

R30B25
University of Maryland Eastern Shore
University System of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$30,796	\$29,930	\$32,605	\$2,675	8.9%
Contingent & Back of Bill Reductions	0	0	-46	-46	
Adjusted General Fund	\$30,796	\$29,930	\$32,559	\$2,630	8.8%
Special Funds	1,652	2,414	2,303	-112	-4.6%
Adjusted Special Fund	\$1,652	\$2,414	\$2,303	-\$112	-4.6%
Other Unrestricted Funds	64,808	64,915	66,380	1,465	2.3%
Adjusted Other Unrestricted Fund	\$64,808	\$64,915	\$66,380	\$1,465	2.3%
Total Unrestricted Funds	97,256	97,259	101,287	4,028	4.1%
Contingent & Back of Bill Reductions	0	0	-46	-46	
Adjusted Total Unrestricted Funds	\$97,256	\$97,259	\$101,242	\$3,982	4.1%
Restricted Funds	31,250	32,925	32,925	0	
Adjusted Restricted Fund	\$31,250	\$32,925	\$32,925	\$0	0.0%
Adjusted Grand Total	\$128,506	\$130,184	\$134,167	\$3,982	3.1%

- General funds increase approximately \$2.6 million, or 8.8%, in the fiscal 2014 allowance after adjusting for the \$45,655 across-the-board reduction. Overall, funds increase approximately \$4.0 million, or 3.1%.
- Of the general fund increase, \$1.0 million is due to the replacement of fiscal 2013 Budget Restoration Funds, created by Chapter 1 of the First Special Session of 2012, with general funds. In all, State funds increase \$2.5 million, or 7.8%, above fiscal 2013.

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

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Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	754.32	766.32	766.32	0.00
Contractual FTEs	<u>125.00</u>	<u>125.00</u>	<u>125.00</u>	<u>0.00</u>
Total Personnel	879.32	891.32	891.32	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	17.70	2.31%
Positions and Percentage Vacant as of 12/31/12	60.00	7.80%

- As of December 31, 2012, the University of Maryland Eastern shore (UMES) had 60 vacant positions, 42 of which are State supported.
- The allowance reflects no change in regular positions or contractual positions.

Analysis in Brief

Major Trends

Second- and Third-year Retention Rates Improve: UMES's second-year retention rate rose 3.4 percentage points, and the third-year rate declined 0.3 percentage points. Both rates have remained generally stable but below the State average since 2003.

Four- and Six-year Graduation Rates Falling: From 2005 to 2011, UMES's four-year graduation rate fell from 25.0 to 16.0%, and its six-year rate fell from 42.0 to 31.0%, putting UMES well below the State average and now below its peer group as well.

Degree Production and Cost Per Degree: UMES continues to underperform versus the State average in degrees per 100 full-time equivalent students but remains similar to its peers. Additionally, UMES's degrees have remained significantly more expensive to produce than the peer group, costing at least \$12,000 more from 2004 to 2009.

Issues

Making College Affordable: About 61% of UMES students receive Pell grants, and aid to Pell-eligible students has increased rapidly in recent years. Overall, many students still rely on loans to pay for an UMES education, and two particular groups of students take out very high private loans.

Access and Success Program Review: Access and Success funds have been provided since fiscal 2001 to improve student retention and graduation rates at Maryland's historically black institutions. While participants at UMES earn more credits in their first year of studies, they still struggle to complete college-level math courses.

Intercollegiate Athletics Deficit: The athletics program at UMES has not been self-sustaining for over 35 years and has relied on support from auxiliary revenue. Under a new University System of Maryland (USM) policy, UMES will have to report to USM when it would like to transfer auxiliary funds to athletics programs in the future.

Repeat Audit Findings: The Joint Audit Committee (JAC) continues to be concerned about the number and frequency of repeat findings in audits conducted by the Office of Legislative Audits (OLA). In an effort to see these findings satisfactorily resolved, JAC has asked the budget committees to consider action in the agency budgets where such findings occur. There were four repeat audit findings in UMES's August 2011 audit, which meets JAC's threshold. **The Department of Legislative Services recommends that \$100,000 in funding be withheld in UMES's administrative budget until OLA has determined that the repeat audit findings have been corrected.**

Recommended Actions

1. Add language to restrict funding until the submission of a report on audit findings.

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Operating Budget Analysis

Program Description

The University of Maryland Eastern Shore (UMES) is the State's 1890 Land-Grant institution. Founded as an historically black institution (HBI), UMES is committed to providing quality education to persons who demonstrate the potential to become quality students, particularly from minority communities and those of disadvantaged backgrounds, while fostering multicultural diversity.

UMES offers selected baccalaureate programs in the liberal arts, sciences, and career fields with particular relevance to the Eastern Shore and its land grant mandate. The university also offers programs at the master's and doctoral levels. The academic emphasis at UMES is on agriculture, environmental and marine sciences, hospitality, technology, computer sciences, business, and allied health. The university serves the educational and research needs of government agencies, businesses, and industries, while also focusing on the economic development needs of the Eastern Shore. UMES aspires to become a Carnegie Doctoral/Research University.

Carnegie Classification: Master's S: Master's Colleges and Universities (smaller programs)

Fall 2012 Undergraduate Enrollment Headcount

Male	1,619
Female	2,139
Total	3,758

Fall 2012 Graduate Enrollment Headcount

Male	269
Female	427
Total	696

Fall 2012 New Students Headcount

First-time	908
Transfers/Others	212
Graduate	174
Total	1,294

Campus (Main Campus)

Acres	745
Buildings	92
Average Age	37
Oldest	1900

Programs

Bachelor's	34
Master's	13
Doctoral	7

Degrees Awarded (2011-2012)

Bachelor's	627
Master's	78
Doctoral	53
Total Degrees	758

Proposed Fiscal 2014 In-state Tuition and Fees*

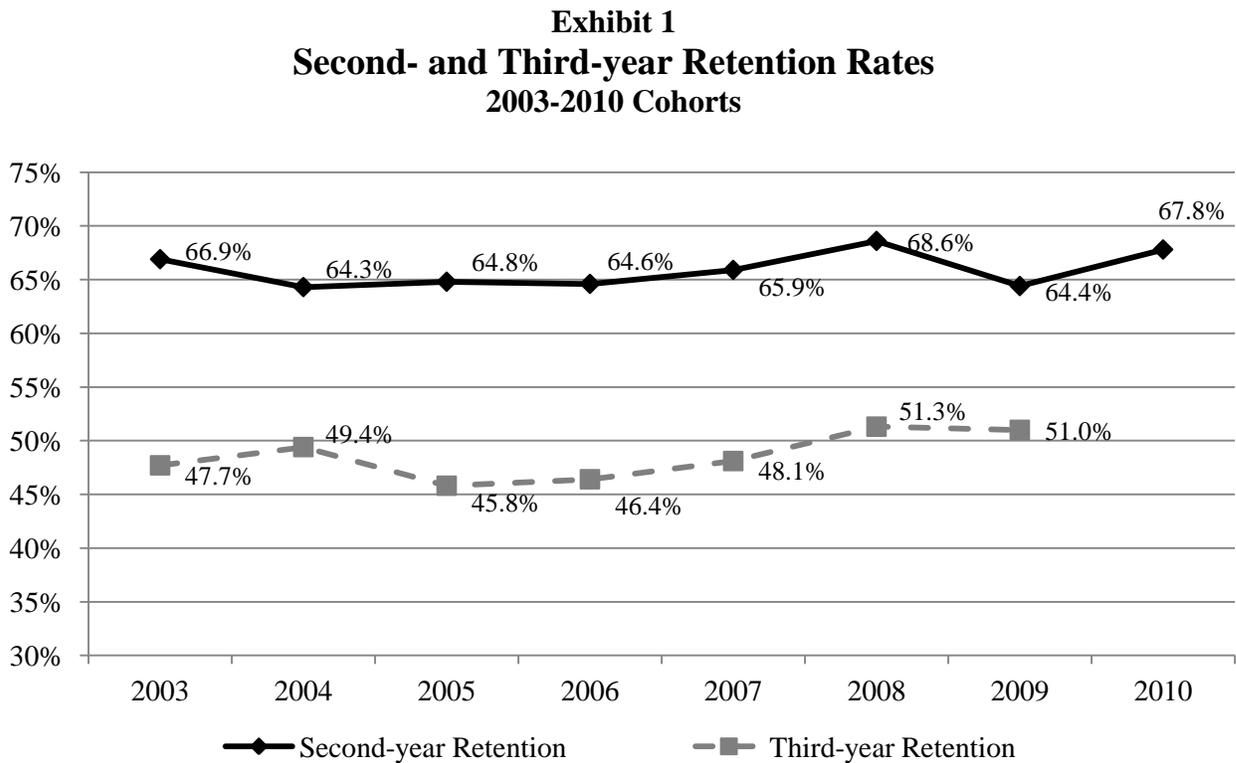
Undergraduate Tuition	\$4,628
Mandatory Fees	\$2,370

*Contingent on Board of Regents approval.

