National audit report summary

ARE THE ASSETS OF STATE UNIVERSITIES MANAGED AND USED IN A TARGETED MANNER – FOR RESEARCH ACTIVITY AND STUDIES?

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TERMS AND ABBREVIATIONS

MES – Ministry of Education and Science

CQAHE – Center for Quality Assessment in Higher Education

RHEMAC – Research and Higher Education Monitoring and Analysis Center

RCL – Research Council of Lithuania

HEC – Higher Education Council

State universities – thirteen public institutions: **VU** – Vilnius University, **VGTU** – Vilnius Gediminas Technical University, **VMU** – Vytautas Magnus University, **LUES** – Lithuanian University of Educational Sciences, **VAA** – Vilnius Academy of Arts, **KU** – Klaipėda University, **LMTA** – Lithuanian Music and Theatre Academy, **LUHS** – Lithuanian University of Health Sciences, **LSU** – Lithuanian Sports University, **ASU** – Aleksandras Stulginskis University, **MRU** – Mykolas Romeris University, **KUT** – Kaunas University of Technology, **ŠU** – Šiauliai University, one budgetary institution – **MAL** – General Jonas Žemaitis Military Academy of Lithuania.

Public body is a non-profit-making public legal entity having the limited civil liability and established in accordance to the laws on public institutions and other, the purpose of which is to meet public interests by carrying-out educational, schooling and scientific, cultural, health care, environment protection, sports development, provision of social or legal help, as well as other activities, which benefit the society[1].

BI – Budgetary institution

RP – Real property
SIP – State investment program
SPISS – State property informational search system

The management of property[2] – it is a right to physically and economically impact the property established in the laws.

The use of property[3] – it is an application of useful properties of the property in order to meet the needs of the user.

The disposition of the property[4] – it is a right to sell the property, in another way transfer, lease, and pledge or in another way change its legal status.

The renewal of real property[5] – the renewal of the state's real property by reconstructing it or acquiring it as new (by purchasing or building).

The administrator of the centrally managed state property[6] – Public Institution 'Turto bankas' has the lawfully vested right to manage, use and dispose with the right of trust the transferred real property of the state and the plots of land allocated to it, sell this property, renew it, evaluate the effectiveness of its use and to carry-out other functions.

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1 The Law on Public Institutions of the LR, 03/07/1996 No.: I-1428 (18/01/2007 No.: X-1048 wording), § 2 (1)

2 The Law on Possession, Use and Disposal of State and Municipal Property of the LR, 12/05/1998 No.: VIII-729 (25/03/2014 No.: XII-802 wording), § 2 (11)

3 The same, § 2 (8)

4 The same, § 2 (1)

5 The Law on Possession, Use and Disposal of State and Municipal Property of the LR, 12/05/1998 No.: VIII-729, § 18

6 The Law on the Administrator of the Centrally Managed State Property of the LR, 14/03/2014 No.: XII-791, §§ 3 and 4

SUMMARY

In evaluating how the state universities manage and use the state property entrusted to them, we have referred to the fact that the higher education institutions have an autonomy[7] encompassing academic, administrational, economic and finance management activities, which are based on the self-government and academic freedom principles.

The Constitutional Court in many of its decisions has stated that the autonomy of the higher education institution is to be understood as a right to independently determine and fix in the charter or statute the organizational and management structure of the institution, relations with other partners, the procedure of research and studies, study programmes and solve other questions related to these matters. The autonomy must be tuned with the obligation to follow the Constitution and other laws, responsibility and accountability to the society. The autonomy guaranteed by the Constitution must in no way create suppositions to abuse it and it does not release the state from its constitutional obligation to ensure the effectiveness of the higher education system. The activity of higher education institutions is related to the implementation of the constitutional human rights and freedoms, as well as the use of the state budget funds, which is why it must be regulated and overseen[8].

Having regard to these provisions, we have planned an audit, in order to make sure whether the society can reasonably expect that the decisions adopted by the universities regarding the management and use of property will give the biggest benefit and will help achieve the primary goal – to provide quality education, which meets the needs of the society and of the state.

Lithuania's and foreign experts have repeatedly recommended for Lithuania to increase the quality of research and studies, noted the fragmented infrastructure of higher education institutions, the decreasing number of students and increasing property maintenance expenses. The Government, in order to create suppositions for high quality of research and studies, effective higher education link with the needs of the society and business and the international competitiveness of research and studies, has prepared the plan for optimizing the state universities network and presented it for the Parliament to discuss. The corrected plan was affirmed on 29 June 2017.

In Lithuania, 22 universities carryout higher education university studies. In 2016, fourteen state universities managed and used 695.5 mill. EUR of fixed assets. We performed this audit with the aim to evaluate whether the state universities ensure that the fixed assets would be managed, used and dispositioned in a targeted manner by carrying-out research and study activities.

