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An Audit Report on

The Higher Education Coordinating Board's Facility Management Processes

April 2006

Report No. 06-028



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Overall Conclusion

The Higher Education Coordinating Board (Coordinating Board) complies with the majority of requirements in Texas Education Code, Section 61.0572, to help ensure the efficient use of construction funds at higher education institutions and to accommodate projected enrollments at those institutions. For example, as required by statute, the Coordinating Board has developed and published construction project standards, rules, and regulations and has determined formulas for space utilization.

Auditors identified two instances of noncompliance with the Texas Education Code:

- The Coordinating Board does not comply with Texas Education Code, Section 61.0583, which requires it to audit educational and general facilities inventory information that institutions self-report. Texas Education Code, Section 61.0583, specifies that facilities inventory audits should include verification of the accuracy of the facilities inventory square footage reported in each institution's budget request, confirmation that a project has received prior approval by the Coordinating Board (if required), and confirmation that an approved project is completed as specified in an institution's request for approval.

The Coordinating Board asserts that it does not have the resources necessary to conduct these audits. Ensuring that facilities inventory information is accurate is important because this information is a key factor in the Coordinating Board's evaluation and approval of institutions' applications for construction projects. This information also is used in determining appropriation funding. Incorrect facilities inventory information can result in significant financial responsibility for the State.

Background Information

Texas Education Code, Section 61.002, charges the Coordinating Board with providing "leadership and coordination for the Texas higher education system, institutions, and governing boards, to the end that the State of Texas may achieve excellence for college education of its youth through the efficient and effective utilization and concentration of all available resources and the elimination of costly duplication in program offerings, faculties, and physical plants."

Texas Education Code, Section 61.0572, specifies that the Coordinating Board is to "ensure the efficient use of construction funds and the orderly development of physical plants," and Texas Education Code, Section 61.058, requires the Coordinating Board to approve or disapprove all new construction, repair, and rehabilitation.

To meet these requirements, the Coordinating Board compares institutions' construction project applications to standards it has established in areas such as deferred maintenance, space need, cost, and efficiency.

Between September 2000 and January 2006, the Coordinating Board reviewed and approved 663 project applications with a total cost of \$7.1 billion. Appendix 2 provides a summary of the applications reviewed and approved.

- The Coordinating Board does not **notify the Governor** as required by statute when projects that are to be funded through tuition revenue bonds do not meet standards. Of 48 construction project applications tested, 9 were to be funded fully or partially through tuition revenue bonds. Five of these nine projects did not meet one or more of the Coordinating Board's standards in areas such as space, cost, and efficiency. The Coordinating Board notified the Lieutenant Governor, Speaker of the House of Representatives, and Legislative Budget Board that these projects did not meet standards, but it did not notify the Governor as required by statute.

The Coordinating Board does not consistently comply with Texas Administrative Code (Title 19, Section 17.20 [1]), which requires construction projects and real property acquisitions to meet **Coordinating Board standards as adopted by rule**. Of the 48 construction project applications tested, 9 applications (which were not funded through tuition revenue bonds) did not meet one or more standards, but the Coordinating Board approved these 9 applications without conditions. Six other applications tested (which were also not funded through tuition revenue bonds) did not meet one or more standards, and the Coordinating Board approved them with conditions. Approving applications with conditions is allowable under Title 19, Texas Administrative Code, Section 17.30, but the Coordinating Board does not have a process to follow up and ensure that the conditions are satisfied.

The Coordinating Board also should strengthen certain controls related to its evaluation of institutions' applications for construction projects. It should train more personnel to evaluate applications, update its evaluation policies and procedures, and review certain calculations of campus space for accuracy.

Summary of Management's Response

The Coordinating Board agrees with the findings and recommendations in this report.

Summary of Information Technology Review

No errors were identified during audit tests of the process the Coordinating Board uses to summarize electronic facilities inventory data that institutions submit. As discussed in more detail in Chapter 2 of this report, improving the functionality of the Coordinating Board's Integrated Campus Planning System (ICPS) and the accuracy of data within it would provide the Coordinating Board with a valuable tool for monitoring the status of institutions' applications for construction projects. The Coordinating Board has recognized this and is already making changes to ICPS.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the Coordinating Board is operating as defined in Texas Education Code, Sections 61.0572 and 61.058, to ensure the efficient use of construction funds and the orderly development of physical plants to accommodate projected college student enrollments per Texas Education Code, Section 61.002.

