

Construction Audit and Cost Control

- *General Contracting*
- *Construction Management*
- *Remediation Contracting*
- *Construction Oversight*
- *Architectural Services*
- *Engineering Services*
- *Environmental Consulting*
- *Program Management*

A Practical Approach to Achieving Best Practices

Successful contracting for construction services can often be summarized by two simple concepts: (1) Making a “good” business deal, which is defined by the contract, and (2) managing the deal after the contract is executed. Unfortunately, two fundamental issues often undermine an Owner’s ability to achieve uniform success. First, lack of experience or expertise in understanding construction risk reduces the ability to fully understand what can go wrong. Secondly, many Owners often fail to anticipate problems and are usually unprepared to deal with them when they do occur.

Many Owners believe that the best way to mitigate construction risk and avoid overcharges is to do an outstanding job during the up front processes of planning, design and procurement. But, too often, Owners underestimate the importance of being proactive (after the “deal is signed”) through effective management processes. It is important to recognize that Owners can be taken advantage of anywhere throughout the various phases of the construction process. Therefore, similar to a chain, the overall strength of the control process will only be as strong as its weakest link. A successful Owner will understand that the most effective manner for achieving “Best Practices” is to be fully engaged throughout all phases of the construction process. Specific areas of opportunity for improvement include:

Procurement Processes - Selection of procurement method (competitive sealed bidding, negotiation, combination of competitive procedures); selection of delivery method (conventional, fast-track; single prime; multi-prime; GC; CM); selection of contract type (fixed price, unit price, cost plus; guaranteed maximum price) and development of effective contract language to mitigate risk and provide key control points are all critically important to achieving the singular objective of making a good business deal. Also, sole reliance on outside counsel to develop effective construction agreements *without* input from knowledgeable construction auditors can be counterintuitive. For example, requiring an effective right of audit provision in *all* contracts and subcontracts (including lump sum) can go a long way toward setting the proper tone. Finally, pre-contract audit techniques (auditing before contract is signed) can help ensure that contractor-furnished data and assertions are both accurate and reliable.

Contract Administration – Developing and implementing appropriate on-site controls, documentation requirements, project control systems, cost accounting systems, schedule requirements and change order and billing formats will eliminate many misunderstandings and miscommunications. In addition, efficient and effective change order and billing review processes should be implemented to create a proactive and comprehensive approach to cost control. Particular attention should be given to the award of *subcontracts* by the Prime Contractor (without Owner oversight). Attention should also be given to the approval of change orders (both prime and subcontract) without a requirement for specific cost and pricing detail. And, efficient and effective review process of these area and others should be implemented. Leverage in the area of contract administration can be supplemented and achieved through the use of contract audit, which is an ideal way to create synergism among team members.

Contract Audits – Pre-contract, interim and final closeout audits are all effective management tools that can and should be used by Owners to ensure that their interests are fully protected. Audits, by design, are intended to provide an independent evaluation of fact and are often used as a strategic method for gaining access to contractor internal cost data that may not otherwise be available. In addition, auditors can be used strategically to evaluate internal processes and controls.



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