

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

THECB/UHS FACILITIES DEVELOPMENT
PROJECTS REVIEW

REPORT NO. AR2020-16



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MEMORANDUM

TO: Mr. Jack B. Moore
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Phillip W. Hurd
Chief Audit and Compliance Executive

DATE: May 4, 2020

SUBJ: Internal Audit Report – THECB/UHS Facilities Development Projects Review

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

We performed a review of the facilities development projects, as requested by the Texas Higher Education Board (THECB). The objective of our review was to determine that the university was in compliance with accurately submitting project applications that meet the requirements found in Texas Administrative Code to THECB for review. Although we noted no matters we considered to be significant risk exposures and control issues, we did note opportunities for improvement and certain instances of non-compliance with information reported to THECB. Management is in the process of developing procedures to help ensure compliance with THECB requirements.

This audit report is scheduled to be included in the agenda materials for the May 21, 2020, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON SYSTEM
THECB/UHS FACILITIES DEVELOPMENT PROJECTS REVIEW**

BACKGROUND:

Texas higher education facilities constitute a large resource for the state. Efficient use of funds and the orderly development of physical plants to accommodate projected enrollments are critical components of the state's goal of closing the gaps in higher education. To that end, the Texas Education Code contains several measures that are intended to help ensure efficient use of state resources.

The Texas Education Code requires the Texas Higher Education Coordinating Board (THECB) to periodically conduct a comprehensive audit of all education and general facilities on the campuses of public senior colleges and universities. One component of that audit is to have the Internal Audit department of an institution review facility development projects.

The Texas Administrative Code (TAC) outlines requirements for which THECB may review projects at institutions of higher education for education and general (E&G) space. For FY 2015 through FY 2019 these requirements were:

- (1) New construction of building and facilities and/or additions to buildings and facilities having an E&G project cost of \$10 million or greater;
- (2) Repair and renovation projects for buildings and facilities having an E&G project cost of \$10 million or greater;
- (3) Improved real property purchases that the institution intends to include in the E&G buildings and facilities inventory if the purchase price is more than \$1,000,000;
- (4) Energy Savings Performance Contract projects; and
- (5) Projects financed by tuition revenue bonds pursuant to TEC §61.0572 and §61.058.

The UH Facilities Space Management section of the Facilities Planning and Construction (FP&C) department is responsible for preparing, submitting, and re-submitting, as applicable, the application for all projects requiring THECB review.

OBJECTIVE:

The objective of our review was to determine that the university was in compliance with accurately submitting and tracking projects that meet the requirements found in Texas Administrative Code to THECB for review. Projects were reviewed to determine if projects and acquisitions of real property containing E&G space were approved by the University of Houston System's (UHS) Board of Regents or their designate, were submitted to THECB for review, were

submitted with accurate data, and that projects completed over the preceding five years were completed within the parameters specified in the project application submitted to the THECB and reported on the annual tracking report.

SCOPE OF WORK:

We interviewed university personnel; reviewed university policies; reviewed applicable governing statutes and rules; obtained lists of development projects for FY 2015 through FY 2019; discussed interpretations of THECB rules with THECB personnel; and performed other audit procedures to determine whether the university was in compliance with submitting development projects for review by THECB.

CONCLUSION:

Although we noted no matters we considered to be significant risk exposures and control issues, we did note opportunities for improvement and certain instances of non-compliance with information reported to THECB. These opportunities for improvement and instances of non-compliance are included in Appendix A. A listing of projects reviewed is included in Appendix B.

Phillip W. Hurd
Chief Audit and Compliance Executive
January 31, 2020

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

THECB Reporting Procedures

Space Management, part of the UH Facilities Planning Team, is responsible for preparing, submitting, updating, and tracking the application for the university requiring review by THECB, as required by the Texas Administrative Code (TAC). Even though Space Management submitted projects to THECB for review and/or approval, we noted several instances of non-compliance with THECB requirements, as noted in the following observation. In addition, we noted the following:

- There were no written procedures for the timely approval, submission, and tracking of projects to be submitted to THECB for review or approval;
- Employees did not fully understand the submission requirements outlined in TAC;
- A list of construction, renovation/repair, real property acquisitions, and energy savings performance contracts requiring THECB review and approval was not maintained; and
- Documentation to support information related to projects submitted to THECB was not maintained.

Recommendation: Management should develop procedures for preparing, submitting, resubmitting, and reporting projects to help ensure compliance with THECB requirements.

Management Response: We will develop procedures for preparing, submitting, resubmitting, and reporting projects to help ensure compliance with THECB requirements by May 30, 2020.

Instances of Non-Compliance with THECB Requirements

THECB requires the university to complete an electronic form in THECB's Integrated Campus Planning System (ICPS) system for projects meeting TAC requirements for review. The information included on the application includes project name, address, project scope, gross square feet, E&G square feet, project cost, funding sources, and estimated project start and end dates. In addition, an annual project tracking report is required to be submitted to THECB that reports the status of all submitted projects. The annual project tracking report includes information regarding gross square feet, E&G square feet, project/building costing and project financing for all ongoing projects for which an application has been submitted. Annually, institutions shall report the status of all reviewed projects to THECB. Reporting to THECB on an annual basis shall cease after the project is placed into service and included in the Facilities Inventory Report, the property acquisition is completed, or the renovation shall be reported to be complete.

We reviewed 15 projects to determine whether they were 1) approved by the UHS Board of Regents, 2) submitted to THECB for review, 3) submitted with accurate data, 4) completed within the parameters specified in the project application submitted to the THECB, 5) and reported on the annual tracking report. During this review, we determined that 10 of the 15 projects were not reported or approved in compliance with THECB requirements. We noted applications for

certain projects were not submitted, applications were submitted for projects that did not meet submission criteria, applications were submitted with inaccurate information, applications were not approved timely, projects were included on the annual tracking report that should not have been included, and projects were not included on the annual tracking report that should have been included.