The audit scope covered the processes and controls related to (a) the evaluation of construction project applications submitted by institutions and (b) the calculation and application of the space projection model published by the Coordinating Board.

The audit methodology included conducting interviews, collecting and reviewing information, and performing procedures such as tests and analyses against predetermined criteria.

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Detailed Results

Chapter 1

The Coordinating Board Complies with the Majority of Statutes Related to Institutions' Construction Project Applications; It Does Not Comply with Statutes in Two Areas

To help ensure the efficient use of construction funds at higher education institutions and to accommodate projected enrollments, the Higher Education Coordinating Board (Coordinating Board) complies with the majority of statutes related to higher education institutions' construction project applications. For example:

- As required by Texas Education Code, Section 61.0572 (b)(6), the Coordinating Board has developed and published standards, rules, and regulations to guide institutions in making applications for the approval of projects.
- As required by Texas Education Code, Section 61.0572 (b)(1), the Coordinating Board has determined formulas for space utilization.
- As required by Texas Education Code, Section 61.0572 (c), the Coordinating Board has developed space standards for new construction.

The Coordinating Board does not comply with a statutory requirement to audit institutions' facilities inventories.

The Coordinating Board does not perform audits of institutions' education and general facilities inventories as required by Texas Education Code, Section 61.0583, and Title 19, the Texas Administrative Code, Section 17.110.

As defined in Texas Education Code, Section 61.0583, facilities inventory audits include:

- Verification of the accuracy of the facilities inventory square footage reported in each institution's budget request.
- Confirmation that a project has received prior approval by the Coordinating Board, if required.
- Confirmation that an approved project is completed as specified in the institution's request for approval.

Facilities inventory information that institutions report includes, but is not limited to, gross area, number of floors, and capital investment. The institutions also report room data, including square footage, primary

classification of instructional programming codes, primary usage codes, student station capacity, and other data.

The Coordinating Board asserts that it does not have the resources necessary to conduct these audits. Ensuring that facilities inventory information is accurate is important because this information is a key factor in the Coordinating Board's evaluation and approval of institutions' applications for construction projects. This information also is used in determining appropriation funding. Incorrect facilities inventory information can result in significant financial responsibility for the State.

The Coordinating Board does not completely comply with a statutory requirement to notify certain parties when construction projects funded through tuition revenue bonds do not meet standards.

The Coordinating Board does not completely comply with Texas Education Code, Sections 61.0572 and 61.058, which require it to notify the Governor, Lieutenant Governor, Speaker of the House of Representatives, and Legislative Budget Board when projects that are to be funded through tuition revenue bonds do not meet the Coordinating Board's standards. These standards apply to areas such as space, cost, and efficiency (see text box for additional details on these standards). The Coordinating Board evaluates projects funded through tuition revenue bonds for compliance with standards, but it does not approve or disapprove them.

The Coordinating Board's Standards

Deferred Maintenance: The ratio of campus deferred maintenance costs to replacement value should be 5 percent or less. (Does not apply to projects funded through tuition revenue bonds.)

Critical Deferred Maintenance: The ratio of campus deferred maintenance costs to replacement value should not exceed zero. (Does not apply to projects funded through tuition revenue bonds.)

Space Need: The project shall not create a campus space surplus, or add to an existing surplus, as determined by the Coordinating Board's space projection model report.

Cost: The construction building cost per gross square foot shall be within the range of similar projects approved by the Coordinating Board within the last five years.

Efficiency: The ratio of net available square feet to gross square feet for the space in projects for classrooms and general purpose facilities shall be 0.60 or greater. (Other efficiency ratios are established for non classroom projects.)

Cost: The proposed purchase price for real property acquisition projects should not exceed the highest of two appraisal values. If the purchase price is greater than the highest appraised value, the institution must demonstrate the need for purchasing the property at the greater value.