Performance Analysis: Managing for Results

1. Second- and Third-year Retention Rates Improve

Maintaining and strengthening academic excellence and effectiveness to meet the educational needs of the State is a key strategic goal of the University System of Maryland (USM) and UMES. **Exhibit 1** shows the most recent data for second- and third-year retention rates for first-time, full-time undergraduate students at UMES.



Source: Maryland Higher Education Commission

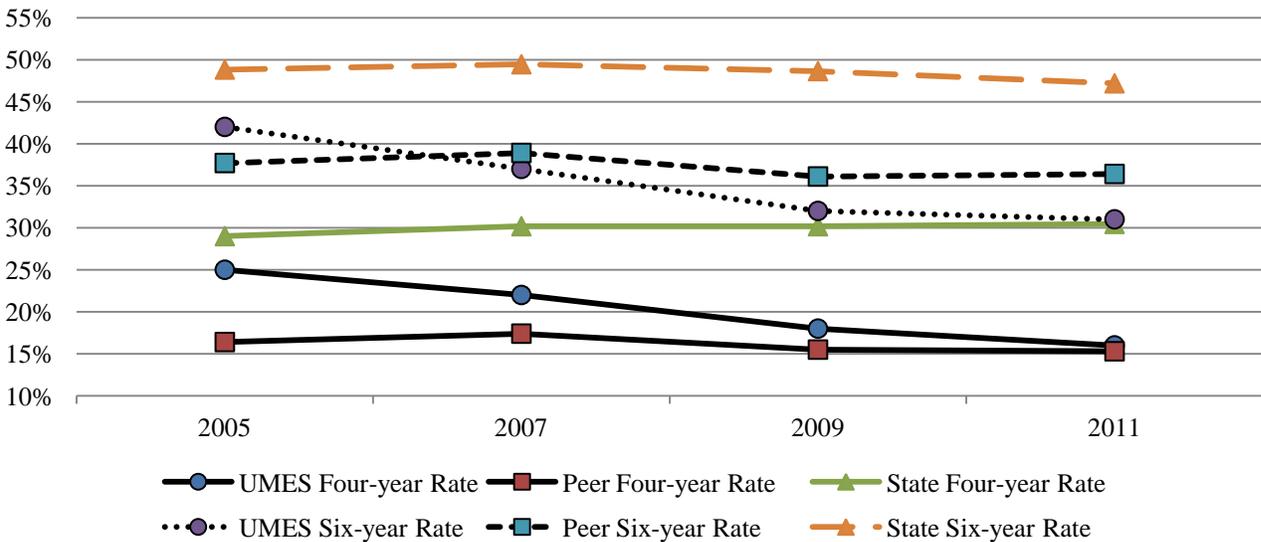
Since the 2003 cohort, UMES has maintained at least a 64.3% second-year retention rate. The 2010 cohort's rate rose 3.4 percentage points from the 2009 cohort to 67.8%, the second highest retention rate in this time period. However, UMES remains more than 14.0 percentage points below the State average for public four-year institutions. The third-year retention rate showed strong growth from 2005 to 2008 and leveled off in 2009. While it has increased over 3.0 percentage points in total since fiscal 2003, the third-year rate remains about 21.0 percentage points below the State average. Overall, both retention rates have remained in a narrow range of about 4.0 percentage points since the 2003 cohort.

2. Four- and Six-year Graduation Rates Falling

Exhibit 2 compares the four- and six-year graduation rates of UMES to the average of its peer institutions and the State using national data from the Integrated Postsecondary Education Data System. Peer institutions are determined to be similar to UMES based upon a variety of characteristics, designated by USM as performance peers, and used as a basis to assess UMES’s performance. In 2005, UMES had a four-year graduation rate 8.6 percentage points above its peers, but the graduation rate fell quickly from 25 to 16%, eliminating the difference between UMES and its peer group. With the six-year rate, UMES began this period 4.0 percentage points above its peers and ended in 2011 about 5.4 percentage points below its peer group. UMES’s rate fell from 42 to 31%, whereas the peer group only fell 1.3 percentage points. While UMES remained only a few percentage points beneath the State average in 2005 with both rates, the gap between UMES and the State grew to at least 14.0 percentage points for both rates in 2011. UMES’s six-year rate is now 0.5 percentage points above the State average for the four-year rate. Overall, UMES’s graduation rates significantly declined over this time period.

The President should comment on whether any effects other than the recent recession had an impact on the declining graduation rates at UMES.

Exhibit 2
Four- and Six-year Graduation Rates
Fiscal 2005-2011



UMES: University of Maryland Eastern Shore

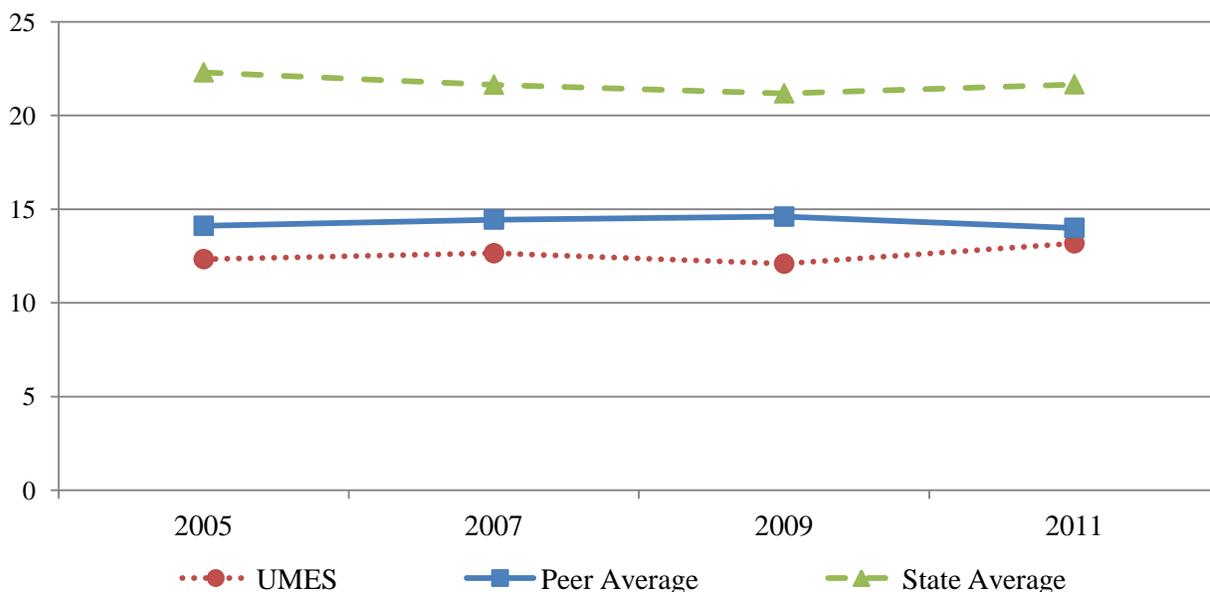
Note: The State rates do not include the University of Maryland, Baltimore or the University of Baltimore.

Source: Integrated Postsecondary Education Data System; Department of Legislative Services

3. Degree Production and Cost Per Degree

Ultimately, how well an institution meets its mission is measured by the number of undergraduate degrees awarded. Trends in the number of undergraduate degrees awarded per 100 undergraduate full-time equivalent students (FTES) show if an institution is being more or less productive in graduating students. Overall, UMES and the average of its peers consistently fell below the State average as shown in **Exhibit 3**. UMES and its peers remained fairly stable over this time period, as UMES went up 0.8 degrees per student and its peers declined 0.1 degrees per student. Although UMES’s graduation rates are below its peers, it is awarding a similar number of degrees, suggesting that UMES educates more nontraditional students than its peers.

