

Audit 2015-04

A Follow-up Audit of Higher Education's Management Practices for Operation and Maintenance Funding

http://le.utah.gov/audit/15_04rpt.pdf

Recommendation	Original Response from the State Board of Regents	Current Status/Action Taken as reported by the State Board of Regents / State Building Bd	IGG Appropriations Subcommittee Action
1 We recommend that, as required in policy, the Office of the Commissioner of Higher Education make a definitive determination of how costs should be revised for renovated or replaced building space when requesting O&M funding; the commissioner's office should then consistently enforce the policy.	We concur. For the upcoming funding request cycle, we will work to ensure consistency in the determination of O&M funding requests using the existing model as presently outlined in policy. We are currently participating with the State Building Board on a study of alternative funding mechanism for O&M as was mandated by the passage of SB 217 during the 2015 Legislative Session. In compliance with the statute, a report from the study group will be presented to the Infrastructure and General Government (IGG) Appropriations Subcommittee on or before September 1, 2015. This report may well result in some changes to the way O&M funding needs will be calculated in the future.	The Office of the Commissioner has required all USHE institutions to submit funding requests for operation and maintenance consistent with the model currently employed by the State Building Board. We will continue to maintain this consistency.	
2 We recommend that the Office of the Commissioner of Higher Education require USHE institutions to provide the commissioner's office and the Board of Regents with detailed record showing how the institutions calculate O&M needs for renovated and replaced building space.	We concur. We will work with the institutions to assure that the information is provided in sufficient detail to clearly display how the requested amounts were calculated.	The Office of the Commissioner has required USHE institutions to submit detailed funding requests for operation and maintenance for FY 2017 requests. We will continue to require this detail and provide it to the State Building Board.	
3 We recommend that the Board of Regents establish a policy on revenue-generating activities in campus facilities that addresses the extent to which paid admission charges should contribute to facility O&M costs.	We agree that revenue-generating entities designated as "auxiliaries" as defined by the National Association of College and Business Officers (NACUBO) should pay the applicable O&M costs for their facilities. The other revenue generating entities referred to in the recommendation often are directly related to and benefit the academic programs of the institutions, in addition to fulfilling the public service role of the institutions. As such, they do not meet the "essentially self-supporting criteria" of auxiliaries. Prior to consideration of a policy for adoption by the Board of Regents, the Office of the Commissioner will undertake a study of these non-auxiliary revenue generating activities to determine its magnitude and the potential for providing some level of O&M support.	The Office of the Commissioner has surveyed institutions and determined that revenue-generating activities associated with professional entertainer performances and activities serving outside parties should participate in operation and maintenance support. A policy will be proposed to the Regents in the January meeting for their consideration. Revenue generating activities related to auxiliaries currently contribute to O&M support under Regent policy R550.	
4 We recommend that the Legislature consider the current Higher Education O&M funding model in light of the State Building Board's mandated study to determine if USHE buildings' O&M needs are being funded appropriately.	We concur. A review of the current funding models for existing and new facilities is appropriate. As is noted in Chapter II, Recommendation 1 above, we are currently participating in a Building Board study that includes consideration of this issue. USHE institutions have appreciated the ongoing funding increases provided for salaries and wages, and the occasional funding increases for utilities costs increases that have been provided as part of the existing O&M model. We recognize the current funding mechanism for existing facilities does not have a provision for price-level increases that occur over time for the required supplies and other non-personnel related costs of operating and maintaining the facilities and that where a disproportionate number of older buildings exists on a campus, this can pose a challenge. Notwithstanding the challenge, our institutions and their facilities operations teams are committed to keeping the buildings operational and fully functional.	The Office of the Commissioner appreciates being a part of the discussion on operation and maintenance. We worked with the State Building Board on two workgroups that studied these issues and provided input into the final report to be submitted to the IGG subcommittee. The Building is pleased to inform the IGG that in conjunction with The Office of the Commissioner, DFCM, and several USHE institutions, and others we have completed the mandated report on O&M procedures and alternate funding models. This report has been distributed to all IGG members as well as the GOMB and LFA for consideration of the recommendations contained in the report.	
5 We recommend that all state agencies use one database to store, update, and manage the state's inventory of buildings.	We concur and are collaborating with the relevant entities to accomplish this objective.	State Risk Management is the custodian of the official data and established procedures to keep it up-to-date. USHE institutions assist Risk Management by annually reviewing the information and update the lists by adding, subtracting, and modify the information as appropriate. This process occurred in 2015.	

