Science Annex 3rd & 4th Floor Renovation

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Report Number FY 20-08

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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 subrecipients.
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Summary

Audit of the Science Annex 3rd and 4th Floor Renovation was added to the Internal Audit Plan in May 2020 due to COVID-19 impacts to the already Arizona Board of Regents (ABOR)-approved Fiscal Year 2020 Audit Plan. This change was approved by Northern Arizona University’s (NAU / University) Management and the ABOR Audit Committee. This audit supports NAU’s strategic goals of Stewardship, Student Success and Access by accommodating student enrollment growth and enhancing students’ learning experiences.

Background: NAU contracted with McCarthy Building Companies, Inc. to renovate the 3rd and 4th floors that comprise 34,115 gross square feet of the Science Annex to both modernize and bring these floors into building code compliance. More importantly, it provides needed open office space with workstations to facilitate the advancement of, including but not limited to, Science, Technology, Engineering and Mathematics (STEM) programs on the University campus. The project is being delivered through the Construction Manager at Risk (CMAR) method. Construction administration and project management are being provided by NAU Planning, Design & Construction.

The project is complete and the renovated space opened in August 2019. The project is funded with University general funds, gifts, and University resources, thereby allowing NAU to preserve debt capacity for other strategic initiatives.

The pre-construction contract agreement with the CMAR was executed in March 2018. Design professional services were provided by HDR, Inc. for $1,123,403. McCarthy’s pre-construction costs were $179,585. The guaranteed maximum price for construction, excluding pre-construction and architectural costs, is $13.6 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; and
- fees are applied as specified by the construction contract.

Scope: The audit scope included the project construction phase from inception through April 30, 2020 (Pay Application 18). NAU Planning, Design & Construction provided a tour of the renovation of the Science Annex in July 2018. We relied on NAU Planning, Design & Construction’s 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 provide a high-level assessment of construction methods, materials, or compliance with design specifications.

Methodology: The audit objectives were accomplished using the current Tri-University construction audit program (January 15, 2009 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 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.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors and accordingly, included such tests considered necessary under the circumstances.

**Conclusion:** Renovation of the Science Annex 3rd and 4th Floor were adequately controlled by NAU Planning, Design & Construction. We noted general conditions overbillings by the CMAR that NAU Management pursued and the CMAR agreed to reduce the final pay application by approximately $9,557.

The control standards considered, related control environment assessment and any related improvement opportunities (IO) identified are summarized in the following table.

<table>
<thead>
<tr>
<th>General Control Standard</th>
<th>Control Environment/ Assessment</th>
<th>IO No.</th>
<th>Page No.</th>
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<tbody>
<tr>
<td><strong>Reliability and Integrity of Financial and Operational Information:</strong></td>
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<td>• Contractor billings are supported by the contractor’s job cost ledger</td>
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<tr>
<td>• 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</td>
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<td>• Adequate documentation is provided to support charges made to General Conditions with the pay applications and General Conditions are allowable per the contract</td>
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<td>• Allowances and contingencies are accurately tracked and properly approved</td>
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<td>• Charges for indirect costs such as fees, taxes and insurance are supported or accurately calculated</td>
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<td>• Subcontractor billings are submitted with sufficient information to determine price reasonableness</td>
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<td><strong>Safeguarding of Assets:</strong></td>
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<td>• Payments made are supported by work completed</td>
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<td><strong>Effectiveness and Efficiency of Operations:</strong></td>
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<td>• The overall contract is clear, effective and efficient to administer</td>
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### General Control Standard
(The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)

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- 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

#### Legend:

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<th>Reasonably Strong Controls In Place</th>
<th>Opportunity for Improvement</th>
<th>Significant Opportunity for Improvement</th>
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We appreciate the assistance provided by the staff of McCarthy Building Companies, Inc. and NAU Planning, Design & Construction during the audit.

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