

BOARD OF REGENTS

EASTERN MICHIGAN UNIVERSITY

SECTION: 2

DATE:

January 17, 2006

RECOMMENDATION

REPORT: INTERNAL AUDIT

ACTION REQUESTED

It is recommended that the Internal Auditor's activity report for the period December 2005 – January 2006 be received and placed on file.

STAFF SUMMARY

The report for the special request audit of the Design Build Contractor has been issued. The reports include findings and corresponding recommendations to improve controls. The recommendations have been discussed with the appropriate personnel. Management agrees with the recommendations and is proceeding with actions to implement the recommendations. Rehmann Robson. is satisfied that management's responses will satisfy the intent of the recommendations.

Also attached is the report prepared by University management on the status of audit recommendations made from the Physical Plant – Construction audit and the Mail Services audit. As noted in the report, management has agreed with the internal auditor's recommendations and that all of the recommendations have been fully implemented.

An updated internal audit activity schedule for the period ending September 30, 2006 is included with the report.

FISCAL IMPLICATIONS

The projected expenditures for Rehmann Robson are within approved budget limitations.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board Approval.

University Executive Officer

Date



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

Date: ~~December 20, 2005~~

To: Mr. Steven Holda
Interim Director of Finance and Treasurer to the Board of Regents

From: Rehmann Robson

**Re: AUDIT REPORT
DESIGN BUILD CONTRACTOR**

Attached is the report for the internal audit review, as requested by Physical Plant, of the design build contract invoices for the new student center and processed through September 30, 2005. Responses from Physical Plant have been incorporated in the report.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the prevention or detection of errors. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time. Any questions, comments, or concerns that you may have relative to this report can be directed to Kirk Balcom at (517) 841-4876.

Your cooperation with this request and assistance and support provided during this audit is appreciated.

Attachment

cc: Board of Regents
Steven Holda
Daniel Cooper
Anthony Catner

3

**Internal Audit Report
Design Build Contractor
December 20, 2005**

Rehmann Robson has completed an audit of the general requirements and the general conditions portions of the second part of the design build contract for the new student center project as requested by Physical Plant. ~~The purpose of the audit was to determine whether invoices from the design build contractor are in compliance with the contract.~~ The audit scope included a review of invoices through September 30, 2005. The design build contract has a guaranteed maximum price (GMP) of \$32.311 million. Through September 30, 2005 costs billed for the general requirements portion of the GMP totals \$1.62 million and costs billed for the general conditions portion of the GMP totals \$1.48 million.

In our opinion, invoices were not always in accordance with the contract.

Two recommendations to strengthen internal controls over payment of invoices and contract administration are noted below. We sincerely appreciated the cooperation and assistance extended to us by the Physical Plant project management team and the design build contractor personnel during the internal audit.

Finding 1

Amounts charged by the design builder staff under general conditions are based on actual salaries plus an employee benefits loading of 34 percent, actual FICA and unemployment taxes paid, and a second employee benefit loading of 2.5 percent. The design build contractor provided Rehmann Robson with salaries paid for all staff except for the project accountants and cost engineers. These staff were billed at fixed rates per hour and they billed \$5,600 per month.

Risk

There is high risk that the fixed rates charged for project accountants and cost engineers exceeds their actual salaries plus benefits and taxes.

Recommendation

We recommend that the design build contractor provide actual salaries of the project accountants and cost engineers. Any overcharges would have inflated the general conditions portion of the GMP. Therefore, the effect of these overcharges on the calculation of the general conditions portion of the GMP should be reflected as a reduction to the GMP, via a change order, so that 100 percent of the overcharge accrues to the University.

Management's Response

Management requested the audit to determine if any overcharges existed in the General requirements and general conditions and to assure future charges are compliant. We agree that any verified overcharges should be returned to the University via a change order.

Finding 2

The actual salaries of design builder staff and time worked per time sheets are not obtained each month by Physical Plant staff so that the invoice can be recomputed and verified.

Risk

Without this verification the University may be overcharged and may not detect a refund potential in the event the GMP has not been exceeded at close out of the project.

Recommendation

Obtain actual salaries and time worked each month and recompute the invoice.

Management's Response

Management agrees with the finding that this verification is necessary. For all future invoices EMU will request to receive the details by month for each invoice for actual cost verification. A spreadsheet has been developed to allow for clear review and comparison. In accordance to the part 2 Agreement, the contractor is expected to work overtime, multiple shifts or take any other action necessary in order to meet the Master Project Schedule and achieve Substantial Completion of the Work within the contract time. Except as otherwise provided for in the Agreement, the cost of such action will be borne solely by the contractor and will not entitle the contractor to an increase in the contract price unless due to University's fault. If University reasonably believes the Work is not progressing fast enough to insure completion within the contract time, the contractor will be required to work such additional shifts and overtime, if in the reasonable opinion of the University it is necessary to complete the Work on the required date without extra cost to the University. Verification will be completed to assure contract compliance is in place.

