

Opportunities in Contract and Construction Auditing

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

UNDERSTANDING RISK AND ASSESSING OVERCHARGES

Many Owners *underestimate* the risk of overcharges and overbillings that may occur on their projects. Fraud, waste and abuse only serve to exacerbate the problem. Owners often rely on a combination of factors to prevent these types of problems from occurring. Such factors typically include having “effective” internal controls, honesty and integrity of their contractors, trusting relationships and reliance upon others to “protect” them. Unfortunately, many circumstances can undermine these factors, thereby creating a false sense of security. Too often, Owners fail to anticipate problems and they are unprepared to deal with them when they do occur. Proactive Owners understand the risks, are generally more fully engaged in the audit and control processes and typically dedicate appropriate resources to mitigate these risks.

While all projects are unique and each presents different challenges, assessing risks and overcharge exposures is often a matter of professional judgment. Appropriately skilled and experienced audit professionals will know how to navigate the audit process and further understand and recognize “indicators” that warrant additional attention and scrutiny. Past audit results have demonstrated that the following areas have a high overcharge exposure and often warrant specific audit analysis:

1. Labor costs are excessive due to inaccurate rates, inappropriate hours charged, incorrect application of labor units or inflated “all-inclusive” T&M rates
2. Labor burden costs (payroll taxes, workers’ compensation, union fringes, etc.) are excessive due to inaccurate burden percentages, incorrect cost calculations, inclusion of non-reimbursable cost components and incorrect application of burden cost to raw labor
3. Non-reimbursable personnel are billed (which should be covered by fee or markup)
4. Non-reimbursable bonuses, profit sharing, placement fees, termination fees, relocation costs
5. Non-reimbursable travel, entertainment, meals, temporary living expenses
6. Excessive insurance costs, including OCIP and CCIP (GL, EL/Umbrella, AL, WC, subguard)
7. Payment and performance bonds not provided
8. General Conditions’ costs exceed amounts authorized or are billed as direct costs
9. Equipment rental rates are excessive or aggregate rents exceed fair market value of item
10. Change order pricing detail does not support proposed/approved change order amounts
11. Unsupported or inaccurate change order amounts based on quotes or estimates
12. Buyouts of subcontracted work (on both base contract awards and change orders)
13. Deductive subcontract scope changes not credited to prime contract
14. Value engineering and other scope changes unilaterally implemented without approval
15. Related party transactions for self-performed work (Self dealing)
16. Allowances and “Holds” not accounted for or adjusted properly
17. Fees are calculated incorrectly for both base contract and change order work
18. Contingency amounts not accounted for properly; used without approval
19. Billed amounts are not supported with accurate or true verifiable costs
20. Contract closeout requirements not followed; final accounting not provided



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