



THE UNIVERSITY OF ARIZONA
BUSINESS AFFAIRS

Internal Audit

University Service Annex West Suite A125
P.O. Box 21300
Tucson, AZ 85720300

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To:



Arizona Stadium Renovation Construction Contract

Submitted to:

Peter Durbin, Assistant Vice President, University Architect
Ralph Bink, Executive Director, Engineering Design and Construction
Arna Gray, Director, Construction

Copies to:

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Notice to Proceed was issued January 18, 2018, for initial construction work. The contract called for substantial completion by August 31, 2018, for specific portions of the east sideline renovation as described by contract documents and September 24, 2018, for the remaining work. PD&C was satisfied with the quality of the work and issued Certificates of Substantial Completion on August 31, 2018, and September 24, 2018, for work specified in the contract documents.

The AZSR project had an initial construction phase GMP of \$1,610,793 plus one amendment totaling \$18,229,686 and four change orders totaling \$296,295, bringing the total construction phase final GMP to \$20,136,774. See the chart below for details:

	GMP Description	Amount
Initial Pre-		

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- x contingency funds were managed in accordance with contract requirements;
- x indirect construction costs (overhead, profit, and fees) were applied as specified by the construction contract; and
- x opportunities for process improvements exist.

Scope: Our audit of the AZSR project included all construction phase expenses paid to the D-B contractor from the start of the construction phase in January 2018 through the final payment application processed in October 2020.

We relied on PD&C's expertise for the construction technical aspects and, therefore, our scope of work did not include any on-site inspections to assess construction methods, materials, or compliance with design specifications. We also did not include any costs associated with the project that were not part of the D-B construction phase contract, including architectural fees or PD&C internal costs.

Methodology: Based on the audit risk assessment, selected sections of the Arizona University System Standard Construction Audit Program were utilized to achieve our stated audit objectives and included:

- x preparing a control schedule of the initial and final GMP amounts, including all budget adjustments and total amounts paid, to ensure payments to the D-B contractor did not exceed the approved total GMP;
- x reconciling the job cost ledger against the final pay application line item amounts to verify costs were actually incurred;
- x reviewing supporting documentation for a judgmentally selected sample of pay applications (3 of 15 that totaled \$7,768,174 and represented 20% of total pay apps and 39% of the total contract dollar amount of \$20,136,774) to ensure costs were allowable and supported;
- x comparing direct labor time reported to contractually established labor rates;
- x examining equipment rental costs and the rent vs. buy analysis;
- x reviewing job-owned equipment logs for completeness;
- x recalculating all four change orders with a total value of \$296,295 to ensure amounts agreed to subcontractor quotes and indirect costs were accurately calculated;
- x examining supporting documentation for all four change orders to ensure changes were reasonable;

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- x reviewing D-B contractor contingency fund expenditures to ensure that all uses of the contingency fund were made in accordance with the contract;
- x examining final indirect construction costs for completeness and accuracy; and
- x discussing the project with representatives from PD&C and JED.

Conclusions: Based on our audit work, we found that the financial transactions relating to construction activity generally complied with the terms of the contract. The agreed upon GMP was paid in full; however, per the contractor's job cost records, actual total construction costs exceeded the GMP. The excess costs were absorbed by the contractor and not charged to the project. Pay applications were nicely organized and supported with detailed information. Contractor pay applications agreed with actual costs incurred, and GC&GR expenses, including direct labor and job-owned equipment, were fully supported and charged to the project in accordance with contract provisions.³ Change orders represented actual changes in scope and were generally priced accurately. Additionally, contingency funds were efficiently managed, and final reconciliation of indirect construction costs were accurately calculated and supported. Finally, a minor issue with disposition of job-owned equipment was identified during the audit. A similar issue was identified in a prior audit, and process improvements are in progress; therefore, we verbally discussed this issue with management during the audit.

According to the Institute of Internal Auditors International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- x the organization's strategic objectives are achieved;
- x financial and operational information is reliable and possesses integrity;
- x operations are performed efficiently and achieve established objectives;
- x assets are safeguarded; and
- x actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Our assessment of these control objectives as they relate to the AZSR construction contract is on the following page.

³ Audit verified that there were no equipment rentals for this project.

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General Control Objectives	Control Environment	Audit Result	
		No.	Page
Achievement of the Organization's Strategic Objectives			

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