

R30B36
University System of Maryland Office

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$11,747	\$13,664	\$14,461	\$798	5.8%
Other Unrestricted Funds	2,209	2,865	3,378	513	17.9%
Total Unrestricted Funds	13,957	16,529	17,839	1,311	7.9%
Restricted Funds	<u>3,080</u>	<u>3,500</u>	<u>3,507</u>	<u>7</u>	<u>0.2%</u>
Total Funds	\$17,037	\$20,029	\$21,347	\$1,318	6.6%

- General funds increase \$0.8 million, or 5.8%, in the fiscal 2007 allowance. These funds go toward current services cost increases and construction management fees.
- Other unrestricted funds increase \$0.5 million, or 17.9%. These funds will be used for eight additional internal auditor positions.

Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	91.00	91.00	99.00	8.00
Contractual FTEs	<u>4.50</u>	<u>4.00</u>	<u>0.00</u>	<u>-4.00</u>
Total Personnel	95.50	95.00	99.00	4.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	4.81	4.86%
Positions Vacant as of 12/31/05	0.00	0.00%

- The fiscal 2007 allowance provides eight additional regular positions and four fewer contractual positions, a net 4.2% increase over fiscal 2006.
- The eight additional regular positions are State-supported and are for the University System of Maryland (USM) internal audit function.

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

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Analysis in Brief

Major Trends

Regional Centers Strong, Community College Transfers Exceed Objective: Enrollment at the USM regional higher education centers is projected to increase. The number of students transferring from community colleges to USM institutions increases.

Financial Savings and Fundraising: The University System of Maryland Office (USMO) plans to achieve fiscal savings through centrally negotiated and leveraged procurement of software products. USM is also embarking on an aggressive fundraising campaign to raise \$1.7 billion over seven years.

Investments Perform Well: The University of Maryland Foundation and the USM Common Trust Fund both outperform their benchmark returns for fiscal 2005.

Issues

Office of Legislative Audits Completes New Audit of USMO: The Office of Legislative Audits completed a new audit of USMO from the period of September 2001 to January 2005. There were nine findings with seven repeat findings.

Recommended Actions

1. Add language reducing the University System of Maryland Office general funds by \$584,538 for the Hagerstown Regional Higher Education Center.
2. Add language reducing the University System of Maryland Office general funds by \$230,701 for the Shady Grove Regional Higher Education Center.
3. Adopt narrative requesting a report on institutional aid for USM institutions.
4. Adopt narrative requesting an annual report on the efficiency initiative's fiscal effects and implementation.

Updates

Efficiency Initiative in First Year: As part of the efficiency initiative, USMO is expected to save \$162,259 in fiscal 2007.

Role of the USM Office in the Fundraising Initiative: USM is embarking on a new fundraising campaign to begin in early spring 2006 with a goal of raising \$1.7 billion over seven years. USMO's role for this new campaign will not be as significant as the role it had in the last campaign.

R30B36 – University System of Maryland Office

R30B36
University System of Maryland Office

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 includes the chancellor; executive and administrative staff; and the central services of budget, accounting, auditing, information technology, capital planning, advancement, public and governmental relations; and other support to the regents.

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

The goals of USMO are to:

