



Campus Construction

Internal Audit Report No. R2103
November 3, 2020



Executive Summary

Audit Objective: To evaluate the design and effectiveness of the policies and procedures in place for renovation and deferred maintenance projects at UT Dallas, including a review of the process for governance and oversight to approve a project, awarding a bid, billing, and final payment.

Conclusion: The audit resulted in opportunities to formalize and enhance processes and procedures for renovation and deferred maintenance project initial approvals, change orders, status maintenance, and vendor monitoring practices.

The scope of this audit included a review of design and effectiveness of the policies and procedures in place for renovation and deferred maintenance projects; however, through interviews and review of documentation, we noted there are various activities Facilities Management performs but are not formally documented. Activities which lack formalized policies and/or procedures include:

- Change orders
- Project closeouts
- FIMS updates
- Initial project approvals

The Office of Internal Audit recommends senior leadership draft and formalize policies and procedures for all activities performed by the department and communicate them to all relevant parties. Facilities Management should also consider maintaining policies and procedures in a central location (e.g., file-sharing site) which can be accessible to all relevant parties. Finally, policies and procedures should be reviewed and updated on a regular basis to ensure activities are aligned with practice.

Observations by Risk Level: Management has reviewed the observations and has provided responses and anticipated implementation dates.

Observation	Risk Level	Management's Implementation Date
1. Formalize Approvals for Renovation and Deferred Maintenance Project Change Orders	Medium	Completed September 2020
2. Formalize Project Closeouts for Renovation and Deferred Maintenance Projects	Medium	December 31, 2020
3. Implement and Formalize Procedures to Consistently Update FIMS	Low	Completed
4. Formalize Initial Approvals for Renovation and Deferred Maintenance Projects	Low	Completed

For details, engagement methodology, and explanation of risk levels, please see the attached report.



Observation #1: *Formalize Approvals for Renovation and Deferred Maintenance Project Change Orders*

Medium Risk: There is not a formal process for approving change orders, and as such, change order reviews and approvals may not occur. This could result in a change order not being approved appropriately which could lead to funds not being used as intended.

Facilities Management does not have a formally documented change order policy or procedure that details the roles, responsibilities, and procedures for the change order process. Per discussion with Facilities Management, it was stated change orders must be approved by the respective project manager.

We noted there were inconsistent change order approval practices across the projects that were tested. Two of twelve (17%) change orders had blank signature lines; however, we obtained an email from Procurement that indicated approval was requested and obtained from the initial requesting department (UT Dallas client) and project

manager.

Additionally, four of twelve (33%) change orders had “UTD” on the signature line, but no project manager name or date for the approval of the change order. Similar to above, we obtained additional support (i.e., emails) which evidenced approval of these change orders from the UT Dallas client and project manager.

Recommendation: Facilities Management should work with Procurement Management to define and document change order policies and procedures. This should include defined roles and responsibilities for both departments, including detailing how approval from relevant stakeholders (i.e., vendors, project managers, UT Dallas client, Procurement Management) should be obtained and documented.

Management’s Action Plan: Project change orders are of various magnitude. Smaller installation corrections or field changes are a normal part of project execution and for efficiency and expediency should be fully managed within the authority of the project manager. Expanding such approval beyond this reach would be overly expansive and project contingency is included in normal project budgets partially for this specific reason.

Changes that could be defined as scope changes do need the approval of both the client and fund owner. As the world increasingly relies on electronic records, email from the appropriate parties including the client and the fund owner if different, is seen as an acceptable form of approval. Procurement, who actually executes the change through a modified purchase order, serves as the final arbiter to ensure appropriate parties have approved the change.

Effective immediately, Facilities Management will ensure such email approvals are appropriately filed in the project electronic records and more easily obtained as subsequent inquiries may arise.

Person Responsible for Implementation: Jeremy Head, Assistant VP Facilities Management

Estimated Date of Implementation: Sept 2020



Observation #2: *Formalize Project Closeouts for Renovation and Deferred Maintenance Projects*

Medium Risk: If there is not a documented/formalized process for project closeouts, projects could be closed out prior to the actual completion of the project. This could lead to UT Dallas paying a vendor for work which hasn't been completed. Additionally, important documentation (e.g., warranties, maintenance manuals) could be misplaced or not retained, creating risk for the institution if there is not a documented/formalized process.

