

Joint Legislative Audit and Review Commission



**Two-Year Review of Initial Higher Education
Management Agreements**

Commission Briefing

November 10, 2008



JLARC

Study Mandate

- Section 23-38.88 D.3 of the *Code of Virginia* requires JLARC, in cooperation with the APA, to review the initial higher education management agreements

- The review is to consider
 - Degree of institutional compliance with the terms of the management agreements
 - Degree to which institutions are successfully managing administrative and financial operations
 - Degree to which the institutions are meeting 12 goals identified in the statute
 - Related impacts on students and faculty

In This Presentation

- Background
- Compliance with Terms of Management Agreements
- Compliance with 12 Goals in the Restructuring Act
- Conclusions and Future Directions



Evolution of Management Agreements

- Three institutions (University of Virginia, Virginia Tech, and William & Mary) wanted charter status
 - More autonomy in business operations
 - More control over tuition (less revenue volatility)
- State wanted greater accountability from institutions for achieving certain higher education goals
- Result of negotiations
 - 2005 Restructured Higher Education Financial and Administrative Operations Act (Restructuring Act)

Restructuring Act Lists 12 Goals that Institutions Are Expected to Meet

1. Access
2. Affordability
3. Academic offerings
4. Academic standards
5. Student retention and graduation
6. Articulation agreements with community colleges
7. Economic development
8. Externally funded research and technology transfer
9. Work with K-12 education
10. Prepare six-year financial plan
11. Meet financial and administrative standards
12. Ensure campus safety



Restructuring Act Provides Incentives for Meeting State Goals

■ Autonomy incentives

- Level I
- Level II
- Level III (Covered Institutions)

■ Financial incentives

- Interest on tuition and fees
- Unexpended appropriations
- Rebate on credit card purchases of \$5,000 or less
- Rebate of transaction fees for sole source procurements with vendors not registered with eVA

Autonomy Extended to Covered Institutions in Six Broad Areas

- Capital outlay
- Leases of real property
- Information technology
- Procurement
- Human resources
- Financial operations

Covered Institutions Made Several Commitments

- Comply with Commonwealth's Management Standards
- Achieve institutional benchmarks related to goals in the Restructuring Act
- Achieve additional benchmarks contained in management agreements for furthering State goals
- Comply with rules and procedures set forth in management agreements

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 - Rules and procedures in six operational areas of autonomy
- Compliance with 12 Goals in the Restructuring Act
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Review of Compliance with Rules and Procedures

- Annual audits by Auditor of Public Accounts (APA)
- JLARC staff interviews with central agencies:
 - Department of General Services (DGS)
 - Virginia Information Technologies Agency (VITA)
 - Department of Human Resource Management (DHRM)
 - Department of Accounts (DOA)
 - Department of the Treasury
 - Department of Planning and Budget (DPB)
- Interviews with and data collection from covered institutions

Finding

- Annual audits by the APA concluded that each of the covered universities was in compliance with the rules and procedures listed in their management agreement.

Findings

- DOA, Treasury, and DPB had no major concerns regarding any of the covered universities' ability to manage their financial operations.
- DGS raised concerns about the covered universities' capital outlay and procurement operations.
- VITA raised concerns about the covered universities' information technology (IT) operations.

Central Agencies Raised Concerns About Institutional Autonomy in Three of Six Areas

Operational Area	Key Central Agency Concerns
Capital Outlay	In-house building code review
Procurement	Exempt from Virginia Public Procurement Act; extent of eVA usage
Information Technology	Exempt from project approval and project management oversight
Human Resources	No major concerns (system to be implemented in January 2009)
Financial Management	No major concerns
Leases of Real Property	No major concerns

DGS Expressed Concern About In-House Code Review Functions

- Authority for in-house building code review at covered institutions
 - UVA and William and Mary have in-house code review (university building official reports exclusively to Board of Visitors)
 - Virginia Tech still uses DGS
- DGS concerns
 - Independence
 - Expertise
 - Review of code review units uncovered several deficiencies

Institutions Dispute Code Review Concerns of DGS

- Cost Savings
 - Less time from project initiation to completion
 - Avoidance of inflationary costs
- University code review officials certified by Department of Housing and Community Development (DHCD)
- DGS review “second-guessed” university building code decisions
 - Questioned whether DGS review authority extends to inspection of buildings

DGS Raised Concerns Regarding Procurement Practices at Covered Institutions

- Transactions less open and transparent
 - Exempt from VPPA
 - University electronic procurement systems at UVA and Virginia Tech – do not use eVA directly
- UVA and Virginia Tech did not meet 95% threshold for transactions processed through eVA