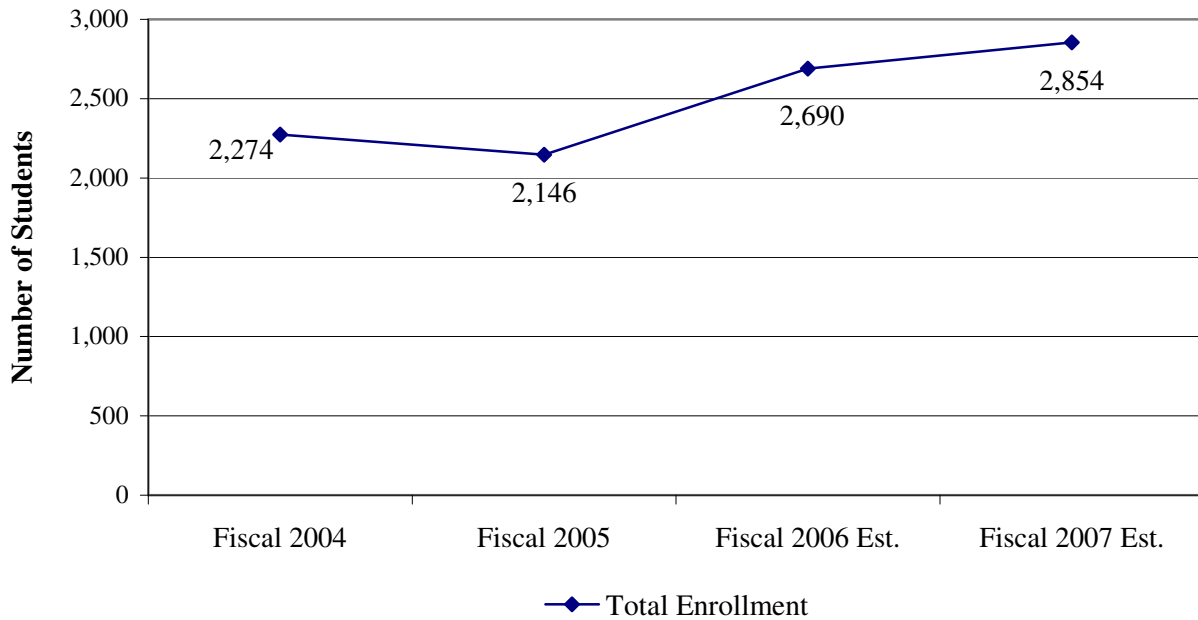
- promote access to USM institutions through cooperation;
- promote operational synergies;
- promote private support for USM;
- provide financial stewardship to maximize the effectiveness and efficiency of USM operations; and
- fulfill statutory responsibilities with the highest degree of quality.

Performance Analysis: Managing for Results

Enrollment: Regional Centers Strong, Community College Transfers Exceed Objective

USMO has a goal to promote access to USM institutions through cooperation. One aspect of this relates to enrollment. The USM Office manages two of the State's regional higher education centers – Shady Grove and Hagerstown. Hagerstown began accepting students in spring 2005. As shown in **Exhibit 1**, this is reflected in the increase in enrollment in the two higher education centers from 2,146 students in fiscal 2005 to the estimated 2,690 students in fiscal 2006. This includes undergraduate and graduate students. **The Chancellor should comment on the reasons for the decline in Shady Gove enrollment.**

Exhibit 1
Enrollment at USM Regional Higher Education Centers
Fiscal 2004 – 2007



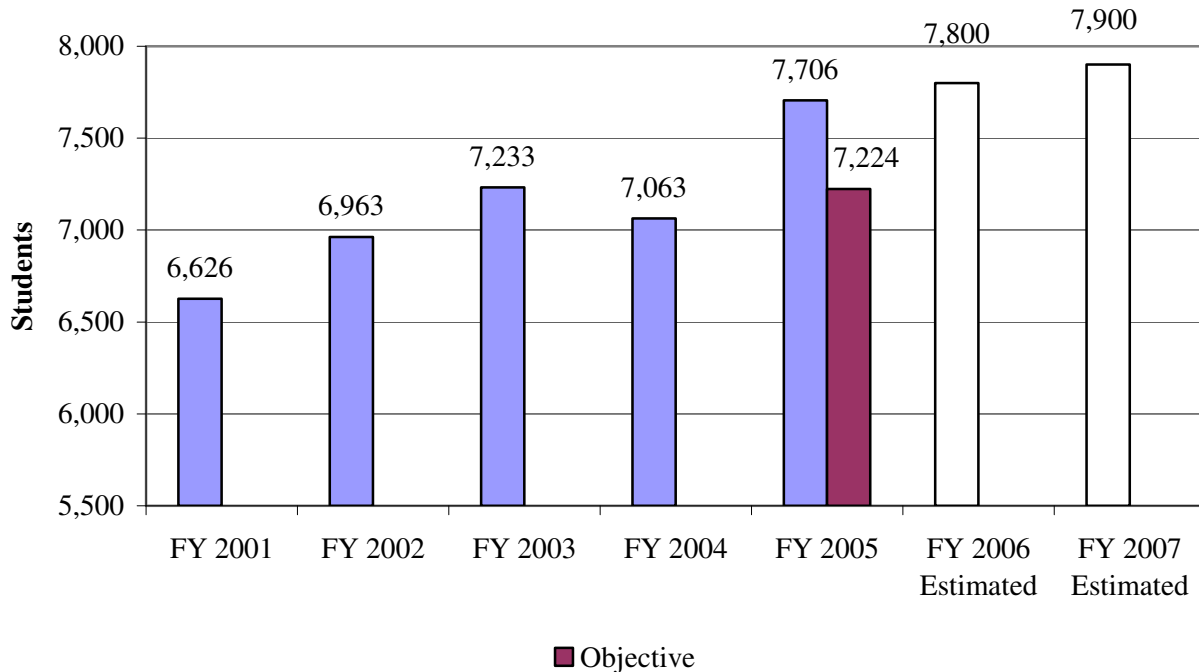
Note: The data for fiscal 2006 reflect the opening of the Hagerstown Center.

