



Department of Legislative Services  
Office of Legislative Audits

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# University System of Maryland (USM) University of Maryland Global Campus (UMGC)

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Presentation to Joint Audit and Evaluation Committee

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## Report Overview

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- UMGC is a public institution of USM and operates under the jurisdiction of the USM's Board of Regents (BOR). UMGC offers degree and non-credit educational programs to students who prefer not to enroll in more traditional programs. The majority of UMGC's courses are taught online.
- UMGC has created three business entities designated as High Impact Economic Development Activities (HIEDA). The three entities are UMGC Ventures (Ventures), AccelerEd, and HelioCampus. (Additional details on slides 5-9)
- The audit report covers the period from October 1, 2018 to December 31, 2022. The report contains 7 findings. UMGC addressed the four findings from our prior audit report dated November 2019.



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## Key Findings

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### UMGC Business Initiatives

- **Finding 1** – Certain activities raise questions whether UMGc's relationship with Ventures is in the best interest of UMGc and the State.
- **Finding 2** – UMGc obtained \$184.1 million of information technology (IT) services from Ventures without competitive procurement and without verifying the amounts paid were proper.
- **Finding 3** – UMGc did not adequately monitor an IT project, which was ultimately determined to be unusable and abandoned after UMGc had paid \$25.7 million to Ventures.



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## Key Findings (continued)

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### Advertising Contracts

- Finding 4 – UMGC did not have formal documented procedures for assigning work to pre-qualified vendors for two master advertising contracts totaling \$500 million, and related statements of work were not sufficiently detailed to allow for effective monitoring by UMGC.
  
- Finding 5 – UMGC did not adequately justify two sole source procurements of advertising services and did not consolidate the procurements which we believe circumvented USM *Procurement Policies and Procedures*.



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## UMGC Business Initiatives and Limitation of OLA Work

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### Background

- HIEDA entities may be established by institutions of higher education to promote economic interests of the State in areas such as job creation, commercialization, and entrepreneurship.
- In September 2015, the BOR approved the creation of HelioCampus, which was a spin-off of UMGC's Office of Analytics. A controlling interest was sold by UMGC in December 2019.
- In June 2016, the BOR approved the creation of Ventures, a tax-exempt holding company for business commercialized by UMGC.
- In June 2017, the BOR approved UMGC's spin-off of its Office of Technology as a subsidiary company within Ventures. The company, AccelerEd, was designated as a HIEDA in June 2019,



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## UMGC Business Initiatives and Limitation of OLA Work (continued)

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### Background

- The purpose of Ventures included the commercialization of the technology, business process, and intellectual property of UMGC,
- We attempted to review certain activity relating to all three HIEDA's, as well as oversight by UMGC, but UMGC stated that it was unable to provide the information because of IRS regulations.
- According to UMGC's understanding of IRS regulations, UMGC is required to remain at arm's length from Ventures and not subject to direct control from UMGC. Consequently, this limited our ability to review the relationship between the entities.
- We question UMGC's position of independence from Venture for among other reasons, UMGC's president appoints the majority of the Venture's board and accounts for most of its business activity.



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## UMGC Business Initiatives (Finding 1)

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We identified certain activities that raise questions as to whether UMG's relationship with Ventures and its affiliates is in the best interest of UMG and the State.

- UMG has not conducted a comprehensive and documented, evaluation, including a cost benefit analysis of whether the HIEDA's are meeting their intended purpose, goals, and objectives, in the most cost effective manner.
- UMG has been the source for almost all of AccelerEd's revenue since its creation in 2017.
- UMG could not explain critical aspects of Ventures' sale of a controlling interest in HelioCampus in December 2019.
- Ventures made a \$1.1 million capital contribution to HelioCampus after the sale of the controlling interest that was not subject to review and approval by UMG.



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## UMGC Business Initiatives (Finding 2)

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UMGC obtained IT services from Ventures and its subsidiaries totaling approximately \$184.1 million during November 2018 to December 2022 without using a competitive procurement process and without any verification that the amounts paid were proper.

- UMGc depended solely on Ventures to ensure that the best qualified and most advantageous vendor was obtained for required IT tasks and did not attempt to competitively procure the IT services.
- Invoices received did not include a breakdown of costs incurred and services provided for the period, restricting UMGc's ability to monitor those costs and services which it received from Ventures.
- UMGc did not verify the propriety of contingency fees charged by AccelerEd. The agreement included a contingency fee of 10 percent of total costs, which totaled \$11.3 million between fiscal years 2020 and 2023.





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## UMGC Business Initiatives (Finding 3)

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UMGC did not adequately monitor an IT project being developed for its use by Ventures, which was ultimately determined to be unusable and abandoned after UMGc expended \$25.7 million.

- In July 2018 contracted with AccelerEd (through Ventures) to replace its student information system. AccelerEd subcontracted the work to a third party.
- The project was stopped and cancelled in June of 2021 after an independent vendor prepared a report outlining significant deficiencies with the current status and direction of the project.
- The report expressed concerns regarding basic project governance exercised by Ventures on UMGc's behalf and advised that the current structure had prevented any real oversight by UMGc.
- UMGc did not pursue a refund or impose liquidated damages.



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## Advertising Contracts (Finding 4)

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UMGC did not have formal documented procedures for assigning work to pre-qualified vendors for two master contracts totaling \$500 million, and related statements of work were not sufficiently detailed to allow for effective monitoring by UMGc.

- UMGc's selection process was not documented to ensure that the most cost-effective selection had been made for each task.
- Statements of Work's (SOW) did not include the specific services or deliverables to be performed, such as the number of commercials to be aired, which precluded effective monitoring,
- SOW's did not include performance measures to enable UMGc to determine how successful the advertising services were in increasing enrollment.



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## Advertising Contracts (Finding 5)

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UMGC did not adequately justify two sole source procurements of advertising services and did not consolidate the procurements which we believe circumvented USM *Procurement Policies and Procedures*.

- During fiscal years 2020 through 2023, UMGc repeatedly entered into annual sole source contracts with the vendor for \$475,000 and \$300,000.
- UMGc's sole source justifications noted that it could contract with other advertising vendors, but that this vendor was the only source with the level of market coverage. Our cursory search identified at least one other vendor, with similar services.
- The justifications also inferred that price was a consideration, even though price is not to be considered a factor in justifying a sole source procurement.



## Other Findings

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### Finding 6 – Cash Receipts

UMGC did not adequately control and account for collections, which totaled \$7.3 million in fiscal year 2022.

### Finding 7 – Student Residency Status

UMGC's procedures for reviewing residency changes were not sufficiently comprehensive, resulting in 67 percent of residency changes not being subject to independent review and approval.



## Conclusion

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Our audit of UMGC identified numerous weaknesses in UMGC's business initiatives and advertising contracts. We made detailed recommendations to UMGC and we will assess the status of the recommendations during the course of our next audit.

We are happy to answer any questions.