FY 2008

UVA:	88%
Virginia Tech:	86%

Institutions Dispute DGS Procurement Concerns

- University transactions are open, transparent, and efficient
 - Electronic procurement systems at UVA and Virginia Tech help ensure competition
 - Internal auditor would uncover improper purchasing practices
 - APA found no incidents of improper purchasing practices
- 95% eVA threshold difficult to achieve

Information Technology

- Exempt from State Chief Information Officer (CIO) approval for major IT projects
- Exempt from project management oversight by VITA
- Covered universities still must report to VITA on:
 - IT strategic plans
 - IT expenditures
 - Policies, standards, and guidelines
 - Budget, schedule, and status of major IT projects (CIO still has authority to suspend or terminate projects)

VITA Raised Concerns Regarding Autonomous Information Technology Operations

- Ability to make informed decisions on termination or suspension of major IT projects
- More difficult to get universities working together on IT projects
- Covered institutions not required to report security breaches to VITA within 24 hours of occurrence
- No evaluation of universities' IT capabilities prior to implementation of management agreements

Institutions Dispute VITA Concerns

- Covered institutions given IT authority because they have shown ability to manage their IT operations
- Internal processes help ensure that IT projects stay on track
- Quarterly reports on major IT projects will alert VITA if project is behind schedule, over budget, or project scope has changed

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Evaluation of Compliance with 12 Restructuring Act Goals

- SCHEV evaluated institutional performance benchmarks to measure achievement of nine education-related goals
- SCHEV reviewed six-year financial plans to determine compliance with the *Code of Virginia*
- Cabinet Secretaries evaluated performance benchmarks for financial and administrative operations goal
- SCHEV makes determination to certify institutions for compliance with Restructuring Act

Findings

- SCHEV certified the three covered institutions as achieving their performance benchmarks and complying with the goals in the Restructuring Act.
- Performance measures for three goals were not fully developed at time of certification, including affordability goal.
- Some students may have difficulty affording college despite financial aid programs
- Covered institutions met four additional commitments for furthering State goals.

SCHEV Certification 2008 – Measures for Two Goals Not Fully Developed, One Goal Not Evaluated

Goal	Compliance
1. Access	●
2. Affordability	◐
3. Academic offerings	◐
4. Academic standards	●
5. Student retention and graduation	●
6. Articulation agreements w/ community colleges	●
7. Economic development	●
8. Externally funded research, technology transfer	●
9. Work with K-12 education	●
10. Prepare six-year financial plan	●
11. Financial and administrative standards	●
12. Campus safety and security	○

● = Fully developed ◐ = Not fully developed ○ = No evaluation in 2008



Goal 2: Performance Measures for Affordability Not Fully Developed for 2008 Certification

- Four performance measures on affordability
 - Tuition and fees as a percent of institution's median family income (not developed)
 - Average debt of student borrowers
 - Percent of students who borrow
 - Estimated impact of tuition and fees on applications, enrollment, and student indebtedness (not developed)
- Covered institutions surpassed benchmarks for the two developed measures

Some Lower- and Middle-Income Families May Have Difficulty Affording College Tuition

Family Income Range	Average Total Resources (2006-07)	Average Cost of Attendance (2006-07)
William and Mary		
\$0 to \$39,999	\$16,267	\$17,959
\$40,000 to \$79,999	19,317	18,213
\$80,000 and above	26,020	18,257
UVA		
\$0 to \$39,999	17,135	19,934
\$40,000 to \$79,999	18,764	17,891
\$80,000 and above	22,726	17,829
Virginia Tech		
\$0 to \$39,999	13,453	17,613
\$40,000 to \$79,999	16,666	18,241
\$80,000 and above	23,783	18,554

Source: SCHEV website <http://research.schev.edu/ips/affordability>



Financial Aid Programs at Covered Institutions Mitigate Affordability Issue

■ AccessUVA

- Replaces need-based loans with grants to all undergraduate students with family income <\$40,000
- Caps need-based loans at 25% of total four-year in-state cost of attendance

■ Gateway William and Mary

- Meet 100% of financial need for in-state undergraduates
- Students with family income <\$40,000 can graduate in four years debt free

■ Funds for the Future (Virginia Tech)

- Financial aid awards offset tuition increases for existing students on sliding scale



Goal 3: Performance Measures Do Not Fully Address Academic Offerings

- Two-part goal:
 - Offer broad range of degree programs consistent with institutional mission
 - Address Commonwealth's need for graduates in high-need areas
- No performance measure to address breadth of academic offerings
- High-need degrees defined as engineering, education, nursing, and medicine
 - Are there other high-need areas that should be considered?
 - Are the areas included in the measure really high-need?