Source: Title 19, Texas Administrative Code, Sections 17.30 and 17.50

Of 48 construction project applications tested, 9 were to be funded fully or partially through tuition revenue bonds. Of these nine projects, four did not meet the space standard and one did not meet the standards for space and efficiency. The Coordinating Board notified the Lieutenant Governor, Speaker of the House of Representatives, and Legislative Budget Board that these five projects did not meet standards, but it did not notify the Governor as the statutes require.

The Coordinating Board does not consistently comply with its rule requiring construction project applications to meet all applicable Coordinating Board standards.

The Coordinating Board does not comply with Title 19, Texas Administrative Code, Section 17.20 (1), which requires projects to meet all applicable Coordinating Board standards. (The Coordinating Board is charged with establishing the standards in Texas Education Code, Section 61.0572 [b][6].)

Of the 48 construction project applications tested, 9 applications (which were not funded through tuition revenue bonds) did not meet one or more standards, but the Coordinating Board approved them without conditions. Specifically:

- Three did not meet the space standards.
- One did not meet the cost standards.
- One did not meet the critical deferred maintenance standard.
- One met neither the space nor the deferred maintenance standards.
- Three met neither the deferred maintenance nor the critical deferred maintenance standards.

These standards were established to provide assurance that construction funds are spent efficiently and that physical plants are developed in an orderly manner. The approval of projects that do not meet standards reduces this assurance.

Other controls regarding the Coordinating Board's evaluation and approval of construction project applications should be improved.

The Coordinating Board should follow up on applications it approves with conditions. Of the 48 construction project applications tested, the Coordinating Board approved with conditions 6 projects that did not meet its standards. (These projects were not funded through tuition revenue bonds.) Approving applications with conditions is allowable under Title 19, Texas Administrative Code, Section 17.30. When applications are approved with conditions, the institutions are required to provide plans of action to address the unmet standards. Examples of conditions the Coordinating Board has placed on projects include:

- Develop a plan to reduce deferred maintenance to 5 percent.
- Develop a plan to reduce critical deferred maintenance to zero.
- Develop a plan to reduce the space surplus.

The Coordinating Board does not follow up to ensure that institutions satisfy the conditions on which it approves construction project applications. Without such follow up, the Coordinating Board may not be ensuring the most efficient use of construction funds.

The Coordinating Board should ensure that construction project applications are included in institutions' master plans. Title 19, Texas Administrative Code, Section 17.20, requires that a proposed project be included in an institution's master plan as reported to the Coordinating Board. Of the 48 construction project applications tested, 5 were approved but were not reported on the

institutions' master plans. Projects can be submitted and approved in cases of emergency or unforeseen opportunity, but there was no documentation of either for these five applications.

The Coordinating Board should review its space projection model for accuracy. The

The Coordinating Board's Space Projection Model

The Coordinating Board develops a space projection model to:

- Predict the amount of space needed by Texas' public universities, technical colleges, the Lamar State Colleges, and public health-related institutions.
- Allocate infrastructure formula funding to institutions and allocate Higher Education Assistance Funding to institutions that do not participate in the Permanent University Fund.

The model uses data provided by the institutions to predict the net assignable square feet of educational and general space in five areas: teaching, library, research, office, and support space. The results for each of those areas are summed to arrive at a prediction of total space need.

The predicted total space need is compared with the actual space in an institution's facilities inventory. The resulting space deficit or surplus is used to guide the Coordinating Board in evaluating institutions' applications for construction projects.

Source: *Space Projection Model for Public Universities, Technical Colleges, and Lamar State Colleges and Health Related Institutions*, Coordinating Board.

Coordinating Board does not review its campus space projection model for accuracy (see text box for additional details on this model). The 2003 and 2004 space projection models contained calculation errors. (As of February 14, 2006, the 2005 space projection model had not been completed.) The accuracy of this model is important because the Coordinating Board relies on the model when evaluating institutions' construction project applications and for infrastructure formula funding.

The Coordinating Board also should ensure that the information it publishes about the space projection model is accurate. Specifically, the Coordinating Board's *Space Projection Model for Public Universities, Technical Colleges, and Lamar State Colleges and Health Related Institutions* contains errors regarding an allotment available to health-related institutions and in the library space calculation.

