January 3, 2014

Memorandum

To: John Wright
   Director, Facilities Planning, Design and Construction

From: Sherri Magnus
      Vice President and Chief Audit Officer

Subject: Facilities Variance Review
         Audit Control Number 2014-209

Upon request of the President’s Office, Internal Audit conducted a review of the Facilities Variance Request process. Our objective was to assess the process in place and determine if the Institution consistently adheres to its established guidelines. We determined that significant facilities variance requests were reviewed and approved at the appropriate level. However, we found opportunities for improvement to demonstrate consistency with established guidelines.

Background
The Facilities Variance Request process provides an avenue for employees to request adjustments to institutional standards surrounding furniture and space. The process was recently centralized to facilitate approvals and denials at an appropriate level of institutional leadership. As depicted below, 126 institutional requests were submitted during fiscal year 2013 with an approval rate of 49%.

Facilities Variance Request: A request to deviate from institutional furniture and space guidelines.
The department of Facilities Planning, Design and Construction (FPDC) facilitates the variance process by compiling and remitting requests to executive management. As the requestor completes and submits the manual variance request forms, data is retrieved from the form and manually entered into a database. This database is used by FPDC to track the status of requests and monitor outcomes. The table below illustrates the amount of variances for each of the institutional buildings during fiscal years 2012 and 2013.

<table>
<thead>
<tr>
<th>Request Status</th>
<th>Mid Campus Building 1</th>
<th>John Mendelsohn Faculty Center</th>
<th>T. Boone Pickens Academic Tower</th>
<th>George and Cynthia Mitchell Basic Sciences Research Building</th>
<th>South Campus Research Buildings</th>
<th>Various Areas*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved</td>
<td>52%</td>
<td>39%</td>
<td>43%</td>
<td>67%</td>
<td>84%</td>
<td>29%</td>
</tr>
<tr>
<td>Denied</td>
<td>38%</td>
<td>8%</td>
<td>11%</td>
<td>0%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Other*</td>
<td>10%</td>
<td>53%</td>
<td>46%</td>
<td>33%</td>
<td>5%</td>
<td>59%</td>
</tr>
</tbody>
</table>

*Other includes pending and undecided requests
**Various areas includes the Main Building

Source: Database maintained by Facilities Planning, Design and Construction

**Methodology**
The scope of our review included requests from fiscal years 2012 and 2013. We randomly selected facilities variance requests for review, as well as judgmentally selecting requests from faculty whose requests deviated from the standard process for review. Our procedures included:

- Interviews with Facilities Planning, Design and Construction personnel to determine the process and assess risks and controls
- Review of Institutional policies and established guidelines surrounding the facilities variance process
- Analysis of the facilities variance tracking database for consistency and trends
- Review of request forms and other supporting documentation
- Review of invoices to compare estimated costs to actual costs

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Observation 1:
Substantiate Facilities Variance Request Decisions
Facilities variance evaluation criteria have been established to guide decisions. Several factors, including previous requests and the justification provided by the requestor, influence these decisions.

During our review of 33 variance requests, we noted the following:

- Five request forms did not contain evidence of approval by executive management.
- Justification for the approval or denial is not consistently documented by management.
- FPDC does not provide a formal recommendation to executive management based on historical precedence.

While informal correspondence and communication may occur during the approval process, formal documentation is critical to substantiate the decision.

Recommendation:
The Department of Facilities, Planning, Design and Construction (FPDC) should revise the variance request form to include its recommendation to executive management. Differences between FPDC’s recommendation and executive management’s decision should be reviewed at a higher level to ensure consistency. Additionally, the department should ensure that all requests contain evidence of review and approval.

Management’s Action Plan
Responsible EVP: Leon Leach
Due Date: February 28, 2014
Owner: John Wright
Final Approver: Chris McKee

The following changes will be made to the variance request form:

- Remove the Facilities authorization line, as all authorizations will come from institutional leadership. This is the way variances have been dealt with in recent years, but the form needs to be updated to formally reflect that.
- Add a section for the Facilities’ recommendation, which should be made for each item taken to institutional leadership. Recommendations will be based on the criteria established in the Facilities Variance Request flow chart and historical precedence.
- Add a section to document the reason for institutional leadership’s decisions.

Additionally, FPDC will obtain executive signatures on all variances directly on the form (verbal or e-mail direction will be insufficient for record keeping purposes). The process flow chart and applicable institutional policies will also be updated to reflect these changes.

In order to assure consistency at the institutional level, it shall be FPDC’s responsibility to identify when executive philosophies differ or inconsistencies arise in addressing variance requests. When these arise, FPDC will bring those variances to the Facilities Executive Steering Committee (FESC) for a consensus decision before acting.
Observation 2:

**Monitor Costs for Facilities Variance Requests**
The estimated cost related to variances is included on the request form and is relied on by management during the decision-making process. However, the actual cost is not tracked or monitored.

During our review, we noted significant discrepancies between estimated costs and actual costs on several variance requests submitted. As a result, in some cases, additional costs were incurred beyond the approved variance amount.

**Recommendation:**
FPDC should track and monitor the actual cost of variances. Policies and procedures should be implemented to ensure estimated costs on the approved variance request are not exceeded.

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*In the future, vendor quotes will be used to identify costs, especially related to furniture. Estimates may still be necessary for related architectural space changes during the design process and/or before a contractor is involved. Our process will be revised as follows:*

- Variance requests will not be processed through the department without vendor quotes for applicable item.
- The timeline for processing variance requests will be extended to allow time for vendor quotes versus estimates.

Additionally, FPDC will determine – with executive input – the level of cost variance that will require bringing a previously approved variance back for executive review. These revisions will be documented in the process flow chart.

Observation 3:

**Consider Automating Request Forms**
Facilities variance requests are manually initiated and tracked. This process design does not provide assurance that FPDC is aware of all requests. Additionally, we noted several instances in which the data within the tracking database did not agree to the request forms. While these were minor input discrepancies, completeness and accuracy of the database is important to ensure all variance requests have been captured for appropriate monitoring.

**Recommendation:**
FPDC should consider automating the variance request process.

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Consolidating and automating processes is in line with Divisional initiatives that FPDC has already been charged with undertaking. Such an effort will require submission and approval though the Divisional/IT governance process before implementation can commence. We will:

- Submit an IT Service Request.
- Identify a platform for linking work requests, the variance form, and a tracking database so that flow of information is automated and consistent.
- With IT staff assistance, propose a solution for implementation to the Facilities Space Administration ‘Pillar’, IT Roadmap and then the FM-ISWG committees for approval and prioritization of resources.

We would like to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by management and staff in Facilities Planning, Design and Construction during our review.

cc:  Spencer Moore  
     Paul Kuester  
     Bill Bailey  
     Chris McKee  
     Craig Henderson
# Appendix A
## Facilities Variance Process Flowchart

<table>
<thead>
<tr>
<th>Customer</th>
<th>FPDC/Facilities</th>
<th>Institutional Administration</th>
<th>UT System Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 2 Week Process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance Form Completed By Customer &amp; Submitted to FPDC</td>
<td>Explanation of Variance Process to Customer</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Week Process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requestor Approves Alternate or Wants to Forward to Administration</td>
<td>Propose Alternative</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Week Process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Forward Variance to Institutional Administration w/ Facilities Recommendation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Week Process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance Request Assessed by Institutional Admin.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Facilities Planning, Design and Construction

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