Exhibit 3
Undergraduate Degrees Per 100 FTES
Fiscal 2005-2011



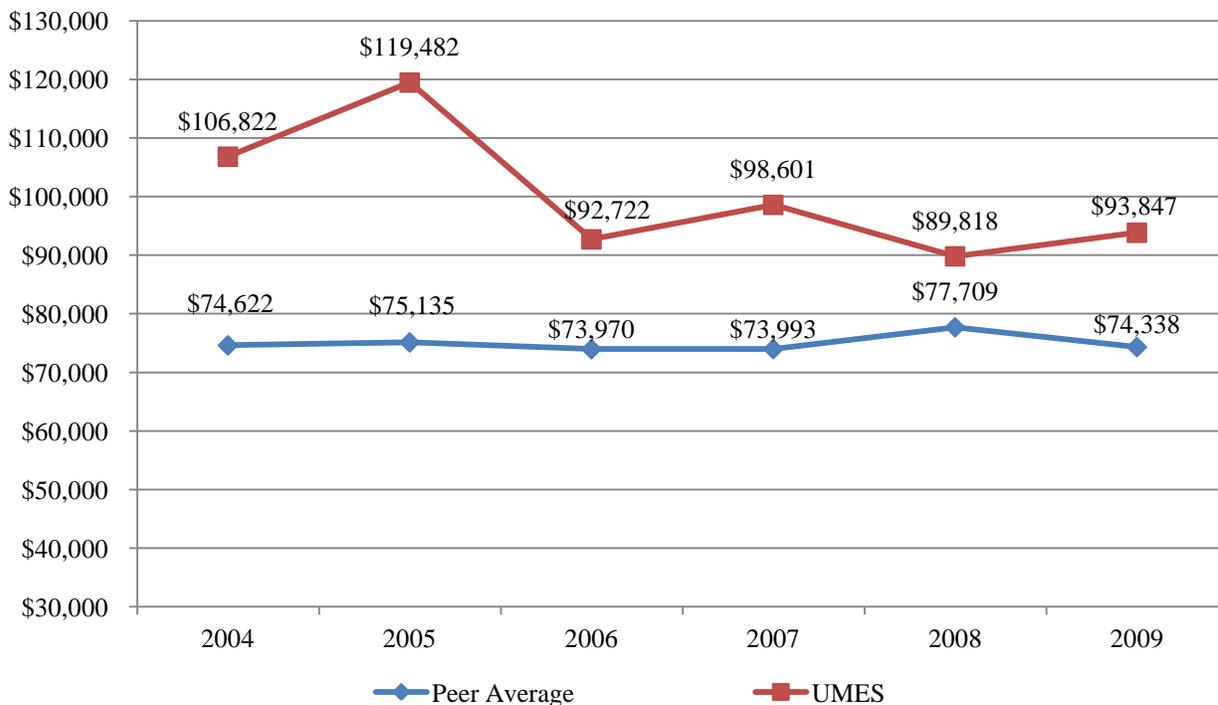
FTES: full-time equivalent students
UMES: University of Maryland Eastern Shore

Source: Integrated Postsecondary Education Data System; Department of Legislative Services

Another measure of how effectively institutions translate resources into degrees is the ratio of education and related (E&R) expenditures per degree (undergraduate and graduate). E&R expenditures include total spending on direct educational costs, such as instruction and student services, and the educational share of spending on administrative overhead, such as academic

support, institutional support, and operations and maintenance. **Exhibit 4** shows UMES’s E&R expenditures per degree compared to the mean of its performance peers from fiscal 2004 to 2009, the most recent year for which data is available.

Exhibit 4
Educational and Related Expenditures Per Degree Completed
Fiscal 2004-2009



UMES: University of Maryland Eastern Shore

Note: Education and related expenditures include direct spending on instruction and student services, the education share of spending on academic and institutional support, and operations and maintenance. All dollar amounts are reported in fiscal 2009 dollars.

Source: Delta Project, *Trends in College Spending Online*; Department of Legislative Services

In 2004, UMES’s E&R expenditures per degree at \$106,822 were \$32,300 above those of its peers. By fiscal 2009, however, spending per degree at UMES had decreased 12.1% to \$93,847, while spending at UMES’s peer institutions decreased 0.4% to \$74,338. UMES’s degrees were \$19,509, or 26.3%, more expensive than its peers. UMES’s falling spending per degree is likely due to flat State support for the operating budget during the recession.

Proposed Budget

As shown in **Exhibit 5**, UMES’s total State allowance for fiscal 2014, including general funds and Higher Education Investment Funds (HEIF), is \$34.9 million, a 7.8% increase over fiscal 2013. Other unrestricted funds increase about \$1.5 million, or 2.3%, due primarily to flat enrollment projections and a planned 2% increase in tuition rates. Restricted funds grow \$4.0 million, or 3.1%, in fiscal 2014.

Exhibit 5
Proposed Budget
University of Maryland Eastern Shore
(\$ in Thousands)

	Actual 2012	Working 2013	Adjusted Allowance 2014	Change 2013-14	% Change Prior Year
General Funds	\$30,796	\$29,930	\$32,559	\$2,630	8.8%
HEIF	1,652	1,400	2,303	903	64.5%
Budget Restoration Funds	0	1,015	0	-1,015	-100.0%
Total State Funds	32,448	32,344	34,862	2,518	7.8%
Other Unrestricted Funds	64,808	64,915	66,380	1,465	2.3%
Total Unrestricted Funds	97,256	97,259	101,242	3,982	4.1%
Restricted Funds	31,250	32,925	32,925		0.0%
Total Funds	\$128,506	\$130,184	\$134,167	\$3,982	3.1%

HEIF: Higher Education Investment Funds

Note: Fiscal 2014 general funds are reduced by \$75,712 to reflect across-the-board reductions. Numbers may not sum to total due to rounding.

Source: Governor’s Budget Book, Fiscal 2014

Unrestricted budget changes in the allowance by program are shown in **Exhibit 6**. This exhibit considers only unrestricted funds, which are comprised mostly of State funds and tuition and fee revenues.

Exhibit 6
UMES Budget Changes for Current Unrestricted Funds by Program
Fiscal 2012-2014
(\$ in Thousands)

	<u>2012</u>	<u>Working 2013</u>	<u>% Change 2012-13</u>	<u>Adjusted 2014</u>	<u>\$ Change 2013-14</u>	<u>% Change 2013-14</u>
Expenditures						
Instruction	\$25,955	\$26,238	1.1%	\$28,683	\$2,445	9.3%
Research	\$1,323	\$1,396	5.5%	\$1,680	\$284	20.4%
Academic Support	7,552	7,396	-2.1%	7,444	48	0.7%
Student Services	3,111	2,603	-16.3%	2,617	14	0.6%
Institutional Support	9,786	9,414	-3.8%	9,698	284	3.0%
Operation and Maintenance of Plant	13,151	12,538	-4.7%	12,800	262	2.1%
Scholarships and Fellowships	5,760	6,262	8.7%	6,853	591	9.4%
Subtotal Education and General	\$66,639	\$65,847	-1.2%	\$69,775	\$3,928	6.0%
Auxiliary Enterprises	30,617	31,412	2.6%	31,467	55	0.2%
Total	\$97,256	\$97,259	0.0%	\$101,242	\$3,982	4.1%
HBI Enhancement Funds	1,619	1,582	-2.3%	1,589	\$7	0.5%
Adjusted Total	\$98,874	\$98,841	0.0%	\$102,831	\$3,990	4.0%
Revenues						
Tuition and Fees	\$30,533	\$31,855	4.3%	\$32,944	1,089	3.4%
General Funds	30,796	29,930	-2.8%	32,559	2,630	8.8%
Higher Education Investment Fund	1,652	1,400	-15.3%	2,303	903	64.5%
Other*	3,540	2,663	-24.8%	1,650	-1,013	-38.1%
Subtotal	\$66,520	\$65,847	-1.0%	\$69,455	\$3,608	5.5%
Auxiliary Enterprises	28,958	32,339	11.7%	32,477	138	0.4%
Transfers (to) from Fund Balance	1,777	-927	-152.2%	-690	0	0.0%
Total	\$97,256	\$97,259	7.7%	\$101,242	\$3,746	3.9%
HBI Enhancement Funds	1,619	1,582	-2.3%	1,589	\$7	0.5%
Adjusted Total	\$98,874	\$98,841	0.0%	\$102,831	\$3,990	4.0%

HBI: historically black institutions

UMES: University of Maryland Eastern Shore

* Includes Budget Restoration Funds in fiscal 2013. In total, State support increased \$371,000, or 0.9%, in fiscal 2013.

Note: Fiscal 2014 expenditures and general funds are reduced by \$75,712 to reflect across-the-board reductions.

