



**Date:** January 27, 2022

**To:** Peter Dourlein, Assistant Vice President, University Architect  
Ralph Banks, Executive Director, Engineering, Design & Construction  
Lorna Gray, Director, Construction

**From:** *Sara J Click*  
Sara J. Click, Chief Auditor

**Subject:** Internal Audit Report (FY21 - #01)

**RE:** Arizona Stadium Renovation Construction Contract

In accordance with the approved FY 2021 Audit Plan, we conducted an audit of the Arizona Stadium Renovation construction contract to determine whether financial transactions complied with the terms of the contract. There were no recommendations for improvement to which management was required to provide a plan for corrective action.

In accordance with ABOR policy, a copy of the report will be submitted to the Internal Audit Review Board for review. Should the review board comment on the audit report, I will advise you. Additionally, a copy of the report will be provided to the ABOR Audit Committee. Should the committee comment on the report, I will advise you.

Thank you for your cooperation during the audit process.

#### Attachment

c: Barry T. Brummund  
Jon Dudas  
Liesl Folks  
Ryan H. Goodell  
Laura Todd Johnson  
Stacey Lemos  
Robert C. Robbins  
Lisa N. Rulney  
Mary Beth Tucker



## **Arizona Stadium Renovation Construction Contract**

**Report FY21 - #01  
January 27, 2022**

Submitted to:

Peter Dourlein, Assistant Vice President, University Architect  
Ralph Banks, Executive Director, Engineering, Design and Construction  
Lorna Gray, Director, Construction

Copies to:

Institutional Internal Audit Review Board  
Audit Committee, Arizona Board of Regents  
Robert C. Robbins, President  
Jon Dudas, Senior Vice President, Senior Associate to the President and  
Secretary of the University  
Liesl Folks, Senior Vice President for Academic Affairs and Provost  
Laura Todd Johnson, Senior Vice President, Legal Affairs and General Counsel  
Lisa N. Rulney, Senior Vice President and Chief Financial Officer, Business Affairs  
Barry T. Brummund, Chief Information Officer  
Ryan H. Goodell, Vice President, Facilities, Operations and Campus Planning  
Mary Beth Tucker, Interim Chief Compliance Officer  
Stacey Lemos, Assistant Vice President/Comptroller, Financial Management

# Arizona Stadium Revovation Construction Contract

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## Summary

Our audit of the Arizona Stadium Renovation (AZSR) construction contract was included in our approved Fiscal Year 2021 Audit Plan. The University of Arizona (University) contracted for construction of the AZSR with a construction phase Guaranteed Maximum Price (GMP) of \$20.1 million. This construction project was part of the approved Campus Master Plan initiative within the Strategic Plan's Institutional Excellence Pillar.

Construction projects have been identified as strategic, high-risk areas for the universities. Charges to the project may not comply with the negotiated contract, resulting in overcharges and cost overruns. Construction administration and project monitoring is provided by Planning, Design & Construction (PD&C). Since 2009, we have completed 21 audits of construction contracts administered by PD&C.



**Background:** A feasibility study of the University football stadium was performed to evaluate the cost and impact of renovating the east, west, and south sides of the stadium, including improving the infrastructure, safety, code upgrades, circulation, restrooms, concessions, and fan amenities.<sup>1</sup> As a result, the initial phase of renovation (covered by

this audit) was on the east side of the stadium and included new concessions and restrooms on the ground level concourse, student seating in the ZonaZoo area, and improvements to the southeast entrance. Conversion of a service parking alley into a pedestrian concourse and student lounge space was also part of the east stadium renovation.

The contractor was selected through the capital project selection committee process prescribed by the Arizona Board of Regents (ABOR) Procurement Code. J.E. Dunn Construction, Inc. (JED) was awarded the Design-Build (D-B) contract that included pre-construction phase services as well as construction phase management.

At its November 2017 meeting, ABOR granted Project Approval for the University's request of \$66 million for four Intercollegiate Athletics projects. The approval included the AZSR project with a budget of \$25 million that was funded with System Revenue Bonds.

