

Stephen F. Austin State University

23-IX Construction Management Close-Out – Fine Arts Expansion and Renovation

As of August 31, 2023

Audit Report 23-IX



Department of Audit Services

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EXECUTIVE SUMMARY

INTRODUCTION

The Department of Audit Services has completed an audit of Construction Management for the Fine Arts Expansion and Renovation Project, specifically for construction close-out. The project budget and costs as reported to the SFA Board of Regents in the April 24, 2023, Construction Update Report were as follows:

Element	Amount
Project Budget	
Revenue financing bonds issued on February 2, 2019	\$ 50,000,000
HEF Funds	\$ 862,678
Investment Earnings	\$ 2,137,322
Total Project Budget	\$ 53,000,000
Project Costs as of March 31, 2023, including encumbrances	\$ 49,298,897
Remaining Project Budget*	\$ 3,701,103

**Construction reported as 97% complete*

As of August 31, 2024, the project costs, including encumbrances were \$51,957,463.84.

Audit Services contracted with CBIZ Risk & Advisory Services, LLC (CBIZ) to assist with the audit, specifically to perform final project cost and contract compliance review.

The following outstanding management action plan was included in the audit:

Report #	Report Name	Audit Date as of	Action Plans
22-IX	University Construction Management Close-Out Basketball Performance Center	July 27, 2022	1

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to gain assurance that controls and processes for Construction Management, specifically for construction close-out, exist and are operating as intended, including:

- Close-out report is accurate, timely, and sufficient;
- Project payments are made in accordance with contract provisions;
- Selected terms and conditions of contracts are appropriately fulfilled;
- Close-out procedures are formally documented;
- Construction records are retained in accordance with record retention requirements;
- University has implemented previous construction management-related audit management action plans.

The audit scope included Construction Management reports and project costs as of August 31, 2023, current controls, policies, procedures, systems, and records.

We performed our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards (GAGAS)*. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on our audit objectives.

The audit methodology consisted of performing a risk assessment; reviewing applicable policies, procedures, laws, and best practices; assessing key controls; interviewing appropriate University personnel; evaluating opportunities for fraud to occur; reviewing the reports and supporting documentation; and performing other procedures as deemed necessary.

The audit criteria included:

- University policies and procedures;
- Texas Administrative Code Title 19, Part 1, Chapter 17, *Resource Planning*;
- Texas Government Code Chapter 2253, *Public Work Performance and Payment Bonds*;
- Texas Government Code Chapter 2258, *Prevailing Wage Rates*;
- Texas Education Code Subchapter Z, Section 51.9335, *Acquisition of Goods and Services*;
- Texas Education Code Subchapter D, Section 51.170, *Revenue Bonds*;
- Texas Education Code Subchapter T, Section 51.782, *Contracts for Facilities: Construction Manager-at-Risk*; and
- Other higher education best practices.

SUMMARY OF FINDINGS AND OBSERVATIONS

We gained assurance that controls and processes for Construction Management Close-Out generally existed and were operating as intended. We found project payments were made in general conformance with contract provisions, selected terms and conditions of contracts were appropriately fulfilled, and construction records were retained in accordance with record retention requirements. However, the close-out report had not been prepared.

While performing our audit, we noted an opportunity to strengthen controls, enhance compliance, or improve processes which is included in the attached Details of Audit Observations as Project Costs. The audit observation was rated using the audit ratings as shown in Appendix 1.

For the previous audit management action plan, Audit Services performed verification procedures and found the following (see Appendix 2 for audit terminology):

STEPHEN F. AUSTIN STATE UNIVERSITY DEPARTMENT OF AUDIT SERVICES
 23-IX CONSTRUCTION MANAGEMENT CLOSE-OUT – FINE ARTS

Audit Report/Date	Audit Observation	Management Action Plan	Status
22-IX University Construction Management Close-Out Basketball Performance Center As of July 27, 2022	Construction Management Procedures Recommendation: The Physical Plant Department should strengthen construction management procedures. Observation Rating: Medium	The Physical Plant Department will strengthen construction management procedures. Original implementation date was May 31, 2023. Update 08/31/24: Effective September 1, 2023, with SFA joining the UT System (UTS), the UTS Office of Capital Projects has assumed responsibility for the management and delivery of Major Construction and Repair and Rehabilitation Projects as outlined in UTS Regents Rules (RR) 80301 and 80402 and the UT System’s Guide to Major Project Delivery. Management will modify its Project Delivery Manual to reflect delivery of only campus managed projects outlined in UTS RR 80403. The project close-out report has been completed. New implementation date is May 31, 2025.	In process with a new implementation date

* See Appendix 1 for Observation Rating descriptions

ACKNOWLEDGMENTS

We appreciate the assistance provided to us during our audit by Physical Plant; Procurement and Business Services; Environmental Health, Safety, & Risk Management; and the Office of Financial Reporting.



