

**The University of Texas**  
**Rio Grande Valley**

.....  
*Brownsville • Edinburg • Harlingen*

**Texas Higher Education Coordinating Board  
(THECB) Facilities Audit**

**Report No. 17-07**

**April 2017**

**Office of Audits & Consulting Services**

April 3, 2017

Dr. Guy Bailey, President  
The University of Texas Rio Grande Valley  
1201 West University Drive  
Edinburg, Texas 78539

Dear Dr. Bailey,

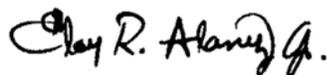
The Office of Audits & Consulting Services has completed the Texas Higher Education Coordinating Board (THEBC) Facilities Audit as part of our fiscal year 2017 Audit Plan. The audit objective was to assess University compliance with THECB's rules related to facilities development projects.

Our examination was conducted in accordance with guidelines set forth in The University of Texas System's Policies UTS 129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of internal auditing department. UTS 129 requires that we adhere to the *Standards*.

We concluded that facilities development projects of new construction, repair and/or renovation of buildings were appropriately submitted for approval and/or review, completed within approved parameters and reported on the annual tracking report when required. However, we made recommendations to improve compliance with THECB's rules over acquisitions of real property.

We appreciate the assistance provided by UTRGV's management and other personnel. We hope the information and analyses presented in our report are helpful.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA  
Chief Audit Executive

cc: Martha Salinas-Hovar, Associate Vice President for Facilities Planning and Operations

**Office of Audits and Consulting Services**  
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UTRGV Internal Audit Committee  
UT System Audit Office  
Governor's Office of Budget, Planning and Policy  
Sunset Advisory Commission  
State Auditor's Office  
Legislative Budget Board

**Office of Audits and Consulting Services**

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## EXECUTIVE SUMMARY

We completed the Texas Higher Education Coordinating Board (THECB) Facilities audit for The University of Texas Rio Grande Valley, as required by the THECB and as part our fiscal year 2017 Audit Plan. The audit objective was to assess University compliance with THECB's rules related to facilities development projects.

The scope of the audit included facilities development projects from June 2012 through January 2017. Facilities development projects include acquisitions of real property and new construction, repair and/or renovation of buildings that are subject to THECB approval and/or review.

We concluded that a majority of the tested facilities development projects complied with THECB's rules. We tested ten projects of which six were new construction, additions, repairs and/or renovation of buildings, and all six complied with THECB rules. Four projects were acquisitions of real property with proper Board of Regents' approval; however, three of the four acquisitions had no project applications submitted for THECB review in accordance with THECB rules. The University has promptly taken corrective action for these acquisitions by submitting the appropriate project applications to THECB.

Implementation of the recommendations to update University policies and processes will improve compliance with THECB's rules related to facilities development projects.

## BACKGROUND

The Texas Education Code Section 61.0583 requires the THECB to conduct audits of educational and general (E&G) facilities of public colleges and universities to verify the accuracy of their facilities inventory, and to confirm that facilities development projects received appropriate approval and/or review. Facilities development projects include acquisitions of real property and new construction, repair and/or renovation of buildings subject to THECB approval and/or review. THECB's *Peer Review Team Audit Protocol* provides guidance for internal audit offices to assess the institutions facilities development project reporting.

During the 83<sup>rd</sup> Legislative Session of the State of Texas, amendments were made to the Texas Education Code Subtitle B, Chapter 61, *effective September 1, 2013*, which resulted in changes to the Texas Administrative Code (TAC) Title 19, Part 1, Chapter 17, *effective September 4, 2014*. These changes updated the project application procedures, increased reporting thresholds, changed requirements for ongoing projects and revised exemptions for facilities development projects subject to THECB review. Prior to these amendments facilities development projects required THECB approval. The appropriate TAC and Education Codes were referenced for facilities development projects in the periods prior to and after these amendments.

The University of Texas Rio Grande Valley (UTRGV) was created by the Texas Legislature on December 7, 2012, and it combined the resources and assets of The University of Texas-Pan American (UTPA) and The University of Texas-Brownsville (UTB) effective September 1, 2015. UTRGV has locations in Brownsville, Edinburg and Harlingen, and it continues its transitional phase.

## AUDIT OBJECTIVE

The audit objective was to assess University compliance with THECB's rules related to facilities development projects. Due to the TAC Title 19, Part 1, Ch. 17 amendment made effective on 9/4/2014, we assessed this objective as follow:

### **June 2012 – August 2014**

Determined whether facilities development projects were approved by the institution's Board of Regents or its delegated authority, had project applications submitted for THECB approval and were completed within approved parameters.

### **September 2014 – January 2017**

Determined whether facilities development projects with educational and general space were approved by the institution's Board of Regents or its delegated authority, had project applications

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submitted for review by THECB, were completed within approved parameters and reported on the annual tracking report when required.