Closeout checklists are utilized for each project that is nearing completion. The checklist details the administrative tasks (e.g., final invoicing) remaining to formally close a project. Per Facilities Management, closeout checklists are required to be completed for every project; however, Facilities Management did not provide closeout checklists for all five of the closed projects tested.

Additionally, there are no documented policies or procedures that require a closeout checklist to be completed to formally close out a project.

Recommendation: Facilities Management should formalize policies and procedures for closing out projects, including developing a standardized project completion checklist which includes all required close out procedures and documentation to be retained. The checklist and relevant documentation should be scanned and stored in a central location accessible to all Facilities Management personnel. Additionally, the policy should state that UT Dallas withhold final payment to the vendor until the final walkthrough is performed and outstanding punch list items are rectified.

Management's Action Plan: Observation 2 and observation 3 are linked. FIMS (Observation 3) has become the preferred electronic media for project record keeping. Project closeout procedures can be documented within FIMS without the need of a separate document. These electronic records will provide a better and more accessible history of closeout actions.

Internal FM reviews and coordination meetings with OBF staff are already in place to ensure financial records are properly closed. Project managers also ensure project documents are properly prepared and submitted by the contractor before final payment is approved.

FM will work with FIMS electronic system managers to better identify these specific steps for closeout and those completed actions will be identified within the FIMS record.

Person Responsible for Implementation: Jeremy Head, Assistant VP Facilities Management

Estimated Date of Implementation: December 2020



Observation #3: *Implement and Formalize Procedures to Consistently Update FIMS*

Low Risk: If FIMS is not consistently maintained and updated, Facilities Management and other relevant UT Dallas stakeholders may not have an accurate view of project status. Accurate and up-to-date information is critical when decisions (e.g., change orders, delays, resource allocations) need to be made. Furthermore, since project information is posted to Facilities Management’s website, there is a chance that UT Dallas stakeholders are viewing inaccurate project status information.

Facilities Management uses the FIMS application for project management. FIMS stores project information such as status and costs (budgeted and actual). Facilities Management prints out FIMS reports bi-weekly to monitor project status and posts project reports monthly to its website, which is utilized by UT Dallas stakeholders to review project statuses. Per discussion with Facilities Management, project managers are requested to update FIMS as project changes occur, but at minimum, prior to the monthly posting. We noted this is not occurring consistently.

We selected a sample of five active and five closed projects for testing. One of the five (20%) active projects selected for testing had been completed and closed-out according to the

supporting documentation provided but had an ‘active’ status and did not have a project description or project manager listed.

Another sample had an estimated and actual total cost value listed in FIMS which differed from the supporting documentation provided. The purchase order showed a project amount of \$678,820, but the estimated project cost showed a total of \$137,635 in FIMS. The \$137,635 was the cost incurred thus far for the project, but as noted, it was classified as the estimated project cost as well.

Recommendation: Facilities Management should implement and formalize procedures for project managers to update project status information in FIMS on a recurring basis (e.g., bi-weekly). The procedures should define what fields must be updated and key events which require updates to FIMS.

Additionally, Facilities Management should include a review and approval of project information prior to it being posted to the Facilities Management’s website to ensure the information being posted accurately reflects the status of the project. If there are any discrepancies or issues which arise during the review, the reviewer should follow-up with the project manager for confirmation.

Management’s Action Plan: The risk assignment for this observation is better classified as a low risk category. FIMS is strictly a campus internal log of actions that are often duplicative of separately retained email electronic records. Even with no controls, the risk to UTD is minimal.

Recommendations offered here are already in progress. Beginning in January 2020 a renewed emphasis on FIMS status review with the AVP for Engineering, Construction, and Planning was put in force. Updates are more rigorously monitored on a two-week incremental review. Public postings of select data are only executed after AVP review of individual project records.

Person Responsible for Implementation: Jeremy Head, Assistant VP Facilities Management

Estimated Date of Implementation: Current procedure



Observation #4: *Formalize Initial Approvals for Renovation and Deferred Maintenance Projects*

Low Risk: There is a risk renovation and deferred maintenance projects could be inappropriately approved out of line with UT Dallas' guidelines.