Source: Governor's Budget books, Fiscal 2014

In fiscal 2014, all budget categories show funding increases. Overall, the current services budget increases \$2.8 million to account for rising personnel costs, facilities renewal, and financial aid. Instruction, the largest budget category, increases nearly \$2.5 million, or 9.3%, due to rising personnel costs and USM initiative funding for science, technology, engineering, and math and health-related course development. Scholarships and fellowships increase 9.4%, compared to an increase in tuition of 3.0% in fiscal 2014, due to enhancement funding to bolster several undergraduate financial aid programs. Research funding increases \$0.3 million due to matching funds for a federal grant related to UMES's land grant mission. Although tuition rates increase 3.0%, tuition revenue only grows 3.4% due to an enrollment projection showing FTES growing slightly in fiscal 2014 after leveling off in fiscal 2013. From fiscal 2010 to 2012, UMES's closing unrestricted fund balance grew \$84,147, or 1.2%, to \$7.2 million; projections through fiscal 2014 bring the fund balance to \$8.6 million.

HBI Enhancement Funds

In fiscal 2013, UMES received \$1,581,534 in HBI enhancement funds, which were established as part of Maryland's partnership with the U.S. Department of Education Office for Civil Rights to eliminate the vestiges of segregation in Maryland public institutions. The funds are intended for one-time expenditures to enhance educational and support services. UMES's fiscal 2013 appropriation is being used for:

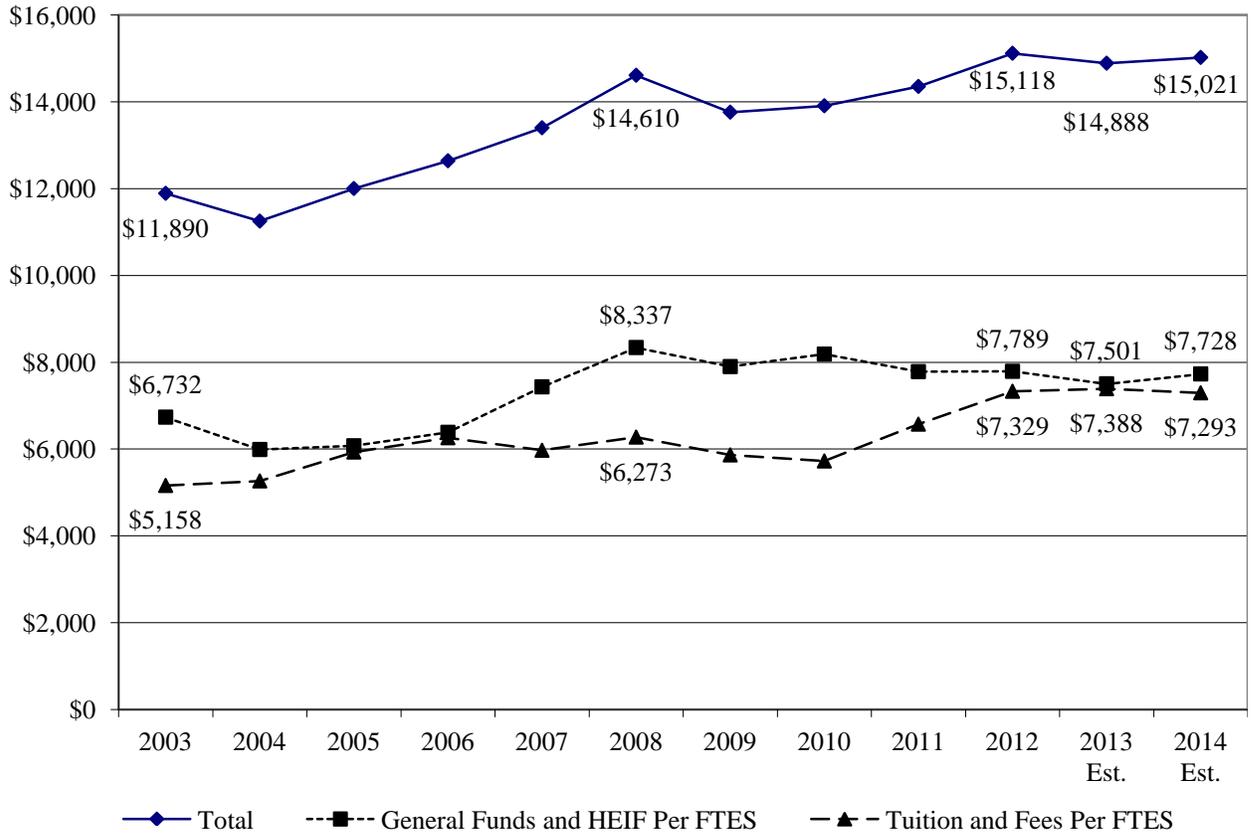
- debt service for academic revenue bonds issued in fiscal 2003 for \$493,782; and
- information technology (IT) and information security enhancements for \$1,087,752.

The technology enhancement funds will be used to address deferred IT maintenance that was identified as critical to upgrade by both legislative audits and USM staff. This includes upgrading hardware, software, and physical infrastructure. UMES's budgeted fiscal 2014 enhancement fund appropriation is \$1,588,984, an increase of \$7,450, or 0.5%, from fiscal 2013 due to a redistribution of aid among HBIs.

Funding Increases Per FTES

FTES enrollment at UMES reached a new high of 4,166 in fiscal 2012, having grown 24.4% since fiscal 2003. **Exhibit 7** shows tuition and fees revenue and State funding per FTES between fiscal 2003 and 2014. Tuition and fees revenue increased slowly from fiscal 2003 and 2011, reflecting modest tuition increases and campus growth. Funding from the two revenue sources fluctuated from year to year, although total funding per FTES grew in 8 of the 11 years in this exhibit. Both revenue rates declined in fiscal 2009 due to flat State support. After the tuition freeze ended in fiscal 2011, the two fund sources converged again. In fiscal 2013, the revenue sources are split about 50/50%. This means that UMES has grown relatively more dependent on tuition revenue over the past three years as compared to the period from fiscal 2006 to 2010.

**Exhibit 7
UMES Tuition and Fees and State Revenues
Per Full-time Equivalent Student
Fiscal 2003-2014**



FTES: full-time equivalent student
HEIF: Higher Education Investment Funds
UMES: University of Maryland Eastern Shore

Source: Governor’s Budget Books

Issues

1. Making College Affordable

Financial aid is an important component to helping many students succeed in earning a degree. Lack of financial support frequently contributes to a student's decision to stop out or drop out of college. Generally, by combining various types of aid – federal, State, and institutional – students are able to effectively lower the cost of college. According to the *College Navigator* of the National Center for Education Statistics, the total cost, or “sticker price,” for a Maryland student attending UMES in fiscal 2011 was \$19,363 (this includes tuition, mandatory fees, books and supplies, other expenses, and the weighted average of room and board). However, when accounting for the average amount of federal, State, and institutional grants and scholarships, the average net cost of attendance was \$12,237, a 36.8% reduction from the sticker price.

Institutional Aid and Pell Awards

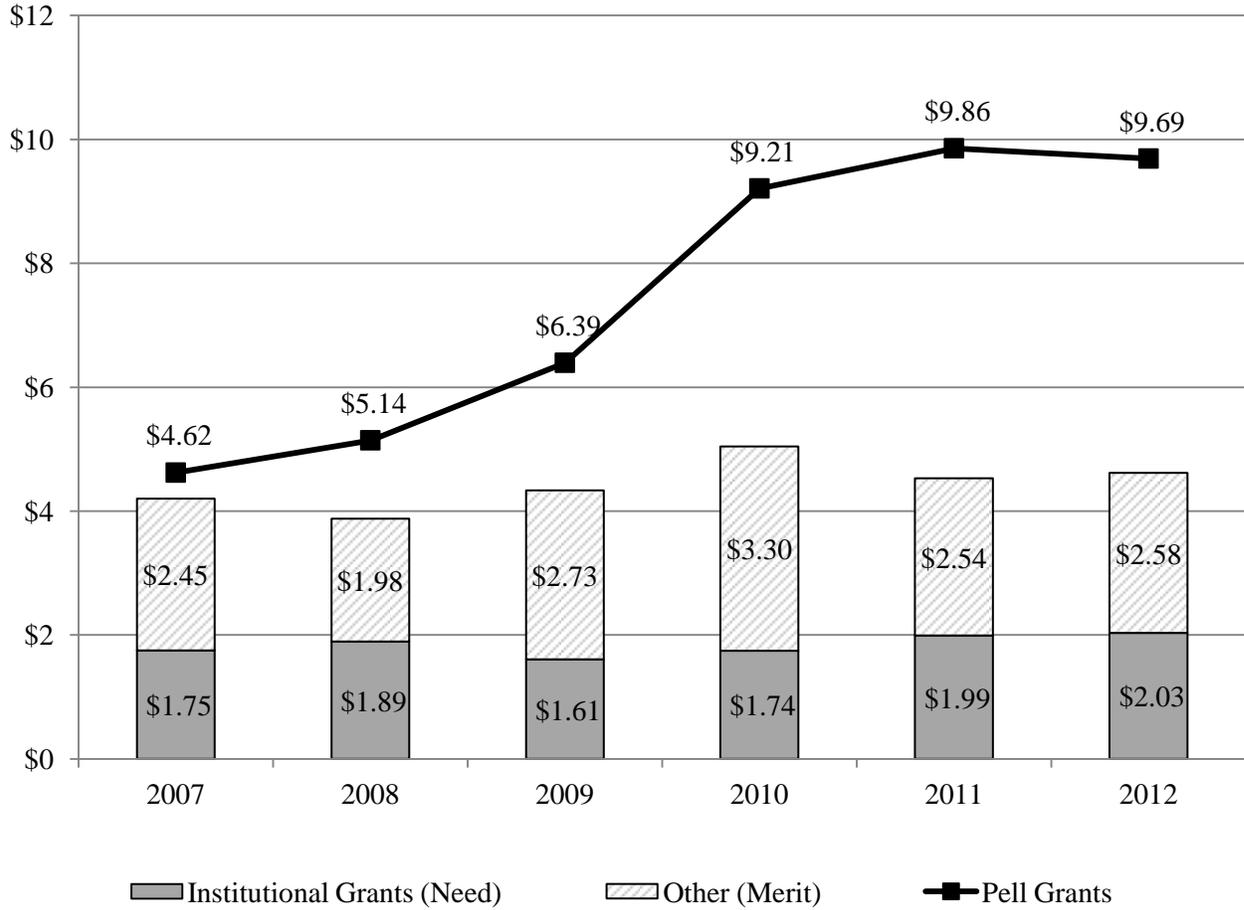
About 61% of UMES's students receive Pell awards, which are given to those who could not otherwise afford college and have an Expected Family Contribution (EFC) of less than a specified amount, which was \$5,273 in 2012. EFC is an indicator of the amount a family is required to contribute to pay for a student's college education; therefore, the lower the EFC, the greater the financial need.