- UH Sugarland Academic Building
Project construction began in April of 2018. The project was submitted to THECB and included on the annual project tracking reports for 2018 and 2019. However, gross square feet and total project cost information submitted to THECB were inaccurate.
- UH Parking Garage #5
An application was submitted to THECB and the project was included on the annual project tracking report for 2018; however, the project did not meet the requirements for submission to THECB because the E&G project cost was less than \$10 million. In addition, UHS Board of Regents funding approval date and the total project cost information submitted to THECB was inaccurate.
- UH Quadrangle Housing Replacement
An application was submitted to THECB and the project was included on the annual project tracking report for 2018; however, the project did not meet the requirements for submission to THECB because the E&G project cost was less than \$10 million.
- UH Cougar Substation Expansion
An application was submitted to THECB and the project was included on the annual project tracking reports for 2017, 2018, and 2019; however, the project did not meet the requirements for submission to THECB because the E&G project cost was less than \$10 million. In addition, the project was included on the annual tracking report for 2017, 2018, and 2019.
- UH Katy Academic Building
The application submitted to THECB inaccurately identified UHS as the owner. The 2018 and 2019 annual project tracking reports were not updated to reflect UH as the owner of this academic building. Upon project completion, the building was properly listed on the 2019 UH Facilities Inventory. In addition, the application contained inaccurate information relating to the site acquisition cost.
- UHCL Stem Building
Project construction began in March of 2017. The project was not included on the 2017 annual tracking report, as required, but was included on the annual project tracking reports for 2018 and 2019. In addition, total project cost information submitted to THECB was inaccurate.
- UHCL Recreation and Wellness Center
Project construction began in May of 2017. The project was not included on the 2017 annual tracking report, as required, but was included on the annual project tracking

reports for 2018 and 2019. In addition, gross square feet and total project cost information submitted to THECB were inaccurate.

- UHD Science and Technology Building

Project construction began in October of 2017. The project was not included on the 2017 annual tracking report, as required, but was included on the annual project tracking reports for 2018 and 2019. In addition, gross square feet and total project cost information submitted to THECB were inaccurate.

- UHV Victoria Town Plaza Mall Renovations

The improved property was approved for purchase at the August 25, 2016 UHS Board of Regents meeting. An application was created for the improved property in THECB's Integrated Campus Planning System (ICPS) system, but was not submitted. In addition, the application inaccurately named the project as "UH Victoria Town Plaza Mall Renovations". On March 8, 2018, the UHS Board of Regents approved funding of \$7.5 million for renovations of the Town Plaza Mall to be funded with a combination of HEAF and Tuition Revenues bonds. An application was not completed for the renovation project. In addition, the project was not included on the annual project tracking reports for 2018 or 2019.

- UHV Energy Savings Performance Contract

Texas Administrative Code requires THECB approval before an institution enters into an energy savings performance contract. The contract was approved by the UHS Board of Regents on May 24, 2018. The contract states that the contract is effective as of August 1, 2018. The contractor signed the contract on July 27, 2018 and the Chancellor signed the contract on August 13, 2018. The contract was approved by THECB on September 27, 2018. A Notice to Proceed was signed by the Senior VC/VP for Administration and Finance on October 3, 2018 and by the contractor on October 5, 2018.

APPENDIX B

PROJECTS REVIEWED

Entity	Project Name	UHS Board of Regents Approved Budget	Project Status	THECB Project ID	Project Type
UH	Sugar Land Academic Building	\$54,000,000	Substantially Complete	003652-18-004	New Construction & Bonds
UH	Parking Garage #5	\$61,000,000	Substantially Complete	003652-19-004	New Construction
UH	Indoor Football Practice Facility	\$20,000,000	Complete	E&G Space Less than \$10 million	New Construction
UH	Quadrangle Housing Replacement	\$124,000,000	In Construction	003652-19-002	Renovation
UH	Fertitta Center Project	\$60,000,000	Substantially Complete	E&G Space Less than \$10 million	Renovation
UH	Cougar Substation Expansion	\$24,000,000	In Construction	003652-17-003	Renovation
UH	Health Sciences - Melcher Renovations & Pool Build-out	\$15,750,000	In Planning	Construction not Started	Renovation
UH	Katy Academic Building	\$33,000,000	Substantially Complete	011721-18-001	New Construction & Bonds
UHCL	Stem Building	\$65,700,000	Complete	011711-15-001	New Construction & Bonds
UHCL	Recreation and Wellness Center	\$38,200,000	Complete	011711-18-002	New Construction
UHD	Science and Technology Building	\$75,500,000	Substantially Complete	012826-18-001	New Construction & Bonds
UHD	Wellness and Success Center	\$38,000,000	In Planning	Construction not Started	New Construction
UHV	Victoria Town Plaza Mall Renovations	\$7,450,000	In Construction	013231-18-002	Improved Land, Renovation, & Bonds
UHV	STEM Building	\$28,000,000	In Construction	013231-18-001	New Construction & Bonds
UHV	Energy Savings Performance Contract	Not Applicable	Ongoing	013231-18-007	Energy Savings Performance Contract

**University of Houston System
Internal Auditing Department**

**THECB UHS Facilities Development Projects Review - AR2020-16
Action Plan**

<u>Est. Compl. Date</u>	<u>Responsibility for Action Name/Title</u>	<u>Action To Be Taken</u>
Risk Level: High Medium Low		
May 30, 2020	Woody Sutton Director Space Management & Analysis	Develop procedures for preparing, submitting, resubmitting, and reporting projects to help ensure compliance with THECB requirements.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.