Renovation and deferred maintenance projects above \$50,000 are required to have approval from the President or Provost. Facilities Management noted Provost approval can come from anyone from within the Office of the Provost, but most often will come from the Provost or the Administrative Project Coordinator III within the Office of the Provost. Additionally, approval can be provided via email or verbally; however, if approval is provided verbally,

contemporaneous documentation doesn't exist to support how decisions were made or activities that occurred.

Five of six (83%) renovation and deferred maintenance projects above \$50,000 selected for testing did not have documented approval from the Office of the Provost. The one project that had documented approval evidenced that the approval was provided by the Assistant Provost via email.

Recommendation: Facilities Management should formally document the process for approving renovation and deferred maintenance projects in a policy that states projects above \$50,000 require written, explicit approval from the Provost. If the Provost is not available, appropriate designees who can approve a project should be identified in the policy (e.g., Assistant Provost, Administrative Project Coordinator III). Facilities Management should retain the documented approval and store it within the project files.

Management's Action Plan: The \$50,000 project approval is not a documented policy. This action was informally put in place by FM as means of internal checks-and-balances to ensure information was shared with senior campus leadership and provide an overall budget indication to senior leadership of project expenditures.

Current procedure has been to share this information with the President's Facilities Committee as a coordination tool for other senior leaders not directly associated with the project to have a greater picture of activity of campus that might not necessarily be in their area. Given the myriad of responsibilities of the President and Provost, appropriate staff in their organization have provided acknowledgment and proxy approval to proceed based on their separate dialog with their reporting senior. These approvals are documented either as an email or note in FIMS. The project fund owner provides the final authority to proceed and those records are a part of the project file.

Person Responsible for Implementation: Jeremy Head, Jeremy Head, Assistant VP Facilities Management and Doug Tomlinson, Associate VP for Facilities Management

Estimated Date of Implementation: Current procedure



Appendix A: Methodology

Background

The University of Texas System Rule 80403: "[Minor Construction and Repair and Rehabilitation Projects](#)," delegates authority to individual schools within the UT System to fund and approve renovation and deferred maintenance projects under \$10 million. Facilities Management, within the Office of Facilities and Economic Development, oversees renovation and deferred maintenance projects at UT Dallas. Other services provided by Facilities Management include construction, utilities, grounds care, custodial, trash and recycling, and other services for University building and facilities.

The audit covered the renovation and deferred maintenance project lifecycle, beginning with a department's request for a project to formally closing out the project. All requests for projects must go through Facilities Management, who prioritizes projects based on the need of the University (i.e., consequences of not addressing a project in the near future). Projects can be requested multiple ways which include: requests via the work order system, email requests, and meetings with the President, Provost, and Vice President (VP) for Budget and Finance.

Procurement Management and the Office of Budget and Finance oversee the bidding process and assist in conducting conflict of interest reviews of potential vendors. Following the awarding of a contract, Facilities Management assigns a project manager to oversee the project and work in collaboration with UT Dallas stakeholders and selected vendors to complete the project. UT Dallas renovation and deferred maintenance project processes are outlined in the [Minor Construction and Remodeling and Major Repairs](#) (UTDBP3080) policy.

Controls and Strengths

Our audit work indicated the following controls currently exist:

- Facilities Management does not consider a project "approved" until funding is received and a cost-center is created to prevent unauthorized and potentially unrecoverable costs from being expended.
- Projects over \$50,000 must be approved by the President or Provost to provide a secondary approval.
- Facilities Management maintains an access listing of users in the Work Order System, which indicates the role of each user (i.e., general user or administrator access) to ensure there are no unauthorized users and roles are appropriate for each user's responsibilities.
- Every project is assigned a project manager from Facilities Management, who is responsible for the management and oversight of the project.
- Facilities Management follows UT Dallas procurement guidelines for bidding procedures to select the most appropriate and qualified vendor(s) for each respective project.



- Facilities Management maintains an Infrastructure Project List to track backlogged projects which are prioritized based on the consequences of not addressing the project in the near future.
- Facilities Management signs certificates of substantial completion for projects of significant value to document approval and indicate the project is complete and closeout procedures can begin.
- All invoices require approval from the project manager to ensure each invoice is complete and accurate.
- Management monitors projects by reviewing the Facilities Information Management System (FIMS) and conducting weekly meetings with project managers to ensure funds are expended appropriately and resolve any issues.