In calculating its space projection model, the Coordinating Board does not calculate law library space in the same manner for the four law schools. The calculation should include both paper and electronic volumes, but the Coordinating Board did not consistently give credit for electronic volumes to each institution's law school.

Recommendations

The Coordinating Board should:

- Identify options for auditing the facilities inventory data that institutions self-report. For example, it could research coordinating with institutions' internal audit departments to conduct these audits or charging institutions for the cost of these audits as provided for in Title 19, Texas Administrative Code, Sections 17.110 (b)–(d).
- Review its construction project standards for relevance, apply them as intended, and ensure that each institution submits all required information before approval.
- Ensure that notices for projects that do not meet the standards are submitted to the Governor as required.

- Implement a monitoring process to ensure that applicants satisfy the conditions of construction project application approval. For example, projects that are approved with conditions could be monitored to ensure that conditions are met. This could be accomplished as part of the facilities inventory audit process.
- Review its campus space projection model data inputs, formulas, calculations, and publications for accuracy and consistency prior to publication.
- Calculate law library space in a uniform manner for each institution and give each institution credit for the correct number of electronic volumes.

Management's Response

The Coordinating Board has been working on draft audit procedures for the facilities audit process and these procedures will be sent to institutions for comment by April 17, 2006. (Expected Completion Date: 08/31/2006).

In April, the Coordinating Board will be charging a committee with the task of reviewing the current standards, verifying the appropriateness of those standards, and making revisions as necessary. (Expected Completion Date: 08/31/2006).

We have started the process of including the Governor's office in the notifications for Tuition Revenue Bond projects that do not meet the standards. (Implemented).

A committee to evaluate the space model will be named this year to evaluate the current procedures. This effort will include the calculation of law library space. We hope to have the modifications in place in time for the fall 2006 space model. (Expected Completion Date: 03/31/2007).

The Coordinating Board is working on the upgrades to the Integrated Campus Planning Systems to allow the monitoring of projects that are conditionally approved and other improvements. (Expected Completion Date: 12/31/2006).

The Coordinating Board Should Improve Certain Internal Processes and Procedures and the Automated System Used in Its Evaluation of Institutions' Applications for Construction Projects

The Coordinating Board should continue its efforts to train multiple staff to evaluate institutions' construction project applications and should update its policies and procedures.

The knowledge and skills necessary to maintain the facilities inventory, evaluate institutions' applications for construction projects, and perform other related tasks have historically been the responsibility of one Coordinating Board employee. This increases the risk that knowledge and skills regarding these processes could be lost if that employee leaves. The Coordinating Board has begun to address this issue by hiring and training additional staff.

Written policies and procedures are also instrumental in business continuity, consistency, and quality control. The Coordinating Board's policies and procedures for the calculation of the campus space projection model and for reviewing institutions' construction project applications should be updated. For example, policies and procedures for the calculation of the campus space projection model should be updated to account for the increase in Web-based classes and electronic volumes in libraries.

The Coordinating Board should continue its efforts to expand the usefulness of the system in which it stores construction project information.

Improving the functionality of the Integrated Campus Planning System (ICPS) and the accuracy of data within it would provide the Coordinating Board with a valuable tool for monitoring the status of institutions' applications for construction projects. The Coordinating Board maintains construction project information in ICPS, and institutions use ICPS to initially report their construction project applications. The Coordinating Board has recognized the need to improve this system and is already making changes to it.

Recommendations

The Coordinating Board should:

- Continue to train personnel to ensure that more than one employee has the knowledge and skills necessary to maintain the facilities inventory, evaluate institutions' applications for construction projects, and perform other related tasks.
- Update policies and procedures used in calculating the space projection model and evaluating applications for construction projects.

- Continue its efforts to improve the functionality of ICPS and the accuracy of data within it.

Management's Response

The Coordinating Board has hired an outside consultant with considerable knowledge of resource planning who will begin work on April 3, 2006 to train staff. (Expected Completion Date: 08/31/06).

We will review our campus space projection model data inputs, formulas, calculations, and publications for accuracy and consistency prior to publication. (Expected Completion Date: 12/31/2006).

