MEMORANDUM

TO: David L. Callender, MD  
President, UTMB Health

FROM: Kimberly K. Hagara, CPA, CIA, CISA, CRMA  
Associate Vice President, Audit Services

DATE: December 3, 2014

SUBJECT: Governance Structure for Facilities Capital Planning Audit  
Engagement Number 2014-007

Attached is the final audit report regarding the Governance Structure for Facilities Capital Planning audit. This audit will be presented at the next Institutional Audit Committee meeting.

Additionally, please find attached Audit Services audit recommendation follow up policy. Each of the recommendations is classified by type at the end of its identifying number: Significant (S), Risk Mitigation (R), or Process Improvement (P). As you will note in the policy, the classification of the recommendation determines the frequency of our follow up. All follow up results are reported quarterly to the Institutional Audit Committee.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit or the follow-up process, please feel free to contact me at (409) 747-3277.

Attachments

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c: Michael R. Shriner  
Kim T. McKay  
Cheryl Sadro
The University of Texas Medical Branch
Audit Services

Audit Report
Governance Structure for Facilities Capitol Planning Audit
Engagement Number 2014-007
December 2014

The University of Texas Medical Branch
Audit Services
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Galveston, Texas 77555-0150
Governance Structure for Facilities Capital Planning Audit
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Background
In 2007, the University of Texas Medical Branch (UTMB Health) established a Facilities and Campus Services Steering Committee chaired by the President and comprised of six members of executive leadership. The Committee’s initial charge included the following activities:

- Provide executive direction and approvals for capital projects over $1 million at their various stages of development and construction
- Approve and monitor the long term capital budget for the institution
- Provide executive direction and approvals when timing or space conflicts are present
- Providing executive direction and approvals for the rate structures of Auxiliary Service offerings
- Receive routine reports regarding facility condition, life safety, ADA, and infrastructure
- Provide executive direction and approvals for all real estate acquisitions, sales, and leases
- Receive annual reports from Environmental Health and Safety
- Receive annual reports from the Police
- Receive routine reports on the progress of capital projects over one million dollars

Following the effects of Hurricane Ike in 2008, UTMB Health embarked on an ambitious plan of both rebuilding the storm damaged facilities and building new facilities to respond the needs of the region’s growing population. At this time, the Committee’s approval threshold for capital projects was lowered to $50,000 and its membership expanded to include the Chief Counsel, President’s Chief of Staff, Vice Provost, and Health System Chief Operating Officer.

Cognizant of the need to ensure the institution remained focused on the significant pending commitments of its new facilities, in February 2014, the President expanded the responsibilities of the Committee to include reviewing information technology infrastructure projects. The Committee was re-named the “Facilities and Infrastructure Steering Committee” and the Chief Information Officer was added to the membership. The Committee’s charge was updated to include review and approval of:

- All prospective capital projects estimated to cost $10,000 or more
- Any capital equipment acquisition that requires $10,000 or more in construction
- Any Information Technology (IT) project that requires an estimated $10,000 or more in construction

The annual institutional risk assessment conducted by the Office of Audit Services identified capital project management as a potential high risk activity. A well-functioning governance process is central in the effective management of capital projects.

Audit Objective
The objective of this audit is to review the governance activities related to the institutional capital projects approval processes utilized by the Facilities and Infrastructure Steering Committee.

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Scope of Work and Methodology
The scope of this audit included current operational activities supporting the Facilities and Infrastructure Steering Committee (FISC). Methodology included a review of relevant policies and procedures, Committee meeting materials and related documentation; interviews with the Committee Chair, seven Committee members, and four Committee support members; and, limited testing.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Audit Results
Interviews with select Committee and support staff members indicated that, overall, the FISC is well-organized and continues to mature as a strategic focused steering committee. Additionally, interviewees noted a high level of engagement among members, positive comments on the process and when solicited offered suggestions to improve FISC operations. The following sections highlight the most prevalent insights and comments received during the course of our audit.

Committee Structure
Membership
Research indicates a steering committee should represent all major areas of an institution, particularly executive leadership, to help ensure appropriate consideration of strategic direction during the decision making process. FISC appears to have the right composition and balance of senior/executive leadership with support staff to adequately discharge its responsibilities.

Governance Framework
During Audit Services interview with the FISC Chair, he articulated the vision and role of the committee as that of an advisory committee. Audit Services review of FY 2014 meeting minutes and Committee member interviews indicated members vote on various items, implying a more than advisory role of the Committee. Additionally, the Committee’s 2007 charge articulates an approval authority of the individual members. Since the charge is currently under review and potential revision, individuals tasked with this process should ensure the documented committee charge reflects the overarching role and authority of Committee members as well as the role of support staff members.

