



Internal Audit Department

South Dining Renovation Construction Contract

**January 2018
Report Number FY 18-02**

Distribution:

Audit Committee, Arizona Board of Regents
Internal Audit Review Board
Rita Cheng, President
Stephanie Bauer, Interim Director, Facility Services
Kelly Davis, Senior Project Manager, Facility Services
Jessica Fitchett, Director, Capital Planning and Campus Operations
Bjorn Flugstad, Vice President, Finance, Institutional Planning and Analysis
Joanne Keene, Executive Vice President and Chief of Staff
Daniel Okoli, Vice President, Capital Planning and Campus Operations
Michelle Parker, General Counsel
Wendy Swartz, Associate Vice President and Comptroller

This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.

This page left blank intentionally.

Northern Arizona University
South Dining Renovation Construction Contract
Audit Report
January 5, 2018

Summary

Northern Arizona University contracted with Okland Construction to renovate the duBois Student Union to allow for expanded dining and student learning space. This construction project is included in NAU's Fiscal Year 2018 Annual Internal Audit Plan, as approved by the Arizona Board of Regents Audit Committee. New construction is required to accommodate student enrollment growth and enhance students' learning experiences. The audit links to ABOR's strategic goal of promoting sustainability and effectiveness.

Background: The project is being delivered through the Construction Manager at Risk (CMAR) method. Construction administration and project management are being provided by Facility Services.

The 88,000-square-foot renovation includes:

- A dining hall and retail dining locations, with Italian, American, New York-style and Latin-inspired menus along with options for clean eating or vegetarian diners.
- Conference rooms and public spaces available on south campus.
- The South Academic Success Center, which offers in-person and online tutoring services, supplemental Instruction sessions, academic mentoring and test prep courses.
- The Testing Center, which is twice as large as in its former home of the Franke College of Business.

The building, which remained open during the renovation, maintains the architectural character of a 1960s south campus building and is on track to achieve LEED Gold certification due to electrical and mechanical efficiency and many other sustainably designed building features. The project is substantially complete and opened in August 2017. The project is funded with system revenues bonds and auxiliary funds. The debt service is funded from auxiliary funds (dining revenues).

The pre-construction contract agreement with the CMAR was executed in November 2015. A notice to proceed for construction services was issued in May 2016. Design professional services were provided by Smithgroup JJR for \$1,893,125. Okland's pre-construction costs were \$173,845. The guaranteed maximum price for construction, excluding pre-construction and architectural costs, is currently at \$14.57 million.

Audit Objectives: The primary objectives of this review were to determine if:

- contract terms are applied as written;
- charges are adequately supported by actual costs incurred by the CMAR;
- the subcontractor selection process is consistent with ABOR policies;
- proposed change orders are sufficiently documented; and
- fees are applied as specified by the construction contract.

Northern Arizona University
South Dining Renovation Construction Contract
Audit Report

Scope: The audit scope included the project construction phase from inception through August 31, 2017 (Pay Application 14). Facility Services provided a tour of the renovation of the duBois Student Union in June 2017. We relied on Facility Services' expertise for the construction technical aspects and to determine whether NAU received the contracted scope of work. Accordingly, the audit scope excluded on-site inspections to assess construction methods, materials, or compliance with design specifications.

Methodology: The audit objectives were accomplished using the current Tri-University construction audit program (August 1, 2013 edition), which includes:

- Reconciling construction payments, as recorded in NAU's financial system, to applications for payments.
- Verifying that pay applications are supported by the contractor's internal financial records.
- Performing a detailed review of transactions charged to General Conditions and other reimbursable costs to ensure they are allowable and adequately supported.
- Verifying subcontractors were selected according to contract requirements and ABOR procurement policies.
- Confirming that overhead and fees on proposed change orders are calculated consistently and per the contract. Determining whether GMP adjustments are properly approved by NAU.
- Assessing whether proposed change orders provide sufficient information to validate price-reasonableness and, where appropriate, rates are consistent with the subcontractor contracts.
- Verifying that charges for bonds, insurance, and sales taxes are documented and per the contract.
- Ensuring that usage of contingency funds and allowances are properly approved.

We conducted the audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Conclusion: Renovation of the duBois Student Union was adequately controlled by Facility Services. When the final pay application is received, there are several outstanding items to complete before project close out, including:

- obtaining final lien waivers and notices that the CMAR released retainage funds to subcontractors;
- verifying that all punch list items were resolved;
- confirming that liability insurance, bonds, and taxes are charged to the project based either on actual costs or at a reasonable rate; and,
- evaluating project results and the performance of the CMAR.

Northern Arizona University
South Dining Renovation Construction Contract
Audit Report

We also shared some immaterial potential cost-savings ideas for management consideration. The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment/ Assessment	Rec No.	Page No.
Reliability and Integrity of Financial and Operational Information:			
• Contractor billings and change orders are supported by the contractor's job cost ledger			
• The contractor's job cost ledger is supported by sub-ledgers that facilitate analyses and reviews, such as equipment rental charges, payroll schedules and subcontractor payment ledgers			
• Adequate documentation is provided to support charges made to General Conditions with the pay applications and General Conditions are allowable per the contract			
• Allowances and contingencies are accurately tracked and properly approved			
• Charges for indirect costs such as fees, taxes and insurance are supported or accurately calculated			
• Subcontractor change order proposals are submitted with sufficient information to determine price reasonableness			
Safeguarding of Assets:			
• Payments made are supported by work completed.			
Effectiveness and Efficiency of Operations:			
• The overall contract is clear, effective and efficient to administer			
• Allowable costs are sufficiently defined in the contract and are efficiently processed			
Compliance with Laws and Regulations:			
• The contract and ABOR selection process for subcontracted work is followed and the subcontracts are supported by the bid awards			
• Change orders are priced per the contract and properly approved			
Legend:			
Reasonably Strong Controls In Place			
Opportunity for Improvement			
Significant Opportunity for Improvement			

Northern Arizona University
South Dining Renovation Construction Contract
Audit Report

We appreciate the assistance of the staff of Okland Construction and Facility Services during the audit.



Karletta Jones, CPA, CIA
Senior Internal Auditor
Northern Arizona University
(928) 523-4136
karletta.jones@nau.edu



Mark Ruppert, CPA, CIA, CISA
Chief Audit Executive
Northern Arizona University
(928) 523-6438
mark.ruppert@nau.edu