Source: Maryland State Budget Books

USMO also has an objective to increase the numbers of students who transfer to USM institutions from community colleges. Transfer students can help alleviate capacity constraints at the four-year institutions, which would contribute to USM's efficiency initiatives discussed in the USM Overview.

As shown in **Exhibit 2**, the number of community college transfer students has generally been increasing except for fiscal 2004, when there was a decrease. In fiscal 2005, there were 7,706 students who transferred from community colleges. This exceeded the objective of 7,224 students and is predicted to increase through at least fiscal 2007. USMO attributes this increase to several initiatives. Three years ago the USM/Maryland Association of Community Colleges Joint Leadership Council was formed to foster communication and collaborate on transfer issues. Secondly, the Associate of Arts in Teaching programs has begun to graduate students who then transfer to four-year institutions. Additionally, the use of an articulation system (ARTSYS) has increased 200% since 2001. The ARTSYS provides information to students and advisors on what classes will transfer to a particular four-year university. This aids community college students in the selection of classes to better prepare them for transferring.

**Exhibit 2
Community College Transfer Students
Fiscal 2001 – 2007**



Source: Maryland State Budget Books

Financial Savings and Fundraising

USMO also has a goal to promote operational synergies. It intends to achieve this goal by increasing the level of fiscal savings resulting from centrally negotiated and leveraged procurement of information technology software products. USMO saved \$1.5 million in fiscal 2004, \$1.4 million in fiscal 2005, and estimates it will save \$2.4 million in 2006. It aims to save \$3.5 million by fiscal 2009 and appears to be on track to achieving this.

Another goal is to promote private support for USM through fundraising. Specifically, over \$1 billion is expected to be raised over a seven-year period beginning in 2006. This fundraising campaign was discussed in the USM Overview analysis, and USMO’s role in the campaign is discussed in Update 2.

Investments Perform Well

USMO has an objective that the University of Maryland Foundation and the USM Common Trust Fund outperform established national financial market indices. In fiscal 2005, the Common Trust Fund earned a return of 7.4% and outperformed its benchmark by 0.8 percentage points. The University of Maryland Foundation earned a return of 13.5% in fiscal 2005, outperforming the benchmark, which had a return of 6.5% for fiscal 2005. This benchmark has been recently developed for the foundation and is, therefore, a new comparison.

Governor's Proposed Budget

The general funds in the allowance for fiscal 2007 are \$0.8 million above the 2006 level, an increase of 5.8%, as shown in **Exhibit 3**. USMO reports that the new general funds will be allocated to salary and benefit adjustments for staff (\$0.4 million), operating inflation (\$0.09 million), and construction management fees (\$0.4 million) related to the Shady Grove regional higher education center. USMO expects to save \$166,313 due to the efficiency initiative discussed in Update 1 and other operating reductions.