## AUDIT SCOPE & METHODOLOGY

The scope of the audit included facilities development projects from June 2012 through January 2017 for UTRGV and the legacy institutions, UTPA and UTB that were subject to THECB approval and/or review. The TAC Title 19, Part 1, Ch. 17 amendment made effective on September 4, 2014, increased reporting thresholds for projects subject to THECB review, from \$4 to \$10 million for new construction, additions, repairs and/or renovations, and from zero to \$1 million for acquisitions of improved real property. Prior to the September 4, 2014 amendment, these projects required THECB approval regardless of funding source or E&G use. The amendment also exempted acquisitions of unimproved property, and all gifts and grants of improved real property.

To achieve our objective, we performed the following procedures:

- Obtained guidance from THECB's *Peer Review Team Audit Protocol*, and reviewed relevant laws and rules.
- Gathered input of processes from UTRGV's Office of Facilities Planning and Operations and the University of Texas System's Real Estate and Facilities Planning and Construction Offices.
- Obtained a listing of all facilities development projects from June 2012 through January 2017.
- Compared the information reported on the Annual Financial Reports for UTB, UTPA and UTRGV for FY 2012 to FY 2016, to the amounts we queried from the Oracle Financial System for the period September 2016 to January 2017.
- Analyzed the data and selected the projects that were subject to THECB approval and/or review.
- Reviewed supporting documentation for the selected projects to test compliance with THECB rules.

The audit was conducted in accordance with the guidelines set forth in The University of Texas System's Policy 129 and the *Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing*.

## AUDIT RESULTS

### **Compliance with THECB's Rules over Acquisitions of Real Property**

The Education Code Section 61.0572(d), *amended September 1, 2013*, and the TAC Title 19, Part 1, Chapter 17, Rule 17.10 & 17.21, *amended September 4, 2014*, require institutions to submit

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project applications for acquisitions of improved real property with E&G use for review by THECB.

UTRGV’s Office of Facilities Planning and Operations – Real Estate and Space Management did not adopt internal processes to ensure compliance with THECB rules related to acquisitions of real property. Three of the four (75%) acquisitions tested were improved real properties with E&G use that had proper Board of Regent’s approval; however, no project applications were submitted for THECB review.

Purchase Date	Location	Purchase Price	Code	Criteria
2/2014	Edinburg	\$ 728,133	Education Code Sec 61.0572 (d), amended September 1, 2013	Purchases of improved real property with E&G space.
11/2015	Brownsville	\$ 1,102,064	TAC Title 19, Part 1, Ch. 17 , amended September 4, 2014	Purchases of improved real property with E&G space if purchase price is more than \$1 million.
12/2016	Brownsville	\$ 1,015,060		

On March 2017, UTRGV submitted project applications for THECB review for the three acquisitions identified above.

**Recommendation #1:**

UTRGV’s Chief Real Estate and Space Management Officer should develop internal processes to ensure compliance with THECB rules related to application submission of real property acquisitions.

**Management Response:**

Management concurs with the recommendation. After BOR approval is obtained, and the property is under contract, the application will be submitted by the Chief Real Estate and Space Management Officer for acquisitions subject to THECB review. However, it should be noted that the application requires approval from UT System Administration before THECB’s review. Additionally, when the THECB rules were amended in 2013, the portion of the UT System’s Real Estate Contract that covered the THECB’s approval as a requirement was deleted from the contract.

**Implementation Date:**

April 1, 2017

### **Conformance to UT System’s Board of Regents’ Rules and Regulations Rule 80403**

UT System’s Board of Regents’ Rule 80403 defines minor construction, repair and rehabilitation projects as those with total project cost of less than \$10 million.

UTRGV’s Handbook of Operating Procedures ADM 10-407 does not conform to the Board of Regents’ Rule 80403, and instead defines minor construction, repair and rehabilitation projects as those with total project cost of less than \$4 million.

#### **Recommendation #2:**

UTRGV’s Associate Vice President for Facilities Planning and Operations should update UTRGV’s Handbook of Operating Procedures ADM 10-407 to define minor construction, repair and rehabilitation projects as those with total project cost of less than \$10 million, and to conform to UT System’s Board of Regents’ Rule 80403.

#### **Management Response:**

Management concurs with this recommendation. UTRGV Handbook of Operating Procedures ADM 10-407 will be updated to conform to UT System’s Board of Regents’ Rule 80403.

#### **Implementation Date:**

July 1, 2017

### **CONCLUSION**

Based on our audit, we concluded that facilities development projects of new construction, repair and/or renovation of buildings were appropriately submitted for approval and/or review, completed within approved parameters and reported on the annual tracking report when required. However, we made recommendations to improve compliance with THECB’s rules over acquisitions of real property.

Due to its transitional phase, as a new University, UTRGV continues to improve its policies and processes to comply with THECB’s rules over facilities development projects.



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**Norma Ramos, CIA, CGAP**  
**Director**



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**Lorena Hernandez, CPA**  
**Senior Auditor I**