C2 Follow the Capital Risks

Scott Termine, Partner, BKD LLP
John Cutrera, Director, BKD LLP
David Virgilio, Interim Controller, College of DuPage
Agenda

• Understand why capital projects are often left out of annual audit plans
• How to determine which capital projects to audit
• How to audit capital projects
• Lessons learned
Why Capital Projects are Often Left Out of Annual Audit Plans
How organizations develop annual audit plans...

Risk-based approach (risk assessment)

- Changes within organization
- Key initiatives
- Financial exposure/risks
- IT / Cyber security focus
Biggest reason why……

The unknowns / status quo

“We have a GMP or not-to-exceed contract, therefore we have no risk of cost overruns.”

“We hire a construction management firm to monitor and manage the project.”

“We have worked with the same GC and no issues or cost overruns have occurred in the past.”
Common reasons why capital projects not audited

Why?

• Ignorance
• Fear/ uncertainty
• Territories
• Budgets were smaller
• False sense of protections
  Legal
  Contract language
  Contract type (lump sum)

How to overcome

• Training
• Awareness
• Utilize 3rd party expert
Which Projects to Audit?
Risk assessment

How to evaluate risks:

- Size of project in $
- Dollar volume of owner change orders
- Number of sub contractor change orders
- Type of construction agreement (lump sum-low vs cost plus-high)
- Over or under budget
- Fast track vs non-fast track
Higher Risk for Contractor

Contract Type

- Firm Fixed Price
- Fixed Price w/ Price Adjustment
- Cost plus Incentive Fee
- Cost Plus Fixed Fee
- Time & Materials
- Cost Reimbursement
- Cost Plus a Percentage of Cost

Higher Risk for Owner
How to Audit Capital Projects
Why audit?

- Transparency
- Recover overcharges
- Lower capital cost
- Reduce project risk
- Control capital expenditures
- Hold parties accountable
Phase 1: Contract Review
- Make sure all essential terms & conditions are in contract to protect owner
- Contracts are typically written in the contractors’ favor, not the owner
- Identify any contradictory language
- AIA contract templates are written by architects
- **IDEALLY GET INVOLVED BEFORE CONTRACT IS SIGNED**

Phase 2: Pay Application Review
- Reviewing the project in close to real time
- Review monthly pay applications (labor, equipment, rental, overheads, etc.)
- Review any & all change orders
- Independently track the projects progress & budget

Phase 3: Closeout Review
- Performed at the end of a project
- The idea is to recheck all figures before retention is paid out
- Review the project checklists, obtain all lien waivers, post-project checklist/punch list
1. Obtain & understand contract(s)
2. Learn roles/responsibilities of each contractor on the job
3. Obtain all payment applications & change orders
4. Obtain support for all charges (equipment rental agreement, time sheets, etc.)
5. Compare data within invoices and support to contract & other support as necessary
2018/19 FMP Process

- June 2018 Kick-Off Meeting
- Discovery Analysis Development
- February 2019 Final FMP Presented to Board
2018/19 FMP Process

• Multi-Constituency Advisory Committee (more than 20 members)
  – Athletics
  – I.T.
  – Research & Planning
  – Administrative Affairs
  – Public Safety
  – Full-Time & Adjunct Faculty
  – Shared Governance Council
    - Academic Affairs
    - Continuing Education
    - Regional Centers
    - Facilities
    - Student Affairs
    - MAC Arts Center
    - Student Leadership Council
2018/19 FMP Process

- 200+ Student Participants in Input Session
- 23 Member Advisory Committee
- 06 Interactive Planning Workshops on Campus
- 04 Pathways User Group Meetings
- 59 Student Survey Responses
- 465 Faculty and Staff Survey Responses
- 05 Board of Trustee Interviews
2018/19 FMP Next Steps

- Board Approval
- Finalize FMP Document
- Prioritize Projects
Documentation

Current Campus Master Plan
• 2019 Campus Master Plan

Previously Completed Plans
• 2016 Campus Master Plan Update
• 2016 Campus Master Plan Map
• 2017 Space Utilization and Comparative Analysis Study

Reference Articles
• Perkins+Will – Why Master Plan?
• Perkins+Will – Themes Influencing Education
What Does This All Mean?

Board Approves Projects

Facilities Director

- Project Managers
- Purchasing
- Fixed Assets Accounting
- Colleague Modules
Questions?

Scott Termine // stermine@bkd.com // 630-282-9621
John Cutrera // jcutrera@bkd.com // 630-282-9522
David Virgilio // virgilio@cod.edu // 630-942-3028
Thank You!

bkd.com/higher-ed | @bkdHigherEd