The Coordinating Board has hired an outside consultant who will begin work on April 3, 2006 to assist the department in the review of policies and procedures for consistency. (Expected Completion Date: 08/31/06).

The Integrated Campus Planning System will continue to be updated to incorporate tracking of conditions, space added, facilities inventory space reported. (Expected Completion Date: 03/31/07).

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the Higher Education Coordinating Board (Coordinating Board) is operating as defined by Texas Education Code, Section 61.0572, to ensure the efficient use of construction funds and the orderly development of physical plants to accommodate projected college student enrollments, and by Section 61.058 to approve or disapprove all new construction and repair and rehabilitation projects of higher education institutions.

Scope

The audit scope covered the processes and controls related to (a) the evaluation of construction project applications submitted by higher education institutions and (b) the calculation and application of the space projection model published by the Coordinating Board.

Methodology

The audit methodology included conducting interviews, collecting and reviewing information, and performing procedures including tests and analyses against predetermined criteria.

Tests and analyses performed included the following:

- Reviewed the standards and guidelines on campus planning published by the Coordinating Board.
- Interviewed selected personnel of the Coordinating Board.
- Reviewed policies and procedures for evaluation of construction project applications and calculation of the predicted space needs of higher education institutions.
- Tested a sample of construction project applications reviewed by the Coordinating Board from September 2000 through January 2006 for consistency in applying standards during the approval process.
- Tested a sample of predicted space needs of higher education institutions calculated by the Coordinating Board for accuracy.

Criteria used included the following:

- Texas Education Code, Sections 61.0572, 61.058, and 61.0583
- Title 19, Texas Administrative Code, Chapter 17
- *Space Projection Model for Public Universities, Technical Colleges, and Lamar State Colleges and Health Related Institutions – Fall 2002*, published by the Coordinating Board in April 2003
- Coordinating Board policies and procedures

Project Information

Audit fieldwork was conducted from January 2006 through February 2006. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Jules Hunter, CPA (Project Manager)
- David Dowden (Assistant Project Manager)
- Dean Duan, CISA
- Priscilla Garza
- Michael Gieringer, MS-HCA
- Hillary Hornberger
- Ashley Jacobson
- Carmelita Lacar, Ph.D., CIA
- W. Bruce Lawrence
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Dave Gerber, MBA, CISA (Audit Manager)

Information Regarding Construction Project Applications Reviewed by the Coordinating Board

Tables 1 and 2 summarize the construction project applications that the Coordinating Board reviewed by approval level and by fiscal year.

Table 1

Construction Project Applications by Approval Level				
Approval Level Required ^a	Number of Applications Reviewed	Project Costs Reviewed	Percent of Total Projects Reviewed	Percent of Total Project Costs Reviewed
Assistant Commissioner	69	\$ 223,465,161	10.41%	3.13%
Commissioner	275	1,079,849,906	41.48%	15.11%
Committee on Campus Planning	215	1,942,788,943	32.43%	27.18%
Coordinating Board	104	3,900,654,454	15.68%	54.58%
Totals	663	\$ 7,146,758,464	100.00%	100.00%

^a Depending on the size of the project, the approval authority may rest with the Assistant Commissioner, the Commissioner, the Campus Planning Committee, or the Coordinating Board. All projects are presented to the members of the Coordinating Board during their quarterly meetings.

Source: Coordinating Board

Table 2

Construction Project Applications by Fiscal Year				
Fiscal Year	Number of Applications Reviewed	Project Costs Reviewed	Percent of Total Projects Reviewed	Percent of Total Project Costs Reviewed
2001	112	\$ 1,708,473,665	16.89%	23.91%
2002	130	1,332,003,845	19.61%	18.64%
2003	152	1,421,570,999	22.92%	19.89%
2004	96	696,308,776	14.48%	9.74%
2005	105	1,239,190,190	15.84%	17.34%
2006 (through January 2006)	68	749,210,989	10.26%	10.48%
Totals	663	\$ 7,146,758,464	100.00%	100.00%

Source: Coordinating Board

Copies of this report have been distributed to the following:

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The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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Higher Education Coordinating Board

Dr. Raymund Paredes, Commissioner of Higher Education Governing



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