Exhibit 8 shows total institutional aid (need-based grants and merit-based scholarships) and federal Pell expenditures from fiscal 2007 to 2012. Over these five years, Pell grant aid to UMES students grew about \$5.1 million, or 109.7%. Fiscal 2010 had the largest single year change, an increase of \$2.8 million, or 44.0%, due to the recession. Merit-based aid reached a high point at \$3.3 million that same year.

The percentage split between the need- and merit-based aid went from 42/58% in fiscal 2007 to 44/56% in fiscal 2012, for a slight shift toward need-based aid. Overall, merit-based aid grew by \$130,000, or 5.3%, over this time period, while need-based aid grew \$285,000, or 16.3%. This trend is consistent with the Board of Regents' recommendation to increase the portion of aid allocated to need-based aid.

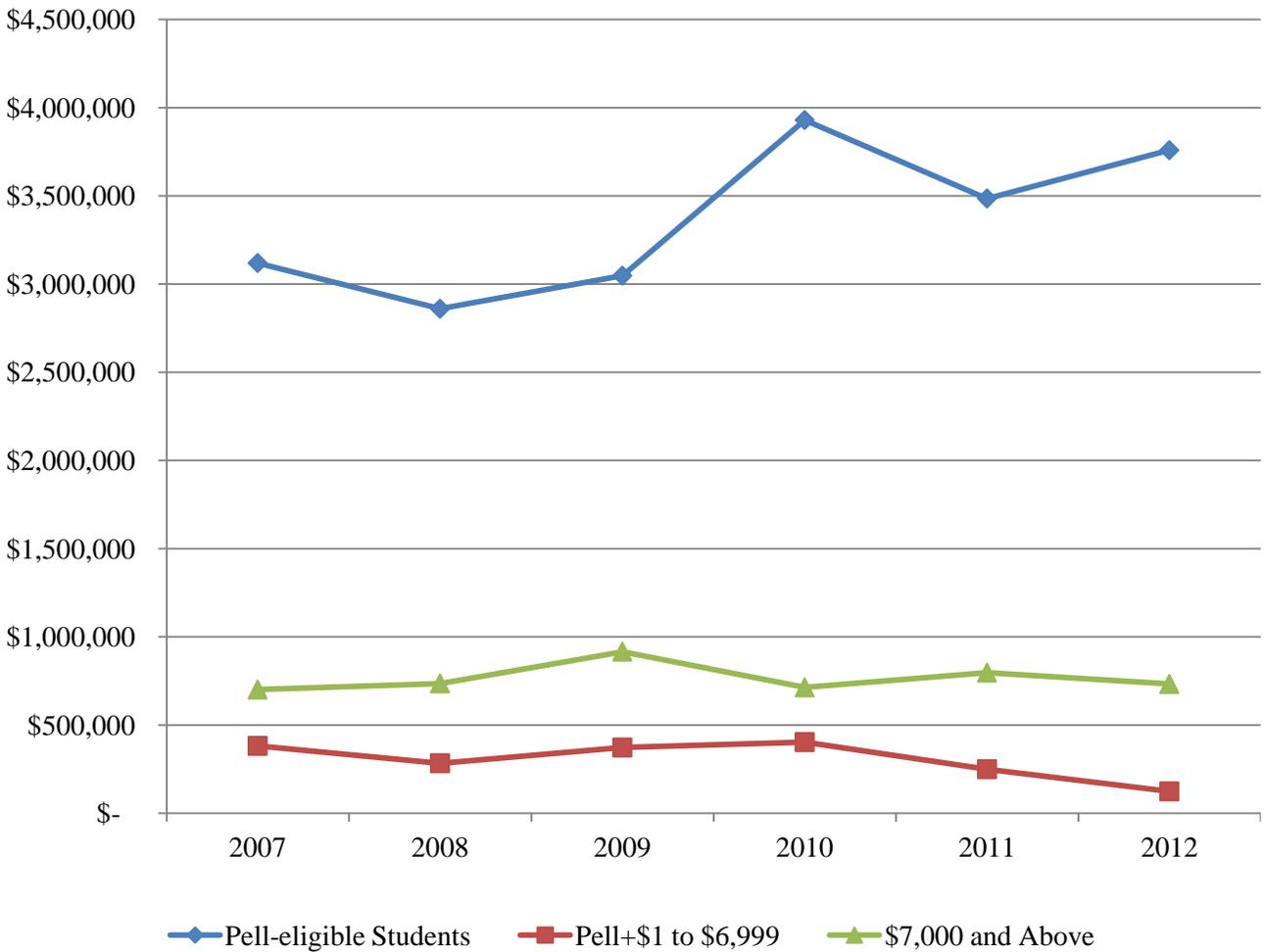
Although the expenditures on need-based aid decreased slightly from fiscal 2008 to 2010, there was an increase in the amount of institutional aid awarded to Pell-eligible students, as shown in **Exhibit 9**. In fiscal 2012, Pell-eligible students received 81.5% of institutional aid – an increase of 7.2 percentage points and more than \$640,000 since fiscal 2007. However, students in the Pell+\$1 to \$6,999 EFC range saw their portion of institutional aid fall 67.7%, or about \$260,000. While aid for the third EFC category, \$7,000 and higher, was flat, it is a concern that aid to students who just miss the Pell cutoff are receiving significantly less financial aid than before the recession.

Exhibit 8
Total Institutional Aid and Pell Grant Expenditures
Fiscal 2007-2012
(\$ in Millions)



Source: University System of Maryland

**Exhibit 9
Total Expenditures on Institutional Aid by EFC
Fiscal 2007-2012**



EFC: Expected Family Contribution

Source: University System of Maryland

The President should comment on why so little institutional aid is going to students in the Pell +\$1 to \$6,999 EFC group.