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Eastern Michigan University Internal Audit Schedule
Rehmann Robson

For Period Ending September 30, 2006

<u>Internal Audit</u>	<u>Completed or Start Date</u>	<u>Budget Hours</u>	<u>Actual Hours</u>
Physical Plant - Construction	Completed Oct 2005	100	98
Conflict of Interest	In Progress	32	10
Information Systems - General Controls and Application Controls Review	In Progress	120	113
Dining Services	Feb 2006	120	0
Financial Aid	Feb 2006	60	0
Payroll	Apr 2006	120	0
Benefit Administration	May 2006	120	0
Equipment Inventory	Jun 2006	40	0
Catering and Conferences	Jun 2006	60	0
Tuition and Fees	Jul 2006	120	0
Regulatory/Compliance	Aug 2006	100	0
Vending Operations	Aug 2006	24	0
Sarbanes-Oxley	Ongoing	184	10
Planning, Risk Analysis, and Administration	Ongoing	100	13
Special Projects		60	0
- Audit Design Build Contractor Related to Construction Audit	Completed Dec 2005	40	32
Contingencies	Oct 2005	100	0
Total Hours		<u>1,500</u>	<u>276</u>
Contracted Rate Per Hour		\$80	\$80
Total Fees		<u>\$120,000</u>	<u>\$22,080</u>

6

STATUS OF AUDIT RECOMMENDATIONS

January 17, 2006

**Physical Plant – Construction
Mail Services**

Prepared by
Vice President for Business and Finance Office

7

INTERNAL AUDIT RECOMMENDATION STATUS

AUDIT PERFORMED: PHYSICAL PLANT – CONSTRUCTION

Date Completed: AUGUST 31, 2005

1. **Recommendation:**

Verify the reasonableness of rates charged in general conditions and approve all contractors' staff that may charge the project.

Management's Response:

We agree with the findings. Physical Plant has not been able to obtain detailed information from contractor and has requested an audit be engaged.

Implementation Status:

An internal audit was performed on the contractor. The results of those findings are included in this month's board book. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 19, 2005

2. **Recommendation:**

Detailed support including rates and hours should be obtained and verified by the project team.

Management's Response:

Physical Plant has obtained from the contractor appropriate backup for the invoices and reviewed and signed the backup.

Implementation Status:

Detailed invoices, along with staff's hours and rate, are now being required from the contractors. These are reviewed for reasonability. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 19, 2005

3. **Recommendation:**

Rates and markups on invoices should be verified to the contract and the contractors notified of any discrepancies. If rates are appropriate, contract changes to the rate schedules should be prepared and approved.

Management's Response:

Physical Plant agrees with this recommendation and has begun verifying rates and markups on invoices. Contractors will be notified of discrepancies.

8

Implementation Status:

The Physical Plant now verifies rates and markups on invoices and has received a credit from at least one vendor since the audit finding. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 19, 2005

4. Recommendation:

Obtain a contract change order that defines the not-to-exceed amounts for the various billing sections of the contract

Management's Response:

Physical Plant agrees with this recommendation. Physical Plant reviews all work requested and receive detailed cost estimates prior to authorizing any work.

Implementation Status:

The Physical Plant receives all change orders and approves them before work is preformed. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 19, 2005

5. Recommendation:

The decision to execute a contract with each contractor should be properly supported with bid documentation that is retained.

Management's Response:

A final matrix was completed and misplaced in the files. Physical Plant will take better care filing the matrix in the future.

Implementation Status:

The University has just completed a bidding matrix on the bookstore that will be in the NSC. The committee awarded points based on a several factors that they felt were pertinent to the project. The scores were weighted, with the most important categories receiving more points. The committee has completed the matrix and has placed it on file. All bidders, including winning and losing bidders, will be notified of the University's decision. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 19, 2005

Audit recommendations verified by:

Todd Ohmer
Interim Assistant to the VP for Business and Finance

9

INTERNAL AUDIT RECOMMENDATION STATUS

Open Items from the November 2005 Board Meeting

AUDIT PERFORMED: MAIL SERVICES

Date completed: June 21, 2005

1. **Recommendation:**

We recommend that the policies and procedures for Mail Services be formalized to ensure a clear understanding of the responsibilities of the department.

Management's Response:

We agree. We will develop written policies and procedures for Mail Services.

Implementation Status:

The Mail Services Department has developed documented procedures for their department's job responsibilities. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 9, 2005

2. **Recommendation:**

We recommend that guidelines be implemented to require that a Postage Request Slip accompany every bundle of mail to improve the accuracy of the expense allocations.

Management's Response:

We agree. We will no longer process mail received from University departments without a Postage Request Slip. This will be addressed in the written procedures.

Implementation Status:

The Mail Services Department no longer accepts mail from University departments without a postage request slip. If mail is delivered without a slip, it is sent back to the department with a flyer indicating the reason the mail was not delivered. This is to ensure that the departments are charged accurately for their mail delivery. An email was sent out to the University community to remind them of the importance of sending in a postage request slip with their mail. It has also been mentioned in *EMU Today*. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: October 28, 2005 and December 9, 2005

3. Recommendation:

We recommend that guidelines be implemented to require a review of the invoices or reports and the expense allocation worksheets to ensure that the totals agree before processing.

Management's Response:

We agree. We will ensure that all expense allocation worksheets are balanced with associated invoices or reports.

Implementation Status:

A review of the invoices and the reconciliation of the expense allocation worksheets is being done. All of the past reconciliations are now up to date. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 9, 2005

4. Recommendation:

We recommend that guidelines be implemented to require a timely posting of the monthly journal entries.

Management's Response:

We agree. This will be addressed in the written procedures. All necessary entries were made prior to fiscal year end. As noted in the audit comment, the elimination of a position in Mail Services has had a negative impact on the operation. The eliminated position is directly related to several of these findings. We will correct the noted findings and continue to do our best with the limited staff available to the department.

Implementation Status:

The Mailroom is up to date on their monthly journal entries and has been posting the monthly journal entries as timely as possible, given the lateness that they receive some invoices. The recommendation by the internal auditors is supported by Management and has been implemented.

Verification Date: December 9, 2005

Audit recommendations verified by: _____

Todd Ohmer

Interim Assistant to the VP for Business and Finance