

# GRASSI

CONSTRUCTION COST AUDIT SERVICES



**A** Construction Cost Audit is a detailed analysis of the construction contract documents and audit of the costs billed to the owner. This audit can help determine if there are any inaccurate billings or overpayments for the project.

The role of a construction cost auditor is not to take the place of an architect, accountant or project manager, but to supplement their services by taking the financial review of the project to the next level. The Grassi team will help you or your client save money through our application of in-depth knowledge of construction-related contracts and financial records, ensuring the owner pays only what the contract allows.

The types of billing errors uncovered in a review include duplicate invoices, overcharges, arithmetic errors, costs associated with a different project, unreconciled allowances or credits, incorrect fees and/or unauthorized expenditures.

### Our Approach

The Grassi team visits the office(s) where any pertinent information is located and reviews all documents related to the financial aspects of the construction project. These documents can include: requests for payment; GC contracts with the owner including all exhibits and addenda; contracts with subcontractors; owner and subcontractor change orders; payments to contractors and subcontractors; payments to vendors; and payroll records.

As specified by the scope of a given Construction Cost Audit, we reconcile costs to billings for items such as labor, materials, general conditions, self-performed work, equipment and tools, insurance and bonds (if applicable).

We then issue a final report, presenting the findings supported by our analysis. The findings identify any discrepancies between valid costs allowed by the contract and the General Contractor billings.

If we perform our audit after construction has started, we can make recommendations about how to reconcile retainage and final payment. As a postscript, we can make recommendations about what audit language to include in the client's next construction contract.

If we are brought in prior to contract development, we can advise on what audit language to include in the contract prior to signing. Additionally, if requested, we can perform reviews of monthly requests for payment prior to payment.

### Recovery

Our team has reviewed hundreds of millions of dollars in billed construction costs. Cost inaccuracies are typically the result of duplicate invoices, labor/materials overcharges, arithmetic errors, costs improperly allocated from different projects, unreconciled allowances or credits, incorrect fees and/or unauthorized expenditures. Regardless of the type of contract, we have earned significant savings for our clients.

**Client: Large Medical Center**  
**Project: Cost Audits of Capital Projects**  
**History and Overview of Project:**  
Grassi performed cost and wage audits for a large Medical Center's capital projects program. Our work resulted in over \$500,000 of savings on construction projects and significantly reduced the hospital's liability exposure as it relates to prevailing wage violations.

By quantifying mistakes in the billings and payments, we help owners recover money spent on overpayments. In most instances, we have found clients can expect from \$10,000-\$30,000 per million dollars of cost (1-3 %) eligible for recovery.

### Cost Reduction/Elimination

When General Contractors and subcontractors become aware a cost audit is initiated, they become more alert against mistakes and miscues. This heightened financial awareness often results in lower reported costs.

### Higher Caliber of Contractors/Subcontractors

When General Contractors and subcontractors see clear, specific audit language in a contract, they either compete for the job knowing they will need good, complete records, or decide to move on to "easier" work. This results in higher quality, more capable contractors being attracted to your job.

### Better and Complete Records

A project that has undergone a Construction Cost Audit will have better financial records. The audit identifies areas where documentation is incomplete and, in most cases, can get contractors to fill in those gaps.

### Assurance of Accurate Billing

Owners cannot be certain they are being billed accurately based solely on the audit conducted by in-house project managers or consultants. If the audit and approval of pay requests and change orders is just a reconciliation of line entries against totals, owners cannot be assured they are paying for actual costs incurred. For example, the majority of the time, paperwork submitted with a change order is based on a quote or an estimate. The actual amount paid for this work may be less than the amount requested on the change order. The only way to be sure is to examine the actual invoices paid by the General Contractor and/or subcontractors. That is why, whether we review records prior to payment or after the fact, we go to the necessary level of detail to verify actual costs. This provides the kind of reassurance owners gain from a cost audit.

### Versatility and Flexibility

A Construction Cost Audit can be utilized in a variety of ways to suit a client's goals or schedule.

Prior to the signing of a construction contract, we can strengthen the client's ability to monitor and control costs in several ways. We can:

- Advise on what type of contract to use;
- Perform a contract review to discover cost risks the contract doesn't cover;
- Suggest specific language to insert into the contract to reduce overall cost risk, strengthen review rights and improve the change order process.



**GRASSI & CO.**  
CONSTRUCTION COST AUDIT SERVICES

HEADQUARTERS: JERICO 516-256-3500

OTHER OFFICES:

MANHATTAN AND NORTH CAROLINA

www.grassicpas.com

For more information on Construction Cost Audits, contact Richard E. Gavin, CPA, CCIFF, Partner-in-Charge of the Grassi Construction Practice at (516) 336-2440 or via e-mail at rgavin@grassicpas.com