

Report on the

Auburn University

Auburn, Alabama

October 1, 2017 through September 30, 2018

Filed: November 29, 2019



Department of Examiners of Public Accounts

401 Adams Avenue, Suite 280

Montgomery, Alabama 36104-4338

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: www.examiners.alabama.gov

Rachel Laurie Riddle, Chief Examiner



State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
Telephone (334) 242-9200
FAX (334) 242-1775

Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 218-129, I submit this report on the results of the examination of Auburn University, Auburn, Alabama, for the period October 1, 2017 through September 30, 2018.

Sworn to and subscribed before me this
the 4 day of November, 20 19.

Bridget Mann
Notary Public

Respectfully submitted,

Tom L. Tolley
Tom L. Tolley
Examiner of Public Accounts

rb



Table of Contents

	<i>Page</i>
Summary	A
Contains items pertaining to state legal compliance, University operations and other matters.	
Comments	C
Contains information pertaining to University operations, compliance and other matters.	
Schedule of State Compliance and Other Findings	D
Contains detailed information about findings pertaining to state legal compliance and other findings.	
Additional Information	1
Provides basic information related to the University.	
Exhibit #1 Board of Trustees and Officials – a listing of the University Board members and officials.	2



Department of
Examiners of Public Accounts

SUMMARY

Auburn University
October 1, 2017 through September 30, 2018

Auburn University (the “University”) is a state land-grant university that provides opportunities for Bachelor, Master’s and Doctoral degrees in a number of different programs at its campuses in Auburn and Montgomery, Alabama. The Alabama Agricultural Experiment Station (AAES) based at the main campus was created to conduct research relating to the production, marketing, manufacturing, use and distribution of agricultural products. AAES maintains research centers in each of the state’s principal geographic regions. The University and Alabama A&M University located in Normal, Alabama are partners in the Alabama Cooperative Extension System (ACES), which provides educational outreach to the citizens of Alabama. ACES maintains offices in all of Alabama’s 67 counties and in nine urban centers located in major regions of the state. Additional information on the history of the University is included in the Comments section of this report.

The firm of PricewaterhouseCoopers, LLP conducted the financial audit for the fiscal year’s ended September 30, 2018.

This report presents the results of an examination of the University and a review of compliance by the University with applicable laws and regulations of the State of Alabama in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

There were no findings in the prior year examination.

The following instances of noncompliance with state laws and regulations and other matters were found during the examination as shown on the Schedule of State Compliance and Other Findings, and they are summarized below.

- ◆ 2018-001 The University may not have complied with the *Code of Alabama 1975*, Section 39-2-2 by allowing excessive scope changes on a public works project.
- ◆ 2018-002 The University may not have complied with the *Code of Alabama 1975*, Section 41-16-21(b). Movable equipment was added to a public works project with a change order.

The following officials/employees were invited to an exit conference to discuss the results of this examination: Dr. Jay Gogue, Interim President; Lt. General Ron Burgess Jr., Executive Vice-President and Ms. Kelli Shomaker, Vice-President for Business and Finance and CFO. The following individuals attended the exit conference: Ms. Amy Douglas, Associate Vice-President, Financial Services/Controller; Ms. Michelle Hancock, Assistant Controller. Representing the Department of Examiners of Public Accounts were: Ms. Melissa Knepper, Audit Manager; and Tom Tolley, Examiner.



Department of
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COMMENTS

**Auburn University
October 1, 2017 through September 30, 2018**

Auburn University (the “University”) was originally established in 1856 as the East Alabama Male College. After December of 1859, it was maintained by the Methodist Episcopal Church South. The citizens of Auburn, the college faculty, and the Methodist Church were all advocates of the new college. In 1859, Auburn's patrons erected and equipped a four-story building at a cost of \$1,100 and opened its doors on October 1st to 80 students, six faculty members and a preparatory enrollment of 100. Closed by the Civil War in 1861, the economically troubled institution reopened in 1866 and struggled for the next six years. In 1872, the institution's economic problems were resolved when, under the Morrill Act, the University became the first land-grant college in the South and was renamed the Agricultural and Mechanical College of Alabama. In 1883, an act of the state Legislature established the agriculture experiment station that would later become the current Alabama Agriculture Experiment Station (AAES). In 1899, the University's name was changed to the Alabama Polytechnic Institute (API). In 1914, the U. S. Congress passed the Smith-Lever Act which appropriated matching funds to states in order to establish a system of cooperative extension services connected to the land-grant universities. In 1960, the University's name was changed from Alabama Polytechnic Institute to Auburn University. With the passage of Act Number 2005-304, the Alabama Extension Service became the Alabama Cooperative Extension System (ACES). Based on this Act, Auburn University and Alabama A&M University cooperate in the provision of extension services in the state. Auburn University at Montgomery was established as a separately administered branch campus in 1967.