Policies and Procedures
Audit Services interviews noted that in addition to relying on applicable Institutional Handbook of Operating Procedures (IHOP) policies and procedures to guide its decision making, the FISC has drafted an approval process flow document. The drafted process flow document provides guidance for operational leaders wanting to propose capital projects to the FISC. It appears an appropriate level of governance documents and guidance is available to the FISC.
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Committee Operations
Meeting Frequency
The FISC generally maintains a monthly meeting schedule; however, during FY 2014 5 of the 12 meetings were cancelled due to scheduling conflicts. Some Committee and staff support members interviewed expressed concern regarding the impact of meeting cancellations on timely consideration and approval of capital projects. Developing and implementing an "off-cycle" approval process may help ensure time-sensitive projects are not substantively delayed when a meeting cancellation occurs.

**Recommendation 2014-007-01-P:**
The FISC should consider developing an off-cycle project approval process to address potential delays due meeting cancellations to avoid possible delays of projects.

**Management's Response:**
An off-cycle project approval process will be complete by end of fiscal year 2015.

**Implementation Date:** 8/31/15

Meeting Materials
Based on both our interviews and a review of FY 2014 meeting documentation, it appears the Committee members receive agendas and associated documentation timely. Additionally, the meeting materials generally contain sufficient detail to facilitate discussion of actionable items. Although FISC primarily focuses on new project proposals, the Committee also considers matters such as lease renewals and revisions to various facility infrastructure related policies and procedures. While important, some members interviewed expressed concern that discussion of such items can leave less time to fully discuss issues that could more significantly impact UTMB Health's strategic direction.

Audit Services research of meeting management practices indicated some committees use "consent agendas" to help ensure effective use of allotted meeting time. Typical consent agenda items are routine, procedural decisions, and decisions that are likely to be noncontroversial. Examples include approval of the minutes; reports provided for information only; correspondence requiring no action; and, final approval of proposals or reports that the board has been dealing with for some time and all members are familiar with the implications;

**Recommendation 2014-007-02-P:**
The FISC should consider creating a meeting consent agenda to help prioritize member discussion of significant actionable items.

**Management's Response:**
Consent agenda will be formatted by March 2015, for review by the President. If approved, it will be completely implemented by May 2015.

**Implementation Date:** 5/30/15
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New Project Proposals
The FISC review and approval of new projects involves a two-step process. Upon approval of the project owner's entity executive and financial leaders, a one-page project concept summary is submitted for FISC approval. If approved, FISC then directs the project owner to develop and submit a more detailed business plan supporting the proposed project. Some interviewees noted since funding is approved at the individual project level, it can be difficult to assess a proposed project's true financial impact when considered at the institutional level.

Recommendation 2014-007-03-R:
The FISC support staff should explore the feasibility of providing an assessment of the financial impact of the proposed project at an institutional level to facilitate decision making.

Management's Response:
The FISC support staff will work with Finance and the Executive Vice President & Chief Business/Finance Officer to develop a process for assessing the financial impact of proposed projects at an institutional level.

Implementation Date: 8/31/15

Project Status Updates
A standing FISC meeting agenda item includes a status update on key capital projects. The individual slides generally contain photographs and details ranging from the status of various construction phases to the number of workers on site. Some interviewees noted that while photographs and various details are interesting, it may be of greater value for the Committee to receive a high level update indicating a project's status relative to its projected completion timeline and budget, along with an explanation of any significant variances or barriers impacting project completion. Much of the more general information on project status is covered in other meetings such as the Strategic Executive Council and this would allow a more focused discussion.

Additionally, interviewees expressed a desire to receive status updates on all Hurricane Ike-related and larger deferred maintenance projects. The Committee's administrative support indicated that generally this information is provided annually. Although much of the "Ike projects" were approved several years ago and the deferred maintenance projects utilized a separate funding mechanism, the Committee members believed it would provide a better comprehensive vision since all project compete for funding and institutional resources.

Recommendation 2014-007-04-P:
The FISC support staff, with input from Committee members, should explore the feasibility of modifying the meeting format related to project status updates. Consideration should be also be given to establishing an articulated schedule for select agenda items such as "Ike projects" or deferred maintenance to ensure to committee remains aware of all key institutional capital project activities.
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Management’s Response:
Project updates will be modified immediately, and we will seek further feedback and
tweak as necessary. Additionally, a schedule will be outlines to identify a schedule of
topics that are presented annually.

Implementation Date: 12/31/14

Project Testing
Audit Services reviewed six projects approved by the FISC in June 2014, slated to be completed
by September 1, 2014 for proper FISC approval; identification of funding source; expenditures
did not exceed the amount approved by the FISC; and, if reprioritized, evidence of proper
approval. No significant exceptions were noted.

Conclusion
Audit Services performed a high level review of the governance structure related to the facilities
capital projects approval processes utilized by the Facilities and Infrastructure Steering
Committee. The governance structure appears to be designed and functioning as intended.
With the Committee’s continued maturity, opportunities for enhancement were noted related to
developing an off-cycle approval process in event of meeting cancellation; new project
proposals; and, project status updates.

We greatly appreciate the assistance provided by the Facilities and Infrastructure Steering
Committee members and support staff, Business Operations and Facilities personnel, and
departmental personnel who provided assistance with project testing. We hope that the
information presented in our report is beneficial.

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December 2014