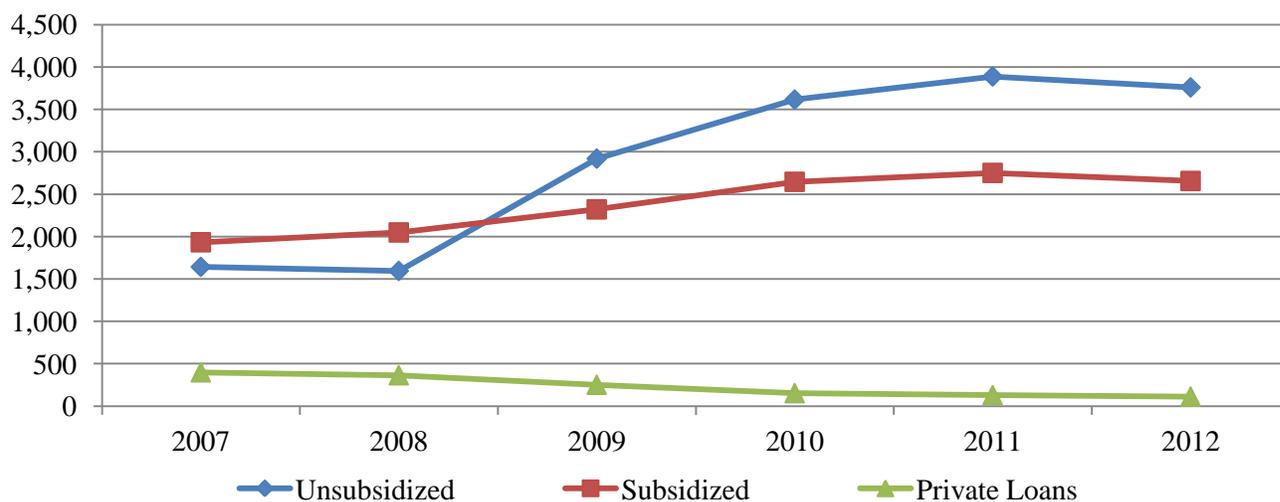
However, Financial Aid Does Not Cover All Costs

In addition to Pell grants and institutional aid, students may take out loans to pay for higher education. There are three types of loans:

- **Federal Subsidized** – based on financial need; the government pays the interest while the student is enrolled in school;
- **Federal Unsubsidized** – generally for students who do not demonstrate financial need; interest is added to the balance of the loan while the student is enrolled in school; and
- **Private Sources** – often used to cover any remaining unmet need; offered by banking institutions whose interest rates and repayment policies vary.

As illustrated in **Exhibit 10**, the number of unsubsidized loans grew 128.9%, or 2,117, between fiscal 2007 and 2012, suggesting that the economic downturn started to impact students in fiscal 2009. This can also be partly attributed to a change in the federal loan limits. In fiscal 2008, the annual loan limit increased \$2,000 for dependent undergraduate students and an additional \$1,000 for independent students. However, the sharp increase in unsubsidized loans in fiscal 2009 is striking compared to the gradual increase in subsidized loans.

Exhibit 10
Loans by Type
Fiscal 2007-2012

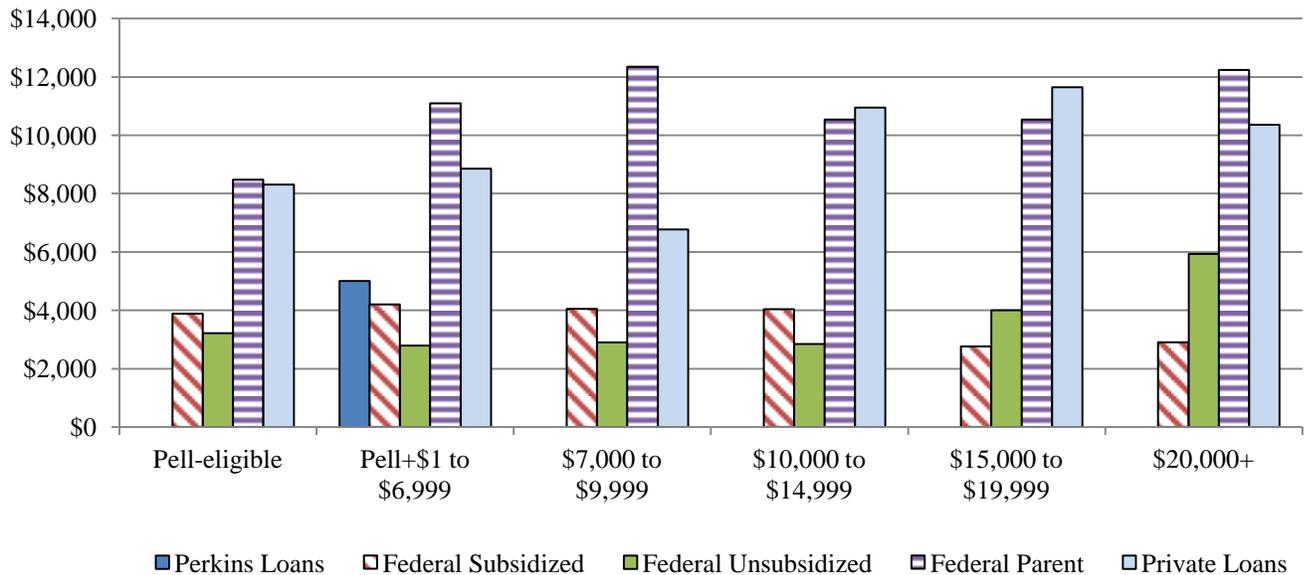


Source: University System of Maryland

Over the past four years, the number of subsidized loans taken out by UMES students and their families annually increased, on average, about 7.5% per year. It should be noted that in fiscal 2009, the Federal Family Educational Loan program was eliminated, and, in addition, borrowers were no longer able to consolidate multiple federal loans into one loan. Like many other institutions in Maryland, private loan use fell dramatically. From fiscal 2007 to 2012, the number of private loans taken out by students decreased from 398 to 111. This trend suggests that, with the economic downturn, families with higher incomes are filing the Free Application for Federal Student Aid to receive unsubsidized federal loans, and they are avoiding more burdensome private loans, which increasingly require cosigners and adherence to tighter credit criteria.

Lastly, **Exhibit 11** shows the average loan amount by student EFC and the type of loan. A Parent PLUS loan is taken out on behalf of the student by the student’s parent or legal guardian if the cosigner meets certain credit-worthiness criteria. Perkins loans are special low-interest loans from the federal government to needy students.

Exhibit 11
Average Loan Amount by Type and EFC
Fiscal 2012



EFC: Expected Family Contribution

Source: University System of Maryland

As noted in Exhibit 10, the number of private loans is small, but Exhibit 11 shows that Parent PLUS loans and private loans are high across all EFC categories, with these two loans being noticeably lower for Pell-eligible students as compared to the higher EFCs. It is concerning that students in the \$10,000-\$14,999 and \$15,000-\$19,999 EFC are taking out larger private loans than any other type of loan. It is not clear why Pell-eligible students are not receiving Perkins loans, when students in the next EFC category are, although this may be due to the Pell students' financial need being already fully met, making loans unnecessary.

The President should comment on what UMES is doing to increase financial aid literacy and responsible borrowing among new students, given that in some EFC ranges, students are taking out very high private loans relative to other loan types.

2. Access and Success Program Review

Access and Success (A&S) funds have been provided annually since fiscal 2001 to improve student retention and graduation rates at Maryland's four HBIs and can be used to develop new or enhance existing programs. The fiscal 2012 *Joint Chairmen's Report* required a report entitled *2012 Outcomes of Students Participating in Access and Success Programs by Cohort* by the Maryland Higher Education Commission (MHEC) to review efforts at HBIs, including student completion rates in coursework immediately following remedial education in A&S programs. In A&S programs, MHEC particularly monitors whether full-time students accumulate 20 credits in the first year of college, a strong indicator of degree completion.

UMES operates three A&S programs:

- **Summer Enrichment Academy (SEA):** A six-week summer bridge program where students can earn up to six credits total in mathematics and English prior to the fall semester;
- **Smarthinking Tutorial Services:** An online tutoring service available 24 hours a day; and
- **The Center for Access and Academic Success:** A program that offers life coaching and education advisement.

SEA has been operating since fiscal 2008, when MHEC released a list of HBI best practices such as summer bridge programs, honors programs, and first-year seminars. Enrollment in SEA is open to all first-year students prior to the fall semester. In SEA, students are able to take two entry-level courses in mathematics and English with individualized advising sessions. If a student earns at least a C grade, the student earns college credit. Participants pay \$1,600 for Maryland residents and \$2,900 for nonresidents. Financial aid cannot be applied to these costs.

Exhibit 12 shows outcomes of the fiscal 2011 and 2012 SEA participants and those of the general first-year student body, as reported by UMES. Overall, SEA students have similar grade point averages to the general student body. While the 2011 cohort surpassed all students in credit earned by 5.4 credits, the 2012 cohort actually earned slightly fewer credits over the first year of classes, despite earning three or six credits over the summer.