During the audit we have analyzed whether the universities resources optimization trends, priorities and the maintenance of fixed assets in order to make the primary activity of the universities more effective have been determined; whether the funds for the fixed assets of the universities have been allocated in a targeted manner, whether the universities manage, use and disposition the fixed assets in accordance to the principles established in the Law on Higher Education and Research[9].

[7] The Constitution of the LR, § 40 and the Law on Higher Education and Research of the LR, 30/04/2009 No.: XI-242, § 7

[8] 28/10/2009 decision No.: 28/07-29/07 "Regarding the Explanation of the provision of Chapter II Point 13 of the Motivational Part of the 20 March 2008 Constitutional Court of the Republic of Lithuania Decision" of the Constitutional Court of the LR.

[9] The Law on Higher Education and Research of the LR, 30/04/2009 No.: XI-242 (29/06/2016 No.: XII-2534 wording), § 86 (1)

We have performed the audit procedures in the Ministry of Education and Science and in 14 universities (thirteen public institutions and one budgetary institution). We have analyzed the 2013 – 2016 data; in some specific cases, we have analyzed the data from other years. In order to have a more comprehensive evaluation, we have gathered the data from the institutions, which one of the functions is the maintenance of higher education institutions on a state level. We have formulated the conclusions of the audit after analyzing the statutes of law, which regulate the activities of the universities, the financial, activity, management, use and disposition of the universities' property reports, the concluded agreements on trust, loan-for-use and lease, the SPISS data and the practice of foreign countries. We have inspected 577 real property units. We have taken interest in the cooperation of the universities when jointly using the property together with other education institutions, we have submitted questions for 12 state colleges and 35 vocational schools.

During the audit, we have concluded that the financial capabilities of many universities do not create suppositions to ensure the proper management and use of the fixed assets, whereas the institutions, which supervise the higher education, and the universities do not pay enough attention for evaluating and managing the risks associated with the assets. While the universities are using real property (flats, recreational, practice and other purpose bases, plots of land), however there are doubts as to the necessity of it for the carrying-out of research and studies. The universities do little cooperation with each other, with state colleges and vocational schools by using research and study equipment and other fixed assets.

After evaluating the gathered evidence, we are submitting the conclusions and recommendations of the national audit. If these recommendations will be implemented, there will be contributions to the quality of research and studies, the property of state universities will be optimized and the management effectiveness of it will be increased.

CONCLUSIONS

1. The financial capabilities of thirteen state universities (public institutions) to ensure stable fulfillment of the primary activity and the maintenance of the assets decreases: in some years the expenditure exceeded the income, in many universities the effectiveness of asset use decreased (turnover). In 2016, three universities found it difficult to settle their obligations. In 2013 – 2016, the decreasing number of students led to the decrease of income and the relative increase of asset cost (maintenance and acquisition). Which is why, if no decisions regarding the optimization and effective use of the assets will be adopted, there will be a risk that the universities will not be able to ensure the proper management and use of the assets when providing quality research and studies services to the society (Chapter I).
2. If the systemic financial status of the universities and the state property is not maintained on the state level (without evaluating financial capabilities and the risks associated with the management and use of assets), the higher education policy makers do not have a comprehensive and trustworthy information, which is necessary to have when adopting reasoned decisions. Specific maintenance functions are envisaged to the Ministry of Education and Science and other responsible institutions, however, none of these institutions are obligated to observe and analyze the financial capabilities of the universities and evaluate the management and use of the assets. In this way, the conditions to determine whether the asset, which carries-out an auxiliary function, effectively contributes to the execution of studies and

research process – the primary activity of the university. Furthermore, the universities (departments responsible for the management and use of assets, also the internal audit) do little to contribute to the betterment of asset management (Chapter III).

3. The optimization of fixed assets in some universities, which is being done at the moment, and (or) plans are not related to the future optimization of the network. There is an unsuccessful asset renewal risk through the administrator of the centrally managed state property or by investing the assets and after the universities sell it by reinvesting the funds into the new or renewable assets or by relinquishing the unneeded assets (after transferring them to the aforementioned administrator). These individual actions of the universities may have a negative impact in consolidating the resources of research and study institutions in order to achieve the quality of research and studies (Sub-chapter 2.1).
4. In 2007 – 2013, 370.9 mill. EUR was allocated from the EU assistance funds for the renewal and development of the infrastructure of universities. At the moment, the Ministry of Education and Science has stopped the allocation of funds for the new period, it allocates the funds from the state investment program only for continuous projects and for liquidating structures of critical condition. For the upkeep of fixed assets (for economy and administration and the maintenance of complex infrastructure) the Ministry plans and assigns the funds by having regard to the last year's assignations and this does not entice the universities to lessen the property maintenance expenditure. In 2013 – 2016, 92.8 mill. EUR was allocated for the maintenance of fixed assets (Sub-chapter 2.2).
5. In 2016, the universities managed 1 768 real property units (area: 1.5 mill. sq. m., value: 503.4 mill. EUR, i.e., 72% of all fixed assets), the maintenance expenditure of it increases: in 2015, 17.8 mill. EUR, in 2016, 20.8 mill. EUR. Furthermore, there are valid reasons to doubt whether a part of these assets (14.3% of all the assets: buildings, flats, 2 040 ha plot of land) is necessary for carrying-out the studies and scientific research. A part of the assets managed by the universities is unfit for exploitation – is liquidated (2.8%) or is in critical condition (2.8%):