<p>6 We recommend that the State Building Board's annual submission to the LFA, GOMB, and others include a record detailing which buildings were used in calculating capital improvement funding needs. To prevent any inconsistencies the report should be generated and distributed at an established date.</p>	<p>We concur. This approach should result in a careful examination of the records and eliminate questions about what is included in the base calculation.</p>	<p>The State Building Board has included the Risk Management current replacement values (CRV) list along with a comprehensive list of all buildings and there calculated CRV for FY2017 Capital Improvement 1.1% calculation to both the GOMB and LFA. Furthermore, a single date by September 15 of each year was established for final report to be produced and used throughout each legislative session.</p>
<p>7 We recommend the State Building Board create a policy that:</p> <p>a. Requires a set interval review of all Higher Education buildings, including inspecting the condition, maintenance, and utilization of each building and to account for the apportionment of educational and auxiliary building functions.</p> <p>b. Established guidelines on how capital improvements funds can be used on partial auxiliary buildings.</p>	<p>We concur. Since most, if not all, state building in this recommendation pertain to USHE, we agree to participate with the Building Board in developing such policy.</p>	<p>a.) The Building Board has not yet established a formal policy on this, However, it has begun to look into a possible funding for a space utilization personnel and/or possible software that can accommodate this as required. We are also looking into if current staff can take this on without major interruptions of their other duties on facility audits and statewide facility condition assessments.</p> <p>b.) No formal guidelines have yet been established. Both a new policy and new guidelines will be established once it is determined who and how this can be most effectively and efficiently completed.</p>
<p>8 We recommend that the state entities administering the state's inventory of building accept the classifications (as educational, auxiliary, or partial auxiliary) provided by the institutions; then the building board should audit the classifications on a set interval.</p>	<p>We concur. We support the recent decision to have the date base maintained by Risk Management separately record the portions of buildings that have dual purposes - both academic and auxiliary - in order to accurately portray the uses of the facilities.</p>	<p>The Office of the Commissioner has worked with USHE institutions to achieve consistency in the application of auxiliary classifications and has provided that information to Risk Management and the State Building Board for 2015.</p> <p>The Building Board has received the information from Risk as reported by the institutions. An audit of the information has not been completed. The Building Board is continuing to work with Risk on the reporting and working on establishing the software requirements for this reporting. Once this has been established and completed a yearly interval of audits will be performed.</p>
<p>9 We recommend that the Board of Regents and the State Building Board require all entities under their jurisdiction to comply with the updated or adopted auxiliary policy. The Board of Regents and State Building Board should ensure their policies and standards are kept up to date.</p>	<p>We concur with this recommendation.</p>	<p>The Office of the Commissioner has worked with USHE institutions to achieve consistency in the application of auxiliary classifications and has provided that information to Risk Management and the State Building Board for 2015.</p> <p>The Building Board will, once policy has been implemented require all agencies and institutions to comply as required .</p>

<p>10 We recommend that the Legislature review Utah Code 53B-7-104 to determine if statute or policy should be modified in relation to the use of grant-reimbursed research overhead funds. The Legislature could consider directing the Higher Education institutions and/or Board of Regents to develop a specific funding formula that would direct the spending of overhead funds.</p>	<p>If the Legislature wishes to revisit this issue, we will be happy to assist in providing information to facilitate its consideration. As you may know, the decision was made by the Legislature in the late 1980s to allow institutions to retain all of the reimbursed overhead as ongoing support to nurture and expand academic-based research programs that are an integral component of graduate degree instruction. Since that time, there has been a vast expansion in research activities, generating hundreds of millions of dollars for Utah's economy. In making this policy change, the State accepted the responsibility to pay the ongoing O&M costs of those buildings housing the academic research programs.</p> <p>With the passage of time, a review of the broad range of current funding needs for the academic research programs of USHE's research universities may be warranted. If so, such a review should include the assurance both that research facilities are provided with adequate O&M support and that USHE universities may continue to successfully compete for research funds. Not only are these funds critical for maintaining excellence in graduate degree programs, especially in the areas of STEM related disciplines and medicine, they also have an enormous impact on the economy of the state by providing professional level jobs for Utah's citizens with the consequent contribution to the tax base of the state.</p>	<p>The Office of the Commissioner has reviewed the current legislative statute and Regent policy as well as the historical context that created them. The current statute has allowed the research missions at both Utah State University and the University of Utah to sustain themselves and the graduate students they attract. The current provisions allow the flexibility needed at these research institutions. These institutions currently contribute reimbursed overhead funds to support the facility needs of the programs.</p>
<p>11 We recommend that the Board of Regents revise its policy on reimbursed overhead funds to direct institutions to use those funds provided for infrastructure or O&M costs for those purposed if there is a signification need for additional funding in those areas. This could be accomplished through the adoption of a specific funding formula.</p>	<p>The existing Board of Regents policy (R535 Reimbursed Overhead) is currently written to reflect the legislative decision referred to in the response to Chapter IV, Recommendation 1 above, i.e. "the 1980s legislative decision to allow institutions to retain all of the reimbursed overhead as ongoing support to nurture and expand..."</p> <p>In recent years, inadequate funds to cover some of the O&M the costs of research-related facilities have required institutions to allocate some of their research support funds to cover O&M and other physical plant-related costs, which is allowed by the existing policy. A continuation of such practices may be the appropriate course for the future, but because of the complexity of this issue, we believe it would be advisable to defer a Regents' policy revision until the Legislature has had an opportunity to consider this matter, at which time a revision in policy can be updated in compliance with the new legislative direction.</p>	<p>The Office of the Commissioner has reviewed the current legislative statute and Regent policy as well as the historical context that created them. The Regent policy will be amended to clarify some of the language; and to improve the annual report to better clarify the use of the funds. The revised policy will be presented to the Board of Regents in the January meeting for their consideration</p>