Scope and Procedures

The scope of this audit was all active and closed renovation and deferred maintenance projects from fiscal year FY 2017 through FY 2019. Our fieldwork concluded on June 29, 2020. To satisfy the objectives, we performed the following:

- Reviewed policies, procedures, and other process documentation (e.g., vendor listings, project listings) related to the renovation and deferred maintenance project process.
- Interviewed UT Dallas personnel responsible for the oversight of renovation and deferred maintenance project control activities.
 - We also interviewed the Director of Purchasing who is responsible for the oversight of procurement for renovation and deferred maintenance projects.
- We judgmentally selected a sample of 10 renovation and deferred maintenance projects (five open and five closed), from fiscal year FY 2017 through FY 2019. For each project selected, we performed the following:
 - Confirmed the project was appropriately requested and approved
 - Determined whether the appropriate bidding process was followed based on the dollar threshold of the project
 - Verified the vendor(s) for the project was reviewed for potential conflicts of interest (COI)
 - Determined whether the project was completed by project deadline and within budget
 - If applicable, determined whether change orders were appropriate and approved in accordance with UT Dallas policy
 - Verified close-out procedures (e.g., final invoice sent to vendor) were performed
 - Reviewed evidence to verify the University performed due diligence to determine whether the project benefitted the University.
- Developed recommendations for improving renovation and deferred maintenance projects processes and/or compliance with internal policies and procedures.



We conducted our examination in conformance with the Texas Internal Auditing Act in conformance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Follow-up Procedures

Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. Requests for extension to the implementation dates may require approval from the UT Dallas Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

Thank You

We appreciate the courtesies and considerations extended to us from Facilities Management during our engagement. Please let me know if you have any questions or comments regarding this audit.

A handwritten signature in blue ink that reads "Toni Stephens".

Toni Stephens, CPA, CIA, CRMA
Chief Audit Executive



Appendix B: Report Distribution

<p style="text-align: center; color: #4F81BD;">Members of the UT Dallas Institutional Audit Committee</p> <p><i>External Members</i></p> <ul style="list-style-type: none"> • Ms. Lisa Choate, Chair • Mr. Gurshaman Baweja • Mr. John Cullins • Mr. Bill Keffler • Ms. Julie Knecht <p><i>UT Dallas Members</i></p> <ul style="list-style-type: none"> • Dr. Richard Benson, President • Mr. Rafael Martin, Vice President and Chief of Staff • Dr. Kyle Edgington, Vice President for Development and Alumni Relations • Mr. Frank Feagans, Vice President and Chief Information Officer • Dr. Gene Fitch, Vice President for Student Affairs • Dr. Calvin Jamison, Vice President for Facilities and Economic Development • Dr. Inga Musselman, Provost and Vice President for Academic Affairs • Ms. Sanaz Okhovat, Chief Compliance Officer • Dr. Joseph Pancrazio, Vice President for Research • Mr. Terry Pankratz, Vice President for Budget and Finance • Mr. Timothy Shaw, University Attorney, ex-officio 	<p style="text-align: center; color: #4F81BD;">UT Dallas Responsible Parties</p> <p><i>Responsible Vice President (VP)</i></p> <ul style="list-style-type: none"> • Dr. Calvin Jamison, VP for Facilities and Economic Development <p><i>Persons Responsible for Implementing Recommendations</i></p> <ul style="list-style-type: none"> • Doug Tomlinson, Associate VP for Facilities Management • Jeremy Head, Assistant VP for Facilities Management <p style="text-align: center; color: #4F81BD;">External Agencies</p> <p><i>The University of Texas System</i></p> <ul style="list-style-type: none"> • System Audit Office <p><i>State of Texas Agencies¹</i></p> <ul style="list-style-type: none"> • Legislative Budget Board • Governor’s Office • State Auditor’s Office
<p style="color: #4F81BD;">Engagement Team</p> <p><i>The Office of Audit and Consulting Services contracted with Baker Tilly to perform this engagement.</i></p> <p>Project Leader: Kimberly Ginn, CIA Project Manager: Joe Kodali, CPA, CPE Staff: Matt Johns, Josh Colangelo</p>	

¹ Per Texas Internal Auditing Act Requirements



Appendix C: Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Risk Management Committee (ACRMC). Priority findings reported to the ACRMC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.