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DETAILS OF AUDIT OBSERVATIONS

Observation 1: Project Costs

Background: Audit Services contracted with CBIZ Risk & Advisory Services, LLC (CBIZ) to assist with the audit, specifically to perform final project cost and contract compliance review. A detailed review of the following project costs paid to KDW through August 31, 2023, was performed.

Project Phase	Amount Reviewed
Preconstruction	\$ 100,763
Phase 1	\$ 779,839
Phase 2	\$ 41,510,541
Total Project Costs Reviewed by CBIZ	\$ 42,391,143

Observation: The review identified \$156,362.01 (0.37% of total project costs reviewed) in questionable project costs. This amount does not include \$705,542 in subcontractor change orders that were not reviewed as there was no detailed itemized pricing in support of the labor, materials, and equipment amounts as required by Texas Uniform General Conditions.

Observation Rating: Medium

Recommendation: Finance and Administration should review the questionable project costs and determine appropriate disposition.

Management Response: Finance and Administration reviewed, in consultation with UTS, the questionable project costs and determined \$34,000 is due to contractor. The adjustment will be reflected in the final application for payment for the project.

Responsible Party: Vice President for Finance

Follow-Up: Audit Services has verified that management has appropriately addressed this observation, thus no further audit follow-up is required.

APPENDIX 1 OBSERVATION RATINGS

Audit Services uses professional judgment to rate the audit observations identified in audit reports. The audit observation ratings are determined based on the risk or effect of the issues in relation to the audit objective(s), along with other factors. These factors include, but are not limited to, financial impact; potential failure to meet area/program/function objectives; level of compliance with laws, regulations, and other requirements or criteria; adequacy of the design of control activities and information system activities; level of potential fraud, waste, or abuse; control environment; history of audit issues; and other pertinent factors.

Rating	Description
Low	The audit observation does not present significant risks or issues that could negatively impact the University in the area/program/function audited. Action is needed to address the audit observation.
Medium	The audit observation presents risks or issues that if not addressed could moderately impact the University in the area/program/function audited. Action is needed to address the audit observation and reduce risks to a more desirable level.
High	The audit observation presents risks or issues that if not addressed could substantially impact the University in the area/program/function audited. Prompt action is needed to address the audit observation and reduce risks to a more desirable level.
Priority	The audit observation presents risks or issues that if not addressed could critically impact the University in the area/program/function audited. Immediate action is needed to address the audit observation and reduce risks to a more desirable level.

Other less significant observations may be shared verbally with management during the audit or at a concluding meeting.

APPENDIX 2 SFASU FOLLOW-UP AUDIT TERMINOLOGY

In an audit that incorporates follow-up on management action plans, the audit report terminology may include the following:

SFASU Audit Services Terminology	
Category	Explanation
<i>Implemented</i>	The Administrator responsible for implementation represented that the management action plan was completed and fully implemented as of the audit scope date. Audit Services performed verification procedures.
<i>In process but with a revised target implementation date</i>	The Administrator responsible for implementation represented that the University was in the process of addressing the management action plan in an appropriate manner but additional time was needed for implementation and the target implementation date was revised as of the audit scope date.
<i>Verified</i>	Audit Services verified the management action plan was implemented at the time of audit report issuance; thus, no representation from the responsible Administrator was needed.
<i>Excluded</i>	The management action plan was excluded from further audit work; thus, no representation from the responsible Administrator was requested.
<i>Closed</i>	Audit Services closed the management action plan as the process, system, or control was no longer applicable.
<i>Open</i>	Audit Services requested representation from the responsible Administrator for management action plans in this category as of the audit scope date.
<i>Original Implementation Date</i>	The implementation date provided by the responsible Administrator in the original audit report.
<i>Target Implementation Date</i>	The implementation date provided by the responsible Administrator in a previous follow-up audit report.
<i>New Target Implementation Date</i>	The implementation date provided by the responsible Administrator for the current follow-up audit report.