



**Internal Audit Department**

**Student Athlete Higher Performance Center**

**May 12, 2022**  
**Report Number FY22-01**

**Distribution:**

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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

Northern Arizona University (NAU / university), serving as an Independent Contractor on behalf of the University Student Athletic Facilities LLC (USAF), contracted with CORE Construction and other vendors to complete construction of the Student Athlete High Performance Center (SAHPC). The university determined the necessary hours of work and provided the tools, equipment, vehicles, and supplies needed for the completion of the SAHPC. Audit of the SAHPC is in the Annual Audit Plan for Fiscal Year 2022, as approved by the Audit Committee of the Arizona Board of Regents. This audit supports NAU's strategic goals of student success and sustainable stewardship of resources.

**Background:** Construction administration and oversight of the SAHPC are being provided by University Student Athletic Facilities LLC (USAF), with USAF contracting with the NAU Planning, Design & Construction department for project management expertise and services.

USAF is a limited liability company founded on August 12, 2019 for the purpose of acquiring, developing, constructing, maintaining, and operating capital facilities for the use and benefit of NAU. Construction of its sole project, the SAHPC, began in May 2020 and was substantially complete on February 11, 2022, and the opening ribbon-cutting ceremony occurred on April 22, 2022.

The USAF was established whereby the Northern Arizona Capital Facilities Finance Corporation (NACFFC) is the sole member of the USAF. NACFFC was incorporated on October 19, 2001, as a nonprofit corporation under the laws of the State of Arizona for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of NAU students. The NACFFC is a component unit of the university and is discretely presented in the university's financial statements. See additional details at Exhibit A.

In order to raise capital needed for the SAHPC project, the USAF sold Revenue Bonds in the aggregate original principal amount of \$46,780,000 dated April 8, 2020. This debt is tested by independent financial auditors for accuracy and completeness to ensure that the financial position of NACFFC and the changes in its net assets and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. All costs associated with the administration USAF LLC are provided by NAU except for liability insurance, which is carried on behalf of the board of directors of the entities.

The SAHPC is a collaboration between NAU Athletics and the College of Health and Human Services. The building is focused on the wellness and development of NAU student-athletes and provides educational opportunities for NAU students. The building's features include a Public Welcome Area including NAU Hall of Fame and Box Office, Practice/Competition Gym, Strength and Conditioning, Sports Medicine Facilities, Nutrition Station, Oxygen-Related Altitude Training and Recovery, and Academic Support. The SAHPC was originally estimated to be approximately 77,000 square feet of academic and study space, athletic training and strength conditioning space, and life skills space and was finished at approximately 72,000 square feet.

**Audit Objective:** The primary audit objectives were to assess internal controls to ensure USAF LLC performs appropriate oversight over the SAHPC project to ensure that key construction terms were met, charges are adequately supported by actual costs incurred and proposed change orders are sufficiently documented.

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**Scope:** The scope of this audit included a review of procedures, and processes supporting management of the entire SAHPC as well as addressing internal controls designed to ensure financial transactions were appropriately reviewed, approved, and documented. We focused primarily on review and analysis of the USAF oversight and monitoring processes and otherwise conducted such analysis, tests, and other procedures as we deemed necessary to address the audit objectives.

As discussed in the Background, the oversight structure for this construction project was unique compared to past NAU construction projects in that oversight was provided by the USAF LLC, working in essence as NAU’s owner’s representative for the project. This thereby provided an additional level of monitoring and oversight not provided for past construction projects audited by Internal Audit. As such, we deviated from the typical ABOR CMAR Audit Program and focused our analysis on ensuring the LLC provided the oversight and level of monitoring expected, testing their oversight practices more than applying detail testing to individual progress payments and related details.

**Methodology:** The following procedures were performed to accomplish the audit objectives:

- Obtained and analyzed relevant data that appeared applicable to NAU using resources available from other professional associations (e.g., the Association of College and University Auditors), information gleaned from past audits, internet searches, and discussion with professional peers.
- Analyzed applicable rules and regulation to determine applicability to NAU, including consultation with the USAF LLC authorized representatives.
- Reviewed related ABOR and NAU policies, procedures, and guidelines.
- Interviewed management and staff of the USAF LLC and NAU departments responsible for supporting the SAHPC project including Facilities Project Management, University Finance and Business Services Comptroller’s Office, etc. to understand and analyze the entire process.
- Analyzed the accompanying financial statements of Northern Arizona Capital Facilities Finance Corporation (Corporation), and its wholly owned subsidiaries, Pine Ridge Village/Campus Heights LLC, North Campus LLC, Student and Academic Services LLC, and University Student Athletic Facilities LLC, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

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:** The SAHPC project was adequately controlled by the Facility Project Management group, Comptroller’s Office, Accounting and Financial Planning and Oversight departments as overseen by the USAF LLC authorized representatives, and nothing came to our attention indicating otherwise.