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*Schedule of State Compliance
and Other Findings*

Schedule of State Compliance and Other Findings
For the Year Ended September 30, 2018

Ref. No.	Finding/Noncompliance
2018-001	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 39-2-2, requires awarding authorities to advertise for sealed bids before entering into any contract for a public works involving an amount in excess of fifty thousand dollars (\$50,000).</p> <p>Public Works contracts are sometimes adjusted, during the course of construction, due to unforeseen circumstances not contemplated by the owner when bid specifications were prepared. These adjustments are referred to as change orders.</p> <p>The Attorney General, in Opinion 79-313, set out the types of change orders to be allowed on public works projects as follows:</p> <ol style="list-style-type: none"> 1. Minor changes for a total monetary value less than required for competitive bidding; 2. Changes for matters relatively minor and incidental to the original contract necessitated by unforeseeable circumstances arising during the course of the work; 3. Emergencies arising during the course of the work on the contract; 4. Changes or alternates provided for in the original bidding where there is no difference in the price of the change order from the original best bid on the alternate; 5. Changes of relatively minor items not contemplated when the plans and specifications were prepared, and the project was bid which are in the public interest and which do not exceed 10% of the contract price. <p>The opinion also required that a signed statement from the architect be attached to each change order containing the following:</p> <ol style="list-style-type: none"> 1. A statement of what the change order covers and who instituted the change order and why it is necessary or desired; 2. There must be a statement stating the reasons for using the change order method rather than competitive bids; 3. There must be a statement that all prices have been reviewed and found reasonable, fair and equitable and recommending approval of the same. 4. The local owner shall either endorse the architect's statement and recommendations or submit a separate statement covering the foregoing items. <p>The Alabama Building Commission has developed forms to be used to process project changes. These forms require the Owner and Architect to supply information needed to fulfill the requirements of Attorney General Opinion 79-313 that lists the guidelines relating to Change Orders.</p>

Schedule of State Compliance and Other Findings
For the Year Ended September 30, 2018

Ref. No.	Finding/Noncompliance
	<p><u>Finding Continued:</u> Our examination included a review of a public works bid for the renovation and expansion of the president’s home. The original contract was awarded on August 30, 2016, in the amount of \$8,740,000. A total of twelve change orders were made as of August 21, 2018 that increased the cost of work by \$3,952,054.20 (45%) bringing the total to \$12,692,054.20. Change Order Numbers 8, 9, 10, and 11, that added \$2,848,826 (32%) to the cost of work, were reviewed in the examination. These Change Orders related to numerous changes to the interior work and added a three-car garage. They included \$2,298,774 in estimated costs and \$550,052 for overhead and profit.</p> <p>These changes were initiated by the University and exceeded 10% of the original contract price. Approval of these changes may not comply with the types of changes to be allowed on public works projects mentioned in Attorney General Opinion 79-313.</p> <p><u>Recommendation:</u> The University should develop controls to ensure compliance with the <i>Code of Alabama 1975</i>, Section 39-2-2 and recommendations in Attorney General Opinion 79-313.</p>
2018-002	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 41-16-21(b), states, "All educational and eleemosynary institutions governed by a board of trustees or other similar governing body... shall let by free and open competitive bidding on sealed bids to the lowest responsible bidder all contracts of whatever nature for labor, services or work or for the purchase or lease of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more."</p> <p>During a review of change orders related to public works projects, a change order was noted that included the purchase of an item that appears to fall under the <i>Code of Alabama 1975</i>, Section 41-16-21(b). Change Order Number 17 for the Gogue Performing Art Center included the purchases of a piano for the Center. The quoted price for the piano \$83,500. The contractor added an additional 10% for overhead and profit on top of the cost causing the project to increase by \$91,850 due to the purchase of the piano. The piano should have been bid under the <i>Code of Alabama 1975</i>, Section 41-16-21(b). Utilizing a change order to purchase equipment, or other personal property through a public works contract causes additional costs due to the addition of contractor overhead and profit.</p> <p><u>Recommendation:</u> The University should develop controls to ensure compliance with the <i>Code of Alabama 1975</i>, Section 41-16-21(b).</p>

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Additional Information

Board of Trustees and Officials
October 1, 2017 through September 30, 2018

Board Members		Expiration of Term
Hon Kay Ivey, Governor	Ex-Officio	
Hon. Lloyd Austin	At-Large	2024
Hon. Michael A. DeMaioribus	District 8	2020
Hon. Bob Dumas	District 3 - Lee County	2022
Hon. Raymond J. Harbert	At-Large	2024
Hon. Elizabeth Huntley	District 6	2022
Hon. Gaines Lanier	District 5	2022
Hon. Charles D. McCrary	At-Large	2021
Hon. Sarah B. Newton	District 7	2021
Hon. James Pratt	District 9	2019
Hon. James W. Rane	District 3	2021
Hon. Quentin P. Riggins	At-Large	2024
Hon. B. T. Roberts	District 1	2019
Hon. Clark Sahlie	District 2	2019
Hon. Jimmy Sanford	District 4	2020
Hon. Wayne T. Smith	At-Large	2020

Board of Trustees and Officials
October 1, 2017 through September 30, 2018

Officials

Dr. Jay Gogue, Interim President (Beginning 07/08/2019)	Auburn University
Lt. Gen. Ronald Burgess, Jr., U. S. Army, Retired, Executive Vice-President (Beginning 07/08/2018) Chief Operating Officer (04/01/2018-07/07/2019)	Auburn University
Ms. Kelli D. Shomaker, Vice-President for Business and Finance and CFO	Auburn University
Dr. Carl A. Stockton, Chancellor	Auburn University at Montgomery
Mr. Scott Parsons, Vice-Chancellor for Financial Services	Auburn University at Montgomery
Dr. Donald L. Large, Executive Vice-President (Retired 06/30/2018)	Auburn University
Dr. Steven Leath, President (Until 06/21/2019)	Auburn University