Exhibit 12
Performance Difference of SEA Students
Versus All First-year Students
Fiscal 2011-2012

	2011		2012	
	<u>SEA</u>	<u>All</u>	<u>SEA</u>	<u>All</u>
Overall Success Indicators				
Enrolled	448	944	434	748
Number of credits accumulated after first year	29.8	24.4	24.0	24.5
GPA after first year	2.49	2.43	2.44	2.49
Developmental Education Indicators				
Overall participation rate in developmental education	91.1%	76.7%	92.4%	89.0%
Successful completion rate in developmental math	64.7%	52.6%	57.6%	73.9%
Successful completion rate in first credit-bearing math course	24.0%	18.9%	17.2%	20.1%

GPA: grade point average
SEA: Summer Enrichment Academy

Source: Maryland Higher Education Commission

Progress through the developmental education pipeline is critical. UMES does not offer developmental English or reading, so no data is reported here. Unfortunately for the remaining category, mathematics, there is still a high failure rate among SEA students, about 42.4% in the 2012 cohort. Additionally, the completion rate for the first credit-bearing math class that a student enrolls in is also very low and in the 2012 cohort, SEA participants actually performed worse than the general student body, with only 17.2% passing a college math class. On the other hand, the 2011 SEA participants performed better than the general student body.

The President should comment on whether stronger outcomes should be expected of SEA participants and why so many students do not succeed in math courses even when they have specialized summer programs and targeted resources at their disposal.

Enrollment is another concern that was highlighted by MHEC in its fiscal 2012 A&S report. Although not shown in Exhibit 12, UMES had 732 SEA participants in fiscal 2008 but only 434 students in fiscal 2012, a decline of 40.7%. This is unexpected, given that fiscal 2008 was a pilot year for the program and enrollment generally increases afterward as the program ramps up and establishes itself.

The President should comment on why enrollment has dropped so much in SEA and whether UMES plans to enroll more summer bridge students in fiscal 2014.

3. Intercollegiate Athletics Deficit

UMES's intercollegiate athletics (ICA) program competes in the Mid-Eastern Athletic Conference, which consists entirely of HBIs, including Morgan State University and Coppin State University. UMES fields seven men's teams and eight women's teams, one more than the minimum required to be within Division I of the National Collegiate Athletic Association (NCAA).

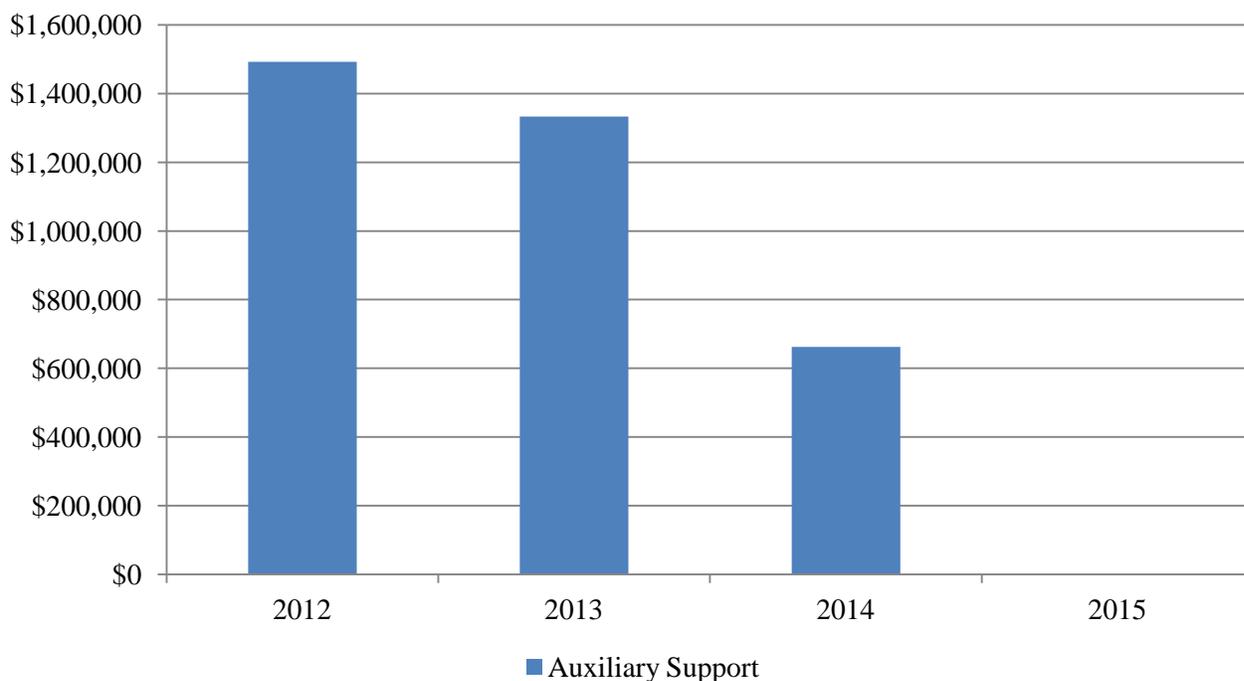
In 1980, UMES discontinued its Division I football program because of poor performance and funding concerns, as it needed up to \$300,000 per year in subsidies to operate in the 1970s. While UMES recently started a new intramural club football team, this is operated entirely separately from ICA and funded from the UMES Foundation via gifts and contributions. In 2012, UMES convened a Football Feasibility Taskforce to explore whether UMES should reestablish a formal Division I football program. A prior feasibility study from fiscal 2005 concluded that a new football program would need \$2.5 million in startup costs and about \$1.5 million for annual operating costs. For comparison, UMES's fiscal 2011 reporting to the NCAA indicated it had \$4.9 million in expenses, so a football program would likely increase ICA expenditures by at least half.

The President should comment on the findings of the football task force and whether UMES plans to pursue a formal NCAA football program at this time.

Also in fiscal 2012, an operating deficit of \$1.5 million came to light as a result of USM revising its ICA policy. USM institutions are now required to seek approval from the USM Board of Regents to use self-supporting funds to cover ICA expenses. Under this policy, UMES sought approval to transfer \$1.5 million of other auxiliary enterprise funds to its ICA program. UMES reported to the Department of Legislative Services (DLS) that this auxiliary support has been standard practice for UMES ICA for at least the past 35 years.

In November 2012, UMES submitted a fiscal plan to USM for its ICA program. **Exhibit 13** shows UMES's planned phase down of auxiliary support for ICA. By fiscal 2015, UMES expects ICA to be completely self-sustaining through increased revenue. In fiscal 2012, ICA expenditures were \$5.7 million, and mandatory ICA fees were \$1.85 million, or 32.4%, of the total funding needed. UMES will increase the student athletic fee from \$600 in fiscal 2013 to \$750 by fiscal 2015. Another way to increase revenue will be for the men's basketball team to play more guaranteed

Exhibit 13
Auxiliary Support for ICA
Fiscal 2012-2015



ICA: intercollegiate athletics

Source: University of Maryland Eastern Shore

games, which are nonconference away games, where a weaker team travels to a more competitive school. In exchange for an almost certain loss, the traveling team receives a large payout. Finally, UMES eliminated one vacant coaching position.

The President should comment on whether the amount of auxiliary support for ICA is on target for fiscal 2013 and how UMES is raising the \$672,000 needed to meet the auxiliary reduction goal in fiscal 2014.

4. Repeat Audit Findings

The Joint Audit Committee (JAC) continues to be concerned about the number and frequency of repeat findings in audits conducted by the Office of Legislative Audits (OLA). In an effort to see these findings satisfactorily resolved, JAC has asked the budget committees to consider action in the agency budgets where such findings occur. Out of 11 findings in UMES's August 2011 audit, 4 were repeat findings, which meets JAC's threshold. The repeat audit findings are as follows:

- **Finding 4:** Supervisory personnel did not adequately review student refunds and certain account adjustments;
- **Finding 5:** Student residency status changes were not adequately controlled;
- **Finding 7:** Security reporting, monitoring, and access controls over a critical application and database were not adequate; and
- **Finding 8:** Network architecture, controls, and monitoring were not sufficient to properly protect the network.

USM Follow-up

The Office of Internal Audit of USM conducted a review of UMES's actions to address the non-IT audit findings and submitted a report in February 2013. USM found that UMES had implemented corrective actions for Findings 4 and 5. Specifically:

- **Finding 4:** UMES now uses explicit approval processes, an independent employee verifies student account transactions, and additional documentation is made of any adjustments; and
- **Finding 5:** UMES reworked its residency review and created a Residency Committee to oversee and approve any residency changes and corrected the specific residency violations OLA identified.

As noted in the HBI enhancement funding section, UMES is investing \$1.1 million in IT upgrades and maintenance in fiscal 2014, which should assist in addressing OLA's IT findings.

DLS recommends that \$100,000 in funding be withheld in UMES's operating budget until OLA has determined that the repeat audit findings have been corrected.