Controls Assessed		
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The project was managed well within the original project timelines and benefitted from project direction that ensured materials were ordered sufficiently in advanced to avoid delays that many construction projects have seen and continue to see resulting from the supply chain issues brought on by the COVID pandemic.

We identified improvement opportunities related to procedure improvement and implementation, enhanced use of existing resources, and directed use of staff resources.

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The control standards considered and related control environment assessment are summarized in the following table.

<b>General Control Standard</b> (Bulleted items are internal control objectives that apply to the general control standards and will differ for each audit.)	<b>Control Environment/ Assessment</b>
<b>Reliability and Integrity of Financial and Operational Information:</b>	
• Processes have appropriate oversight to ensure accuracy and completeness	
• A project budget is established and monitored	
• Periodic reconciliation of disbursements is performed	
• Financial transactions are correctly posted to the general ledger	
<b>Effectiveness and Efficiency of Operations:</b>	
• Processes are assigned for review and related follow-up to appropriate parties	
• Departments have appropriate segregation duties	
• Evidence of review and approvals are appropriately documented	
<b>Safeguarding of Assets:</b>	
• Payment requests are reviewed and supported by appropriate back up	
• Disbursement to external and internal recipients are appropriately authorized	
<b>Compliance with Laws and Regulations:</b>	
• Individuals are assigned responsibility for ensuring progress status is tracked, applicable concerns are escalated and addressed, and compliance with ABOR related policies and contract terms are met.	
• Processes, accounts, etc. are independently reviewed where required	
<b>LEGEND:</b>	
Reasonably Strong Controls In Place	
Opportunity for Improvement	
Significant Opportunity for Improvement	

We appreciate the assistance provided by the staff of CORE Construction, Inc., the USAF LLC, and NAU Planning, Design & Construction during the audit.



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**EXHIBIT A**

**Additional SAHPC Oversight Details**

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The NACFFC is a component unit of the university and is discretely presented in the university's financial statements. For financial reporting purposes, only the statement of financial position and the statement of activities of the component units are included in the university's financial statements, as required by generally accepted accounting principles for public colleges and universities.

In order to raise capital needed for the SAHPC project, the USAF sold Revenue Bonds in the aggregate original principal amount of \$46,780,000 dated April 8, 2020; interest payable semi-annually at an interest rate of 2.8 percent based on terms; principal payable annually in various amounts beginning June 1, 2021 through June 1, 2044; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under terms of the Trust Indenture.

Pursuant to the terms of the Trust Indentures, relating to the Series 2014, Series 2016, Series 2017, and Series 2020 Bonds, proceeds of the bonds were deposited into certain funds and accounts established with the Trustee. Accounts currently held by Trustee consist of debt service accounts required by the Trust Indentures.

On April 1, 2020, USAF entered into a ground lease agreement with ABOR. The ground lease included the real property and improvements thereon located in Flagstaff, Arizona on NAU's campus at the SAHPC project site.

On April 1, 2020, NAU also entered into a lease purchase agreement with USAF. During the 25-year lease term, the agreement provides for NAU's lease purchase of the SAHPC for \$46,780,000 in fiscal year 2020. Upon expiration of the lease, the real property will become the sole property of NAU without further cost. The lease will be recorded when the building is completed.

USAF and the Arizona Board of Regents for and on behalf of NAU hereby enter into this Contract for Services dated ("Contract"), pursuant to the following terms and conditions:

1. University shall provide the services and USAF agrees to pay the amounts as are set below:
  - University shall provide LLC with project management services for the construction of the Student Athlete High Performance Center (the "Project").
  - USAF agrees to pay university, as consideration for performance of the services as set forth in the preceding paragraphs, a project management fee of two percent (2%) of the total Project costs. In addition to the project management fee, USAF agrees to reimburse university for other direct project costs and fees associated with management of the Project.
2. For all purposes under the terms of this Contract, university shall be an Independent Contractor, and not an officer or employee of the USAF. The USAF shall provide no benefits to university or university's employees, including but not limited to Worker's Compensation coverage, regularly afforded to staff, faculty, administrative, or professional employees. In performance of services hereunder, university shall determine the necessary hours of work. University shall provide whatever tools, equipment, vehicles, and supplies the university may determine to be necessary in performance of services hereunder.

Note also that ABOR covers the liability insurance for the project.

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