Exhibit 3
Governor's Proposed Budget
University System of Maryland Office
(\$ in Thousands)

	FY 05	FY 06	FY 07	FY 06-07	FY 06-07
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$11,747	\$13,664	\$14,461	\$798	5.8%
Other Unrestricted Funds	2,209	2,865	3,378	513	17.9%
Total Unrestricted Funds	13,957	16,529	17,839	1,311	7.9%
Restricted Funds	<u>3,080</u>	<u>3,500</u>	<u>3,507</u>	<u>7</u>	<u>0.2%</u>
Total Funds	\$17,037	\$20,029	\$21,347	\$1,318	6.6%

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

Other unrestricted funds increase \$0.5 million, or 17.9%, over fiscal 2006. The funds will be used to implement the Board of Regents Internal Audit enhancements which will provide eight additional auditors. These additional funds will be collected from USM institutions. Overall, the USMO fiscal 2007 allowance increases 6.6%

Professional Development Schools

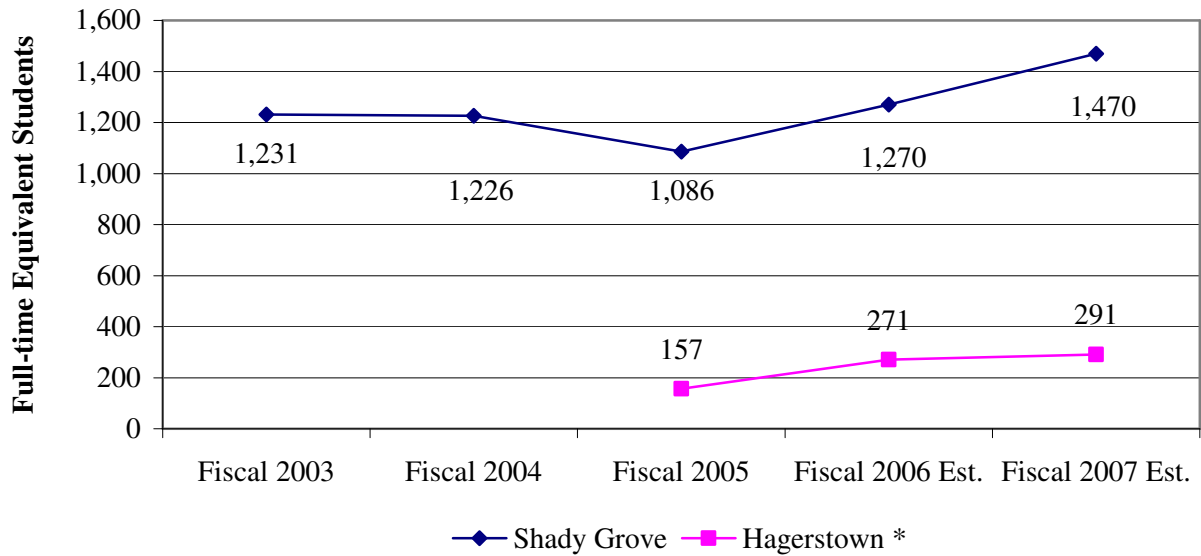
USMO budget also includes \$0.4 million in general funds for teacher education. Specifically, the funds are used by USMO and USM institutions to support Professional Development Schools and to support statewide K-16 initiatives. The funds also provide leverage for receiving federal grants that require cost sharing.

Funding for Regional Higher Education Centers

UMSO administers two regional higher education centers – Hagerstown and Shady Grove. The Shady Grove center receives \$3 million in the fiscal 2007 allowance. Funding for Shady Grove for fiscal 2004 and 2005 was \$2.3 million. In fiscal 2006 Shady Grove receives \$2.8 million. Despite the increased funds, the number of full-time equivalent students (FTES) at the center declined from fiscal 2003 through 2005, as shown in **Exhibit 4**. In fiscal 2003 there were 1,231 FTES enrolled, and in fiscal 2005 there were 1,086 FTES enrolled. It is estimated that 1,470 FTES will attend the center in fiscal 2007.

The Hagerstown center receives \$2 million in the fiscal 2007 allowance. The center opened in the spring of 2005. Funding for the center in fiscal 2005 was \$1 million and increased to \$2 million in fiscal 2006. The Hagerstown center started enrolling students in spring 2005 with 157 FTES. Enrollment at Hagerstown is estimated to be 271 FTES in fiscal 2006 and 291 FTES in fiscal 2007. The Maryland Higher Education Commission has developed a funding strategy for regional higher education centers (RHECs) based on the number of full-time equivalent students that each center serves in a fiscal year. Since Hagerstown opened in the spring of 2005, the number of FTES used to calculate funding included spring 2005 and fall 2005 semesters to represent one year of FTES. Both centers receive funds in the 2007 allowance in excess of this funding strategy. If the funding strategy were fully implemented, Hagerstown should receive \$830,924 in fiscal 2007 and Shady Grove should receive \$2,530,556. **The Department of Legislative Services (DLS) recommends reducing the general fund allowance for the Hagerstown center by \$584,538. This reduction will provide \$1,415,462 in remaining funds for the center. DLS also recommends that the general funds allowance for the Shady Grove center be reduced by \$230,701. This reduction will provide \$2,761,257 in remaining funds for the center. These reductions will bring funding for the centers closer to the funding strategy levels. The intent is to move towards the funding strategy levels over two years.**

