LEEP 2 Audit Completion Report

Introduction

*Changing for Excellence* recommended that KU implement construction auditing to recover or avoid costs. The original goal was to “embed audit language in all future construction contracts and engage a professional construction audit group to enhance due diligence and financial control.” LEEP 2, with an approximately $66,800,000 CM at Risk contract, was the first construction project selected to be audited.

Background

The LEEP 2 audit began with several contract discussion with Steve Scannell, DCM, and Michael Rosenberg, Risk Management. Leigh Myers, DCM project manager, Shannan Nelson, and Pam Bray then met with Turner Construction staff to review the audit process.

Because the construction project was already in progress, the audit began with the July 2013 Pay Application 10. Pay Applications 1-9 were audited later in the fall. Pay applications were audited monthly and then reviewed with Turner Construction management. Credits agreed to were included on the next pay application.

Results

The audit process tracked cost savings, cost avoidance, and cash flow savings.

Cost savings were defined as expenses for which KU received a credit on a subsequent pay application.

Cost avoidance was defined as items that were originally charged to the project as a cost of work, but were actually general conditions expenses. The contract capped General conditions expense at a not-to-exceed maximum. These general conditions expenses do not require an invoice to be reimbursed. For example, construction manager employee expenses are general conditions expenses verified by construction manager-created time sheets, not an invoice. Cost of work expenses may only be charged to the project if verified by an invoice. If a construction manager is able to move expenses from general conditions to cost of work, more difficult to verify expenses can be submitted coded to general conditions.

Cash flow savings were defined as expenses charged to the project at an earlier date than was appropriate. In the case of this project, the construction manager incorrectly applied the retention
formula, resulting in an October 2014 request for a $51,493 payment that was not due until project completion.

The first pay application audit resulted in a number of questions and requests for further information. Several items were incorrectly coded; maintenance for leased vehicles and management overtime were charged to the project. A $718 credit was issued and $5,345 was moved from cost of work to the general conditions expense category.

Over the next 41 monthly audits, a wide variety of issues were noted, discussed with Turner, and resolved. While most cost savings were under $500, a number were sizeable.

- $569 for taxes incorrectly charged
- $2,870 for vehicle maintenance
- $3,706 in holiday labor charges
- $3,949 in duplicate labor charges
- $27,942 for excess insurance and bond charges
- $28,510 for excess general conditions charges

At its conclusion, the LEEP 2 audit resulted in $48,504 of cost avoidance, $202,078 in cost savings, and $51,493 in cash flow savings.
Conclusion

Much was learned and several changes were made to the process during this audit.

First, there was initial concern that DCM project managers would find the audit process burdensome and time consuming. At the conclusion of the LEEP 2 project, the DCM project manager instead reported that he felt supported by the audit process and viewed it as a resource.

Second, the software screening tool developed to assist the audit process was ultimately rejected because it did not improve audit efficiency.

Third, it became apparent that it is important for the auditor to review the construction contract, subsequent amendments, and change orders prior to KU and contractor signature. A quick check to verify that insurance, bond, general conditions, and construction manager fees have been calculated appropriately allows errors to be easily corrected.

Fourth, the audit process found that the LEEP 2 construction manager had very different employee reimbursement policies than does KU. For example, the March 2013 Pay Application 5 contained 14 business meal reimbursement requests, none of which met KU standards for reimbursement. The construction manager also charged the project for mileage reimbursement made to a number of employees for their travel between their home and the job site. These discoveries led to contract changes which no longer allow hospitality and employee mileage between employee homes and the job site to be charged to construction projects.

Finally, auditing the LEEP 2 project resulted in significant savings for the university, $250,581 of cost savings and avoidance, plus an additional $51,493 of cash flow savings.