Goal 11: Institutions Achieved Vast Majority of Financial and Administrative Performance Benchmarks

- 25 performance benchmarks agreed to by covered institutions in applications for management agreements
 - Capital outlay, leases, and real estate (4)
 - Finance and accounting (8)
 - Human resources (5)
 - Information technology (4)
 - Procurement and surplus property (4)

- Each covered institution met at least 23 benchmarks

Goal 12: Campus Safety and Security Measure Not Fully Developed

- Performance measure approved for 2009 certification
 - Institutions shall work to adopt acceptable number of 27 best practice recommendations from 2006 Virginia Crime Commission report
- Performance measure should also take into account recommendations from 2007 Virginia Tech review panel report

Additional Commitments for Furthering State Goals Were Achieved

- Provide need-based grant aid to middle- and lower-income undergraduate Virginia students
 - Access UVA
 - Gateway William and Mary
 - Funds for the Future (Virginia Tech)
- Collectively enroll 300 new transfer students each year
- Work cooperatively with distressed region of the Commonwealth
 - City of Petersburg (William and Mary)
 - Southwest Virginia (UVA)
 - City of Danville (Virginia Tech)
- Match additional research funds from General Assembly with institutional funds

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Findings

- Institutions are generally satisfied with the management agreements.
- Covered institutions estimated \$6.9 million in savings in their capital outlay programs.
- Access for underrepresented student populations and affordability for lower- and middle-income students should increase.

Findings (continued)

- Ability to achieve statewide goals for higher education is increased due to the Restructuring Act and subsequent management agreements.
- Better coordination in oversight process could help resolve disagreements and help retain institutional memory between gubernatorial administrations.

Institutions Generally Satisfied with Management Agreements

- Autonomous business operations have resulted in more efficient operations
 - Able to respond more quickly to changing market conditions
 - Able to avoid central agency oversight and consulting fees
 - Better able to avoid cash flow problems
- Still have some concerns
 - Whether institutions' role in setting tuition and fees will be consistently recognized by the State
 - UVA and Virginia Tech indicate that eVA processing is burdensome

Institutions Estimate Savings in Capital Outlay

- Reduction in time to review building code compliance
 - UVA and William and Mary estimated \$2.5 million in savings due to faster project completion times
- Reduction in time to approve funding for non-general fund projects
 - Virginia Tech estimated \$4.4 million in savings due to avoidance of annual General Assembly approval process

Access and Affordability Should Increase

- Commitment to increase enrollment of students from underrepresented populations
- Commitment to provide need-based financial aid
- Commitment to enroll more transfer students from community colleges

Management Agreements Have Increased Likelihood that Statewide Goals Will Be Met

- Higher education goals are codified in Restructuring Act
- Financial incentives for demonstrating progress toward meeting goals
- State can better adapt to changes and address emerging needs

Need for Effective Communication and Oversight

- Currently four covered institutions – could be more in near future
- Many State entities involved in oversight
 - SCHEV
 - Governor's cabinet
 - DGS
 - VITA
 - DHRM
 - DOA
 - Treasury
 - DPB
 - APA
 - JLARC
 - General Assembly

Two Options Could Improve Coordination and Oversight

- Option 1: Create restructuring advisory committee
 - Representatives from oversight entities and institutions of higher education
 - Advise SCHEV on matters of performance measures and annual certification
 - Advise Governor and General Assembly on changes to Restructuring Act and renewal of management agreements
 - Provide discussion forum to address areas of concern between institutions and central agencies

- Option 2: Expanded leadership role for SCHEV

Key Findings

- UVA, Virginia Tech, and William and Mary achieved their performance benchmarks and complied with the terms of the management agreements.
- A few State central agencies have concerns about institutions' autonomy in their business operations.
- Covered institutions are generally satisfied with agreements and estimate savings of \$6.9 million in capital outlay programs alone.
- Management agreements should increase access and affordability for students.

Key Findings (continued)

- Need for effective state oversight and audit functions has increased due to implementation of management agreements.
- A more formal oversight structure could improve coordination of oversight and communication between covered institutions and central agencies.

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Copies of these slides are available on our website
and on the table by the door.