Exhibit 4
Regional Higher Education Center Full-time Equivalent Students
Fiscal 2003 – 2007



*The Hagerstown Center opened in the spring of 2005. The fiscal 2005 data represents the spring 2005 semester.

Source: Maryland State Budget Books

Issues

1. Office of Legislative Audits Completes New Audit of USMO

The Office of Legislative Audits (OLA) completed a new audit of USMO from the period of September 2001 to January 2005. There were nine findings with seven repeat findings, or 78%, as shown in **Appendix 2**. USMO has addressed many of the findings. USMO reports that it also differs from OLA in its view of its role with respect to oversight of the USM institutions. Specifically, the institution's presidents have authority over day-to-day operations and not USMO.

One new finding was that USMO had not established policies regarding the use of registered lobbyists to advance an institution's goals and agenda. In December 2005 the Board of Regents amended its existing policy on government relations to prohibit hiring registered lobbyists for State relations purposes.

Another new finding was that USMO's Internal Audit Division (IAD) was not in full compliance with standards established by the Institute for Internal Auditors and that the audit plan was not realistic given the number of auditors in the IAD. To address this finding, USMO will bring IAD into compliance. Additionally, the fiscal 2007 allowance provides eight additional audit positions in the IAD. This will bring the number of auditors to 15, close to the OLA recommendation of 16. Additionally, three auditors at system institutions will be reassigned to USMO.

A repeat finding was that USMO did not adequately control cash receipts. USMO has agreed to change its practices in accordance with the recommendations of OLA. Another repeat finding was that system institutions did not comply with State law regarding the implementation of the Financial Management Information System (FMIS). Legislation has been introduced in the 2006 session, HB 787, to address this. This legislation will exempt USM from using FMIS and allow the use of an internal system for accounting, budgeting, personnel, and payroll.

USMO should comment on the audit findings.

Recommended Actions

1. Add the following language:

Provided that the appropriation herein for the University System of Maryland Office shall be reduced by \$584,538 in general funds allocated to the Hagerstown Regional Higher Education Center.

Explanation: The allowance provides the University System of Maryland Office, which operates the Hagerstown Regional Higher Education Center, with \$2,000,000 in general funds allocated to the Hagerstown center. Based on the Regional Higher Education Center Funding Strategy, which allocates funds primarily based on the number of full-time equivalent students that attend the center, the Hagerstown center should receive \$830,924 for fiscal 2007. The proposed language reduces the allowance by \$584,538. This leaves \$1,415,462 to be allocated to the Hagerstown center. The intent is to move towards the funding strategy level over two years.

2. Add the following language:

Provided that the appropriation herein for the University System of Maryland Office shall be reduced by \$230,701 in general funds allocated to the Shady Grove Regional Higher Education Center.

Explanation: The allowance provides the University System of Maryland Office, which operates the Shady Grove Regional Higher Education center, with \$2,991,958 in general funds allocated to the Shady Grove center. Based on the Regional Higher Education Center Funding Strategy, which allocates funds primarily based on the number of full-time equivalent students that attend the center, the Shady Grove center should receive \$2,530,556 for fiscal 2007. The proposed language reduces the allowance by \$230,701. This leaves \$2,761,257 to be allocated to the Shady Grove center. The intent is to move towards the funding strategy level over two years.

3. Adopt the following narrative:

Institutional Aid Report: The committees request that the University System of Maryland (USM) Office submit all categories of institutional aid data for USM institutions with the budget request and allowance, including prior year actual, current year working, and allowance.

