



Capital Improvement Project Audit Guidelines Manual

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EXECUTIVE SUMMARY

The Office of Facilities Planning & Development (FPD) has been assigned by The University of Kansas administration and the Kansas Secretary of Administration the responsibility for oversight of all design and construction projects under management authority of the Lawrence and Edwards campuses. The auditing process was designed to focus efforts on the projects, or aspects of projects, with the highest financial risks. The audit program will:

- Analyze labor, material, and rental costs
- Reconcile project expenditures
- Analyze bond and insurance expense
- Verify that expenditures meet contractual requirements

The audit process will include the following:

- Project identification: Capital improvements projects over \$1,500,000 will be audited. Projects under \$1,500,000 may be audited as needed.
 - Based on project size / complexity
 - Experience with Architect / contractor
- Architect/Contractor Requirements: Architects and contractors will be required to submit all requests for payment in a standard format per pay application with applicable backup documentation.
 - Standard G702 and G703 formatting required
 - Organized backup and supporting documents to correspond with pay application
- Project Manager Reconciliation: FPD project managers, working with project architects, will audit invoices, change orders, and requests for payment, checking for overcharges for labor and material, charges for non-allowable costs, re-work and general alignment with scope of work completed aligns with pay application requests.
- Auditor Reconciliation: FPD auditors will audit invoices, change orders, requests for payment, and the project budget, checking calculations, double billings, overcharges, and charges for non-allowable costs.
 - May seek third party review as needed, Maximum 1% bond, Maximum 2% insurance
 - Monthly review and subsequent reports
 - Verify expenditures meet contractual requirements

PROCESS OUTLINE

Capital improvement projects are generally contracted as either a Construction Manager at Risk (CM at Risk) or a General Contractor (GC) managed project.

Because of the different financial risks associated with the two processes, audits will be tailored to the uniqueness of each process.

Audit Process for CM at Risk (Guarantee Maximum Price) Projects:

Audit Process for Construction Manager at Risk (GMP) Projects	Person Responsible
Kickoff meeting with FPD Project Manager to review contract, project scope, and schedule of values	PM and Auditor
Kickoff meeting with general contractor / architect to review the audit process and requirements	PM and Auditor
Prepare audit monthly schedules	Auditor
Note: AE and FPD PM looking for overcharges for labor, materials, re-work, charges for non-allowable costs, failure to deliver contracted scope. AE/PM will maintain log of costs savings that will be submitted to auditor. Auditor looking for incorrect calculations, double billings, charges for non-allowable costs, double checking on overcharges	
Analyze requests for payment:	PM, Auditor
Direct labor - quantity, appropriateness, contract terms	PM
Direct labor - calculations, contract terms	Auditor
Material purchases - quantity, quality, appropriateness, contract terms	PM
Material purchases - calculations, contract terms	Auditor
Equipment rental - quantity, quality, appropriateness, contract terms	PM
Equipment rental- calculations, contract terms	Auditor
Analyze change orders, allowances, and contingencies:	PM, Auditor
Direct labor - quantity, appropriateness, contract terms	PM
Direct labor - calculations, contract terms	Auditor
Material purchases - quantity, quality, appropriateness, contract terms	PM
Material purchases - calculations, contract terms	Auditor
Equipment rental - quantity, quality, appropriateness, contract terms	PM
Equipment rental- calculations, contract terms	Auditor
Analyze bonds and insurance based on 1% / 2% limits.	Auditor / PM/ KU Risk Management
Reconcile project expenditures	Auditor / PM
Review areas of concern with project manager	Auditor / PM
Review areas of concern with vendor/contractor/architect	Auditor / PM
Request invoice adjustment as needed	Auditor / PM
Prepare monthly report	Auditor
Prepare final audit report	Auditor