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<sup>1</sup> The north side stadium renovation was completed in 2013 and covered by audit report FY14-#08.

## Arizona Stadium Revovation Construction Contract

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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-Construction Phase Fee	\$285,000
<i>Amendments 1, 2, 3, and 5</i>	2,178,483
<b>Final Pre-Construction Phase Fee</b>	<b>\$2,463,483</b>
Initial Construction Phase GMP	\$1,610,793
<i>Amendment 4</i>	18,229,686
<i>Change Orders 2 through 5<sup>2</sup></i>	296,295
<b>Final Construction Phase GMP</b>	<b>\$20,136,774</b>
<b>Total Pre-Construction and Construction GMP</b>	<b>\$22,600,257</b>

**Audit Objectives:** Our audit objective was to determine whether financial transactions relating to construction activity complied with the terms of the contract. Based on prior audit results and our risk assessment of this contract, our audit objectives included whether:

- the GMP was paid in full and did not exceed the agreed upon GMP amount;
- contractor billings were supported and agreed with actual costs incurred;
- General Conditions and General Requirements (GC&GR) expenses, including direct labor, equipment rental, and job-owned equipment costs, were allowable, adequately supported, and charged to the project in accordance with contract provisions;
- change orders were priced according to the contract terms and represented an actual change in scope;

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<sup>2</sup> *Change Order 1* did not pertain to the east sidelines portion of this project.

## Arizona Stadium Revovation Construction Contract

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- contingency funds were managed in accordance with contract requirements;
- indirect construction costs (overhead, profit, and fees) were applied as specified by the construction contract; and
- 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:

- 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;
- reconciling the job cost ledger against the final pay application line item amounts to verify costs were actually incurred;
- 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;
- comparing direct labor time reported to contractually established labor rates;
- examining equipment rental costs and the rent vs. buy analysis;
- reviewing job-owned equipment logs for completeness;
- 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;
- examining supporting documentation for all four change orders to ensure changes were reasonable;

## Arizona Stadium Revovation Construction Contract

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- reviewing D-B contractor contingency fund expenditures to ensure that all uses of the contingency fund were made in accordance with the contract;
- examining final indirect construction costs for completeness and accuracy; and
- 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.<sup>3</sup> 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:

- the organization's strategic objectives are achieved;
- financial and operational information is reliable and possesses integrity;
- operations are performed efficiently and achieve established objectives;
- assets are safeguarded; and
- 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.

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<sup>3</sup> Audit verified that there were no equipment rentals for this project.

# Arizona Stadium Revovation Construction Contract

General Control Objectives	Control Environment	Audit Result	
		No.	Page
<b>Achievement of the Organization's Strategic Objectives</b>			
<ul style="list-style-type: none"> <li>Strategic objectives were met by supporting the Campus Master Plan initiative within the Strategic Plan's Institutional Excellence Pillar.</li> </ul>	Reasonable to Strong Controls in Place		
<b>Reliability and Integrity of Financial and Operational Information</b>			
<ul style="list-style-type: none"> <li>The GMP was paid in full and did not exceed the agreed upon GMP amount.</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Contractor billings agreed with actual costs incurred.</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>GC&amp;GR expenses were adequately supported, accounted for, and charged in accordance with contract provisions.</li> </ul>	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> <li>Change orders represented actual changes in scope and were priced and approved according to contract requirements.</li> </ul>	Reasonable to Strong Controls in Place		
<b>Effectiveness and Efficiency of Operations</b>			
<ul style="list-style-type: none"> <li>Contingency funds were efficiently managed in accordance with contract requirements.</li> </ul>	Reasonable to Strong Controls in Place		
<b>Safeguarding of Assets</b>	Not Applicable		
<b>Compliance with Laws and Regulations</b>			
<ul style="list-style-type: none"> <li>Final reconciliation of indirect construction costs was accurate and complete.</li> </ul>	Reasonable to Strong Controls in Place		

We appreciate the assistance of both PD&C and JED representatives during the audit.

*Deborah S Corcoran*

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