Information Request	Author	Due Date
Report on all categories of institutional aid provided	USM	With request and allowance

4. Adopt the following narrative:

E&E Workgroup Reports: The University System of Maryland (USM) Board of Regents has approved an effectiveness and efficiency (E&E) plan for the system involving many initiatives recommended by the USM E&E Workgroup. The plan covers fiscal 2006 to 2008. The committees request that the board annually submit a report on December 1 of each year detailing the amount and type of fiscal effect associated with the effectiveness and efficiency plan for each year of the plan, including fiscal 2006 actual, fiscal 2007 working, and fiscal 2008 allowance. The report should also indicate how initiatives shall be implemented and the progress of implementation. The report should also indicate how many full-time equivalent students are served by USM institutions with no additional cost to the State, including prior year actual, current year working, and allowance. Each report shall provide this information for each year of the plan, and the committees shall be provided with additional written information if the plan is changed significantly. Any required information that is not available to be submitted by the due date shall be submitted as soon as possible and no later than with the allowance.

Information Request	Author	Due Date
Reports of fiscal effects and implementation strategies for efficiency initiatives	USM	December 1, 2006, and December 1, 2007
Reports on significant changes in the efficiency plan	USM	As needed

Updates

1. Efficiency Initiative in First Year

In October 2004, USM unveiled its effectiveness and efficiency plan. The system will pursue more than a dozen initiatives which began in fiscal 2006 and will continue through fiscal 2008. USM estimates that the fiscal 2007 savings will be \$18.7 million. These savings are built into the 2007 allowance, meaning estimates of current services cost increases would be \$18.7 million higher without the efficiency savings.

As shown in **Exhibit 5**, USMO's share of the savings is estimated to be \$162,259 for fiscal 2007. This represents 1% of the State-supported budget for USMO. USMO will achieve these savings through salary savings and revenue from indirect cost recovery.

Exhibit 5
USMO's Expected Efficiency Savings
Fiscal 2006 – 2007

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>
USMO	\$144,459	\$162,259

Note: The expected savings represent 1% of the State-supported funds.

Source: University System of Maryland

2. Role of the USM Office in the Fundraising Initiative

USM is embarking on a new fundraising campaign to begin in early spring 2006 with a goal of raising \$1.7 billion over seven years. All USM institutions receive general funds to be used for the fundraising initiative. However, USMO does not receive any additional funds. USMO's role for this new campaign will not be as significant as the role they had in the last campaign. The new campaign goals were set by the individual institutions who will work independently to meet their goal. USMO will be available for fundraising seminar training, solicitation assistance such as providing events, and other assistance if requested by an institution.

USMO is tasked with raising \$6 million during the campaign. They will raise these funds by cultivating existing relationships with donors. USMO plans to use the funds for regent's scholarships, many of which are need-based.

Current and Prior Year Budgets

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

	General Fund	Other Unrestricted Fund	Total Unrestricted Fund	Restricted Fund	Total
Fiscal 2005					
Legislative Appropriation	\$11,679	\$2,744	\$14,423	\$1,800	\$16,223
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	68	110	178	1,700	1,878
Reversions and Cancellations	0	-644	-644	-420	-1,064
Actual Expenditures	\$11,747	\$2,210	\$13,957	\$3,080	\$17,037
Fiscal 2006					
Legislative Appropriation	\$13,566	\$2,814	\$16,380	\$3,000	\$19,380
Budget Amendments	97	51	148	500	648
Working Appropriation	\$13,663	\$2,865	\$16,528	\$3,500	\$20,028

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

Fiscal 2005

The University System of Maryland Office's general funds increased \$68,284 through budget amendment for State employee cost-of-living increases. Other unrestricted funds increased \$0.1 million also through budget amendments. Of this net amount, increases included \$0.1 million in system overhead and \$73,527 in revolving fund activity. Decreases included \$61,336 in investment income and \$2,476 in a transfer to fund balance.

Restricted funds increased \$1.7 million through budget amendments. Increases included \$1.2 million in grants and contracts resulting from a federal Department of Education grant and \$0.5 million in other federal contract and grant activity.

At the end of fiscal 2005, \$0.6 million of unrestricted funds were cancelled due to savings from employee turnover and less spending than expected for the University System Telecommunications Council. Also, \$0.4 million of restricted funds were cancelled due to less than expected spending for federal grants.