    5.1. In 2013 – 2016, the universities income from the recreational, practice and other purpose bases (135 units) activities was 2.2 mill. EUR, expenditure was 3.3 mill. EUR. Five universities' assets maintenance expenditure is 1.9 to 4.3 times bigger than income. Five universities have 63 flats, in which the lectors, workers or other persons not related to the activities of the university are residing. The use of these assets is encumbered by the issues of evicting ex-employees (lessees) and other administrational questions. In the training farm, practical training and testing center and in the livestock institute, which belong to the two universities, the area of which is 2 040 ha, the students and scientist during the year work from 2 to 35 hours. The plot of lands are mostly used for economic-commercial activity (the manufacture and selling of milk, meet, seeds and grains). In 2016, the income of economy units from this activity was 2.1 mill. EUR (from 59 to 100% of all income) (Section 2.3.1);

    5.2. The universities with their capabilities cannot ensure the proper maintenance of real property. In 2010 – 2016, for the handling of real property 231.3 mill. EUR was used (out of these, the funds of universities consisted of only 31.6 mill. EUR, i.e., 13.1%), however for 566 units of assets belonging to fourteen universities 238 mill. EUR is needed. 49 units of assets belonging to seven universities is in critical condition, ten universities foresee the demolishment of 49 units of assets even though in 2015 – 2016 122.6 thousand EUR was allocated for their maintenance (Section 2.3.2).

6. The investments of twelve universities into 11 public institutions and other legal persons are not beneficial for the activity of universities, because these legal persons do not take-up any activity and are not liquidated. We highlight that on the state scale there are no recommendations regarding investments in to the limited civil liability legal persons in order to benefit not only the university, but the society as well (Sub-chapter 2.4).
7. The universities do little cooperation among themselves, with colleges and vocational schools in sharing their assets (only one university shares its equipment with vocational schools, two universities with other two universities and three universities with colleges). During the prior audit, it has been determined in 2015 in the open access centers of the universities approximately 43% of equipment was used, while the foreign experts are of the opinion that it is necessary to use the assets so they will not become a burden for the taxpayers. Seven universities have good equipment in the laboratories and only four universities need investments. The lack of initiative from the universities to cooperate in sharing the infrastructure determines the ineffective use of state property and does not contribute to the betterment of research and studies (Sub-chapter 2.5).
8. The publicly submitted data by the universities in the reports regarding the management and use of the assets is not comprehensive, which is why there are no means for the Parliament, Government, Ministry of Education and Science and society to acquire reliable information about the state property (Chapter 3).

RECOMMENDATIONS

In order to achieve the quality of research and studies by consolidating the resources of science and study and the effective management and use of universities' property by strengthening the state control, in the near future The Government of the Republic of Lithuania together with The Ministry of Education and Science of the Republic of Lithuania must:

1. Evaluate the property optimization, which is being carried-out in the universities at the moment, and (or) the plans for it and to adopt decisions related to the more effective management and use of property and the optimization of universities' networks (3rd Conclusion).
2. Determine the criterions related to the management and use of fixed assets of the state university:
   2.1. For real property regarding the conformity to the scientific activity and studies (5th Conclusion);
   2.2. For investments in to the limited civil liability legal persons (6th Conclusion).

Further actions, which the institutions should take:

The Government of the Republic of Lithuania:

3. To designate an institution, which would continuously analyze the financial indicators of the universities, the risks associated with management and use of fixed assets and would inform the interested parties about the achieved results (1st and 2nd Conclusion).

The Ministry of Education and Science of the Republic of Lithuania:

4. To allocate state funds related to the optimization of state universities' network for the renewal and development of fixed assets of the universities (4th Conclusion).
5. Foresee the means regarding the universities cooperation with science and studies and other education institutions by using the infrastructure at hand (7th Conclusion).
6. To supplement the requirements regarding the publicly submitted information of universities on the management, use of property and the risks associated with it (8th Conclusion).

We highlight that during the audit we have sent notices regarding the determined cases of inappropriate use of property, the conclusion of lease, loan-for-use agreements, the correcting of construction work procedures and other related matters to twelve state universities (except for General Jonas Žemaitis Military Academy of Lithuania and Mykolas Romeris University). We have asked them to promptly take-up means in order to eliminate the determined shortfalls. During the audit, majority of shortfalls were eliminated, those, which were left, will be observed.

The implementation means of recommendations and terms are submitted in the "Recommendation implementation plan" part of this report.