to contract and grant activity.

Cancellations of restricted funds totaled \$0.4 million due to lower than anticipated expenditures on grants and contracts.

Fiscal 2012

For fiscal 2012, general funds increased \$76,986 through a budget amendment related to the \$750 employee bonus. Current unrestricted revenues increased \$4.4 million by budget amendment which includes:

- \$3.9 million transfer from institutions to offset the legislative reduction to USMO's budget;
- \$0.3 million for the Maryland Research and Education Network;

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- \$0.1 million from institutions for overhead;
- \$73,720 related to increased use of fund balance which was also used to offset the legislative reduction; and
- \$40,000 from federal indirect cost.

Current restricted funds increased \$0.5 million due to a National Science Foundation grant – Minority Pipeline Math and Science Partnership.

Audit Findings

Audit Period for Last Audit:	February 2008 – March 2011
Issue Date:	January 2012
Number of Findings:	7
Number of Repeat Findings:	3
% of Repeat Findings:	42.8%
Rating: (if applicable)	

Finding 1: **Lack of compliance with certain legal requirement and board policies related to the endowment funds.**

Finding 2: Inadequate controls over disbursements for capital project expenditures that were funded by bond proceeds.

Finding 3: Critical controls on the Maryland Research and Education Network management servers were not sufficient to protect the servers.

Finding 4: USMO's internal network was not properly secured.

Finding 5: **USMO's internal computer network was not adequately protected from security risks related to wireless connection.**

Finding 6: **Sensitive personal and financial information of prospective USM students was unnecessarily stored on a publicly accessible server.**

Finding 7: USMO did not have adequate accountability and control over payroll and personnel functions.

*Bold denotes item repeated in full or part from preceding audit report.

Object/Fund Difference Report
USM – University System of Maryland Office

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	104.00	104.00	104.00	0.00	0%
02 Contractual	8.00	7.00	7.00	0.00	0%
Total Positions	112.00	111.00	111.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 12,723,816	\$ 13,349,499	\$ 13,448,694	\$ 99,195	0.7%
02 Technical and Spec. Fees	15,352	0	0	0	0.0%
03 Communication	598,311	596,083	612,003	15,920	2.7%
04 Travel	130,975	163,274	163,274	0	0%
07 Motor Vehicles	5,550	6,510	6,510	0	0%
08 Contractual Services	12,284,190	12,481,676	12,488,644	6,968	0.1%
09 Supplies and Materials	292,749	170,604	170,604	0	0%
11 Equipment – Additional	-73,768	30,082	30,082	0	0%
12 Grants, Subsidies, and Contributions	771,411	791,225	791,225	0	0%
13 Fixed Charges	248,393	409,914	406,131	-3,783	-0.9%
14 Land and Structures	8,569	0	0	0	0.0%
Total Objects	\$ 27,005,548	\$ 27,998,867	\$ 28,117,167	\$ 118,300	0.4%
Funds					
40 Unrestricted Fund	\$ 23,959,483	\$ 24,498,867	\$ 24,617,167	\$ 118,300	0.5%
43 Restricted Fund	3,046,065	3,500,000	3,500,000	0	0%
Total Funds	\$ 27,005,548	\$ 27,998,867	\$ 28,117,167	\$ 118,300	0.4%

Note: The fiscal 2012 appropriation does not include deficiencies.

Fiscal Summary
USM – University System of Maryland Office

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
04 Academic Support	\$ 9,672,482	\$ 9,517,660	\$ 9,517,660	\$ 0	0%
06 Institutional Support	17,333,066	18,481,207	18,599,507	118,300	0.6%
Total Expenditures	\$ 27,005,548	\$ 27,998,867	\$ 28,117,167	\$ 118,300	0.4%
Unrestricted Fund	\$ 23,959,483	\$ 24,498,867	\$ 24,617,167	\$ 118,300	0.5%
Restricted Fund	3,046,065	3,500,000	3,500,000	0	0%
Total Appropriations	\$ 27,005,548	\$ 27,998,867	\$ 28,117,167	\$ 118,300	0.4%

Note: The fiscal 2012 appropriation does not include deficiencies.