Fiscal 2006

In fiscal 2006, general funds were increased \$0.1 million through budget amendments for State employee cost-of-living increases. Other unrestricted funds increased a net \$50,746 through budget amendment. There was an increase in system overhead and a decrease in revolving fund activity. Restricted funds increased a net \$500,000 through budget amendment. There was a \$1 million increase in federal grant and contract activity and a decrease of \$0.5 million in private grant and contract activity.

Audit Findings

Audit Period for Last Audit:	September 1, 2001 – January 12, 2005
Issue Date:	September 2005
Number of Findings:	9
Number of Repeat Findings:	7
% of Repeat Findings:	78%
Rating: (if applicable)	n/a

- Finding 1:** **Cash receipts:** Collections received by the office were not properly accounted for and controlled.
- Finding 2:** **Payments to Lobbyist:** The system had not established policies regarding the use of registered lobbyists to advance an institution’s goals and agenda.
- Finding 3:** **Endowment:** The office inappropriately reimbursed system institutions for administering endowment funds.
- Finding 4:** **Internal audit:** The office’s Internal Audit Division was not in full compliance with the internal auditing standards established by the Institute of Internal Auditors, and the audit plan was not realistic.
- Finding 5:** **Telecommunications System:** A formal disaster recovery plan for restoring services in the event of disruption was under development but not completed.
- Finding 6:** **Telecommunications System:** Access and connection controls on three critical network devices were inadequate.
- Finding 7:** **Foundation:** The office did not ensure that payments made from the foundation to system employees complied with the Board of Regents’ policy.
- Finding 8:** **Equipment:** Sufficient controls over equipment were not maintained in accordance with the system policy.
- Finding 9:** **Financial Management Information System (FMIS):** The system’s institutions did not comply with State law regarding the implementation of FMIS.

**Object/Fund Difference Report
University System of Maryland Office**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	91.00	91.00	99.00	8.00	8.8%
02 Contractual	4.50	4.00	0	-4.00	-100.0%
Total Positions	95.50	95.00	99.00	4.00	4.2%
Objects					
01 Salaries and Wages	\$ 8,909,177	\$ 10,123,935	\$ 10,947,982	\$ 824,047	8.1%
02 Technical & Spec Fees	7,100	0	0	0	0.0%
03 Communication	178,260	217,589	217,589	0	0%
04 Travel	134,992	96,774	116,774	20,000	20.7%
07 Motor Vehicles	6,354	5,040	8,040	3,000	59.5%
08 Contractual Services	6,455,401	8,084,438	8,083,225	-1,213	0%
09 Supplies & Materials	113,978	84,486	84,486	0	0%
11 Equip - Additional	88,476	68,620	68,620	0	0%
12 Grants, Subsidies, and Contributions	904,645	985,752	984,233	-1,519	-0.2%
13 Fixed Charges	236,149	199,311	264,723	65,412	32.8%
14 Land & Structures	2,519	162,718	570,852	408,134	250.8%
Total Objects	\$ 17,037,051	\$ 20,028,663	\$ 21,346,524	\$ 1,317,861	6.6%
Funds					
40 Unrestricted Fund	\$ 13,956,779	\$ 16,528,663	\$ 17,839,356	\$ 1,310,693	7.9%
43 Restricted Fund	3,080,272	3,500,000	3,507,168	7,168	0.2%
Total Funds	\$ 17,037,051	\$ 20,028,663	\$ 21,346,524	\$ 1,317,861	6.6%

**Fiscal Summary
University System of Maryland Office**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
04 Academic Support	\$ 3,744,540	\$ 5,256,672	\$ 5,256,672	\$ 0	0%
06 Institutional Support	13,292,511	14,771,991	16,089,852	1,317,861	8.9%
Total Expenditures	\$ 17,037,051	\$ 20,028,663	\$ 21,346,524	\$ 1,317,861	6.6%
Unrestricted Fund	\$ 13,956,779	\$ 16,528,663	\$ 17,839,356	\$ 1,310,693	7.9%
Restricted Fund	3,080,272	3,500,000	3,507,168	7,168	0.2%
Total Appropriations	\$ 17,037,051	\$ 20,028,663	\$ 21,346,524	\$ 1,317,861	6.6%