Audit Process for General Contractor (competitive bid) Projects

Audit Process for General Contractor (competitive bid) Projects	Person Responsible
Kickoff meeting with FPD Project Manager to review contract, project scope, and schedule of values	PM and Auditor
Kickoff meeting with general contractor / architect to review the audit process and requirements	PM and Auditor
Prepare audit monthly schedules	Auditor
Note: AE and FPD PM looking for overcharges for labor, materials, re-work, charges for non-allowable costs, failure to deliver contracted scope. AE/PM will maintain log of costs savings that will be submitted to auditor. Auditor looking for incorrect calculations, double billings, charges for non-allowable costs, double checking on overcharges	
Analyze change orders, allowances, and contingencies:	PM, Auditor
Direct labor - quantity, appropriateness, contract terms	PM
Direct labor - calculations, contract terms	Auditor
Material purchases - quantity , quality, appropriateness, contract terms	PM
Material purchases - calculations, contract terms	Auditor
Equipment rental - quantity, quality, appropriateness, contract terms	PM
Equipment rental- calculations, contract terms	Auditor
Analyze bonds and insurance based on 1% / 2% limits.	Auditor / PM / KU Risk Management
Review project budget and verify accuracy	Auditor / PM
Review areas of concern with FPD project manager	Auditor / PM
Review areas of concern with vendor/contractor/architect	Auditor / PM
Request invoice adjustment as needed	Auditor / PM
Prepare monthly reports	Auditor
Prepare final audit report	Auditor

PROJECT IDENTIFICATION

All contractors managing capital improvement projects will be notified as part of the standard contract process that their project could be audited.

To maximize efficiency, audits will normally be performed on capital improvement projects with a budget of at least \$1,500,000. Projects with a budget of less than \$1,500,000 may be chosen for audit based on the following criteria:

- Audit history of architect and/or contractor
- FPD project manager or KU leadership concerns

Audit staff will be notified of new projects meeting the audit criteria by the FPD. Information to be given to the auditor will include:

- Name of project
- Name of FPD projector manager
- Type of project (CM or GC)
- Name of contractor and architect
- Total project budget
- Project number

FPD PROJECT MANAGER RECONCILIATION:

FPD project managers, working in conjunction with project architects, play a vital role in the audit process. These individuals are KU's capital improvement industry experts and are the first to evaluate change order requests, requests for payment for re-work, allowance requests, and to review standard requests for payment.

FPD project manager responsibilities:

- Attend a kickoff meeting with the FPD auditor to review the project contract, project scope, and schedule of values. Describe unique contract requirements that could impact an audit.
- Coordinate a kickoff meeting with the general contractor, architect and/or construction manager to introduce the auditor and review the audit process and requirements.
- For Construction Manager at Risk projects, the FPD project manager will analyze requests for payment, change orders, allowances, and items charged to the contingency budget for:
 - Appropriateness of charge based on project requirements
 - Direct labor and materials quantity, quality and cost
 - Equipment rental cost
 - Contract compliance
- For General Contractor (Competitive Bid) projects, the FPD project manager will analyze change orders, allowances, and items charged to the contingency budget for:
 - Appropriateness of charge based on project requirements
 - Direct labor and materials quantity, quality and cost
 - Equipment rental cost
 - Contract compliance
- Prepare and maintain the project budget
- Notify FPD auditor of concerns

- Assist auditor in working with GC/CM as needed

Payment Process:

Payment requests will follow FPD's current protocol. Requests will first be received by the FPD project manager. After approval, the signed paperwork will be forwarded to the FPD accounting staff responsible for inputting it into the KU accounting system.

- Auditor review will include items of concern that will be notated on the invoice and emailed to the appropriate FPD project manager.
- After consultation with the FPD project manager, invoices will be emailed to the appropriate architect or contractor for explanation.
- Auditor will notify, via email, the FPD project manager at the conclusion of the investigation.
- The FPD project manager will coordinate with FPD accounting and the vendor of the item in question if either an item will not be paid or the amount due has changed.
- The auditor will note the reason for the change, the date of the change, and the cost savings on the auditor's project log.

AUDITOR RECONCILIATION

FPD auditors will audit invoices, change orders, requests for payment, and the project budget, checking for incorrect calculations, double billings, overcharges, and charges for non-allowable costs.

Auditor reconciliation responsibilities:

- For Construction Manager at Risk projects, on a monthly basis, the FPD auditor will analyze requests for payment, change orders, allowances, and items charged to the contingency budget. For General Contractor (Competitive Bid) projects, the FPD project manager will analyze change orders, allowances, and items charged to the contingency budget in order to:
 - Determine that calculations are correct
 - Determine that charges comply with contract requirements
- Items of concern will be notated on the corresponding invoice and routed via email report to the FPD project manager.

- After consultation with the FPD project manager, a review summary will be emailed to the appropriate architect or contractor for further explanation.
- The FPD auditor will notify, via email, the FPD project manager at the conclusion of the investigation.
- The FPD project manager will coordinate with FPD accounting and the vendor of the item in question if either an item will not be paid or the amount due has changed.
- Cost Savings Log: The auditor will maintain a log resulting from audit actions. At the end of each month, the auditor will submit the cost savings log to the FPD project manager, the assistant director, and the director.