Recommended Actions

1. Add the following language:

Provided that since the University of Maryland Eastern Shore (UMES) has had four or more repeat findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits, \$100,000 of this agency’s administrative appropriation may not be expended unless:

1. UMES has taken corrective action with respect to all repeat audit findings on or before January 1, 2014; and
2. A report is submitted to the budget committees by the Office of Legislative Audits listing each repeat audit finding along with a determination that each repeat finding was corrected. The budget committees shall have 45 days to review and comment to allow for funds to be released prior to the end of fiscal 2014.

Explanation: The Joint Audit Committee has requested that budget bill language be adopted for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency, and a determination by the Office of Legislative Audits (OLA) that each finding was corrected. OLA shall submit reports to the budget committees on the status of repeat findings.

Information Request	Author	Due Date
UMES audit follow up	OLA	45 days prior to the release of funds

Current and Prior Year Budgets

Current and Prior Year Budgets University of Maryland Eastern Shore (\$ in Thousands)

	General	Special	Federal	Other	Total	Restricted	Total
Fiscal 2011	Fund	Fund	Fund	Unrestricted	Unrestricted	Fund	Fund
Legislative							
Appropriation	\$30,678	\$0	\$0	\$50,288	\$80,967	\$32,105	\$113,072
Deficiency							
Appropriation	0	0	0	0	0	0	0
Budget							
Amendments	0	1,189	0	\$10,793	11,981	348	12,329
Reversions and							
Cancellations	0	0	0	-1,715	-1,715	-1,595	-3,310
Actual							
Expenditures	\$30,678	\$1,189	\$0	\$59,366	\$91,234	\$30,858	\$122,092
Fiscal 2012							
Legislative							
Appropriation	\$30,042	\$1,652	\$0	\$55,180	\$86,874	\$32,359	\$119,233
Deficiency							
Appropriation	0	0	0	0	0	0	0
Budget							
Amendments	754	0	0	10,526	11,280	522	11,801
Reversions and							
Cancellations	0	0	0	-898	-898	-1,631	-2,529
Actual							
Expenditures	\$30,796	\$1,652	\$0	\$64,808	\$97,256	\$31,250	\$128,506
Fiscal 2013							
Legislative							
Appropriation	\$29,930	\$2,049	\$0	\$60,490	\$92,469	\$32,881	\$125,350
Budget							
Amendments	359	7	0	4,425	4,790	44	4,834
Working							
Appropriation	\$30,288	\$2,056	\$0	\$64,915	\$97,259	\$32,925	\$130,184

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

Fiscal 2011

Special funds increased \$1,188,914 from the HEIF authorized by the General Assembly to replace general funds reduced during the 2011 legislative session.

Other unrestricted funds increased \$9,077,797 overall due an increase of \$10,792 due to auxiliary enterprises (room and board contracts), contract activity, and tuition and fee revenue. A cancellation of \$1,714,766 decreased the appropriation to account for actual expenditures.

Restricted funds decreased \$1,246,812 overall from an increase of \$347,984 in Title III grants and a cancellation of \$1,594,795 to account for actual expenditures.

Fiscal 2012

General funds increased \$418,952 to allocate funds for the \$750 bonus appropriated in the Department of Budget and Management to the various State agencies. General funds also increased \$335,060 to realign personnel costs with health insurance rates.

Other unrestricted funds increased \$10,526,651 overall due an increase in tuition revenue from growth in the pharmacy program, an increase in resident life and dining contracts, and growth in private grants. A cancellation of \$897,866 decreased the appropriation to account for actual expenditures.

Restricted funds increased \$521,597 from growth in Title III grants and decreased from a cancellation of \$1,630,894 to account for actual expenditures.

Fiscal 2013

Special funds increased \$358,526 to account for the cost-of-living adjustment increase for State employees. Special funds also increased \$6,948 due to HEIF adjustments.

Other unrestricted funds increased \$4,424,875 due to an overall increase in tuition and fees revenue from the pharmacy program and resident life and dining revenue.

Restricted funds increased \$43,862 from an increase of \$81,069 in Pell grants and a decrease of \$37,207 in Title III grants.

Audit Findings

Audit Period for Last Audit:	June 1, 2007 – August 8, 2010
Issue Date:	August 2011
Number of Findings:	11
Number of Repeat Findings:	4
% of Repeat Findings:	36.4%
Rating: (if applicable)	n/a

- Finding 1:** UMES had not established adequate internal controls to ensure that the proper financial aid awards were posted to student accounts.
- Finding 2:** Certain university grants were awarded at the sole discretion of one management employee and were not subject to independent review.
- Finding 3:** Adequate internal controls were not in place to ensure that the Honors scholarships of students that did not meet program eligibility requirements were revoked, and certain ineligible students continued to receive scholarships.
- Finding 4:** **Adequate internal controls had not been established over the processing of student refunds and certain non-cash credit adjustments made to student accounts.**
- Finding 5:** **Internal controls had not been established over certain student residency status changes and such changes were not always adequately supported and approved.**
- Finding 6:** UMES did not ensure that the capability of employees to change student residency status and student grades was properly restricted.
- Finding 7:** **Security reporting, monitoring, and access controls over a critical application and database were not adequate.**
- Finding 8:** **Network architecture, controls, and monitoring were not sufficient to properly protect the network.**
- Finding 9:** Controls over the virtual server environment were not adequate.
- Finding 10:** Monthly reviews of federal grant account activity were not documented, and certain grant records appeared to be inaccurate.

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Finding 11: Procedures and internal controls were not adequate over the UMES dietary inventory maintained for its dining services.

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

Object/Fund Difference Report
USM – University of Maryland Eastern Shore

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	754.32	766.32	766.32	0.00	0%
02 Contractual	125.00	125.00	125.00	0.00	0%
Total Positions	879.32	891.32	891.32	0.00	0%
Objects					
01 Salaries and Wages	\$ 68,857,500	\$ 70,926,186	\$ 73,836,125	\$ 2,909,939	4.1%
02 Technical and Spec. Fees	182,414	288,642	288,642	0	0%
03 Communication	499,594	624,996	625,003	7	0%
04 Travel	2,884,373	1,529,136	1,529,136	0	0%
06 Fuel and Utilities	5,201,107	5,325,695	5,489,913	164,218	3.1%
07 Motor Vehicles	416,074	177,587	178,947	1,360	0.8%
08 Contractual Services	9,958,967	6,638,010	6,646,520	8,510	0.1%
09 Supplies and Materials	8,866,179	7,430,468	7,853,671	423,203	5.7%
10 Equipment – Replacement	114,010	157,166	157,166	0	0%
11 Equipment – Additional	2,566,283	2,948,655	3,433,721	485,066	16.5%
12 Grants, Subsidies, and Contributions	19,243,356	17,217,211	17,807,893	590,682	3.4%
13 Fixed Charges	7,537,765	13,242,541	13,293,532	50,991	0.4%
14 Land and Structures	2,178,012	3,678,012	3,072,101	-605,911	-16.5%
Total Objects	\$ 128,505,634	\$ 130,184,305	\$ 134,212,370	\$ 4,028,065	3.1%
Funds					
40 Unrestricted Fund	\$ 97,255,509	\$ 97,259,424	\$ 101,287,489	\$ 4,028,065	4.1%
43 Restricted Fund	31,250,125	32,924,881	32,924,881	0	0%
Total Funds	\$ 128,505,634	\$ 130,184,305	\$ 134,212,370	\$ 4,028,065	3.1%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
USM – University of Maryland Eastern Shore

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
01 Instruction	\$ 31,023,881	\$ 29,625,600	\$ 32,087,342	\$ 2,461,742	8.3%
02 Research	13,092,308	17,863,973	18,145,788	281,815	1.6%
03 Public Service	941,017	1,007,918	1,011,054	3,136	0.3%
04 Academic Support	9,586,599	10,026,573	10,080,909	54,336	0.5%
05 Student Services	4,068,805	3,495,739	3,513,491	17,752	0.5%
06 Institutional Support	10,260,051	9,775,892	10,065,821	289,929	3.0%
07 Operation and Maintenance of Plant	13,155,467	12,547,028	12,813,413	266,385	2.1%
08 Auxiliary Enterprises	30,616,859	31,412,075	31,474,363	62,288	0.2%
17 Scholarships and Fellowships	15,760,647	14,429,507	15,020,189	590,682	4.1%
Total Expenditures	\$ 128,505,634	\$ 130,184,305	\$ 134,212,370	\$ 4,028,065	3.1%
Unrestricted Fund	\$ 97,255,509	\$ 97,259,424	\$ 101,287,489	\$ 4,028,065	4.1%
Restricted Fund	31,250,125	32,924,881	32,924,881	0	0%
Total Appropriations	\$ 128,505,634	\$ 130,184,305	\$ 134,212,370	\$ 4,028,065	3.1%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.