BONDS AND INSURANCE

Any amounts over 1% for bonds and 2% for insurance may be referred to Lockton for review and advice.

REPORTS

Reports will be used to monitor and report on project expenses and audit results.

FPD PROJECT BUDGET

FPD will continue to use the current project budget process to monitor projects. This budget may be reviewed by the auditor monthly. Any errors found will be reported to the appropriate FPD project manager.

FREQUENTLY ASKED QUESTIONS

The following guidelines apply to all project expenses that were not competitively bid.

Q1: Can food and beverage expenses be charged to projects?

A1: Food and beverage purchases, paid with University funds, must follow KU policy in order to be charged to and paid by a project. This expense should be budgeted as part of the construction manager's fee. Refer to [KU Food and Beverage Policy](#).

Q2: What food and beverage expenses are allowable?

A2: This expense should be budgeted as part of the construction manager's fee. Refer to the policy referenced in Q1. Food/beverages supporting official business (workshop, training session)

- As evidenced by a formal program agenda, statement of purpose, listing of participants;
- Food/beverages must serve as an essential ingredient for success, not merely a hospitality enhancement;
- Provision of food/beverages must serve a clear University of Kansas business purpose.

Food/beverages supported by collected event fees (typically within a conference registration fee, banquet fee, etc.)

- As evidenced by a formal program/agenda, statement of purpose, listing of participants.

Q3: What food and beverage expenses are not allowable?

A3: Refer to the policy referenced in Q1. Food/beverage provided in a largely social setting, such as receptions, parties, gatherings which do not serve a clear official business purpose.

Food/beverages provided as incidental to normal meetings, typically involving predominantly employees (staff meetings, committee meetings, etc.) on which the success of the meeting does not depend on food/beverages being served. Therefore, the costs of food or beverage should not be borne by state funds.

- Example: Staff meetings throughout the business day (e.g., a staff meeting that lasts 1-2 hours & occurs during the morning or afternoon). (Note: In comparison to a meeting over the meal hour, food or beverage for this type of meeting is a "nice to have" but not a necessity in order to have a successful meeting.)

Q4: What are examples of allowable food and beverage costs that can be charged to a project?

A4: This expense should be budgeted as part of the construction manager's fee. Refer to the policy referenced in Q1. Below are two examples of allowable expenses. Contact KU if you have any questions concerning if an expense is allowable.

- All-day or half-day workshops or training sessions
- Staff meetings scheduled over a meal hour due to limited schedule availability. (Note: Business purpose is justified in that the meeting would not have occurred if staff were not provided the opportunity to eat lunch and not all staff have the ability to bring a sack lunch).

Q5: May employee transportation expenses, from home to work and back home, be charged as a project expense?

A5: Employee transportation expenses may be charged to a project in a manner consistent with the construction manager's corporate policies. This expense should be budgeted as part of the construction manager's fee.

Q6: May expenses for vehicles provided to employees be charged as a project expense?

A6: Construction managers may cover vehicle/transportation expenses for project employees in a manner consistent with the construction manager's corporate policies. This expense should be budgeted as part of the construction manager's fee. Construction equipment stationed at the job site should be budgeted as a general conditions expense.

Q7: May employee mileage and or vehicle expenses be reimbursed for trips to/from the project location and the company's offices?

A7: Mileage and/or vehicle expenses may be charged for trips whose purpose is 100% tied to the KU project being charged. These expenses should be budgeted as part of the construction manager's fee.

Q8: May project funds be spent to place non-KU logos on items?

A8: In general, project funds may not be spent to place a non-KU logo or custom related logos on items. It is recommended that you check with the KU project manager or auditor prior to spending project funds.

- a. Safety Equipment, including vests and hard hats – No
- b. Marketing materials, such as pens, paper pads, etc. – No
- c. Signage on trailers, fencing, or vehicles beyond KU requirements – No

- d. Official KU project signage that includes the names of the A/E, CM, KU and client group – Yes
- e. Official KU wind screen with A/E, CM/GC, and KU - Yes

Q9: May employee vacation, holiday, sick days, etc. be charged to a project?

A9: In accordance with the signed contract, employee benefits may be charged to a project. The cost of these benefits should be included in the hourly rate charged per employee/job classification. Only actual hours worked should be charged to a project.

Q10: May late charges from subcontractors or suppliers be passed on to KU?

A10: No