



Construction Monitoring

Identifying small issues before they become big problems

September 29, 2020



Learning Objectives

- 1 Explain the value that a construction monitoring program provides an Owner.
- 2 Discuss the key factors to assess the viability of a construction monitoring program.
- 3 Provide a framework for executing an ongoing construction monitoring program.

Investigators Eye Possible \$100 Million Construction Fraud



US Reaches \$68 Million Settlement of Korea Base Construction Fraud



The Lexington an inquiry into \$1 million. Bry

University construction misappropriation scandal spreads to other campuses: Report

By Mark Buckshon - February 28, 2019

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Feds probe \$80M construction scandal at church wrecked on 9/11

April 7, 2018

Turner Construction, Bloomberg Execs Indicted In \$15M Bid-Rigging Scheme

December 12, 2018

Key Value Proposition

- 1 Reduce likelihood of regulatory inquiry and "headline" risk.
- 2 Augment risk management for front-line decision making.
- 3 Enhanced governance through dotted-line reporting outside Project Team.
- 4 Natural deterrence from potential overcharges by contractors.

Polling Question #1

True or False:

Construction monitoring engagements are performed instead of retroactive construction audits.

A. True.

B. False.

C. It depends!

Factors for the Viability of a Monitoring Program

Not all projects are good "candidates" for a construction monitoring program. Below are a few factors to assess when developing the comprehensive construction risk management program.



Does the funding source or nature of the project suggest future scrutiny?



Are change orders expected due to design updates and/or unknown field conditions?



How robust is the established cost control framework?



Does the Owner (or GC) have an effective vendor due diligence program?



Does the contract type allow for deep dives into project costs?



Does the complexity of the project put the anticipated completion date at risk?



Are audit rights extended down to the subcontractor level?



Other factors. Union labor? Covid-related risks? Prior issues?

Polling Question #2

What is the primary risk that an ongoing monitoring program is designed to mitigate:

- A. Cost.
- B. Schedule.
- C. Reputational.
- D. Other (enter answer).

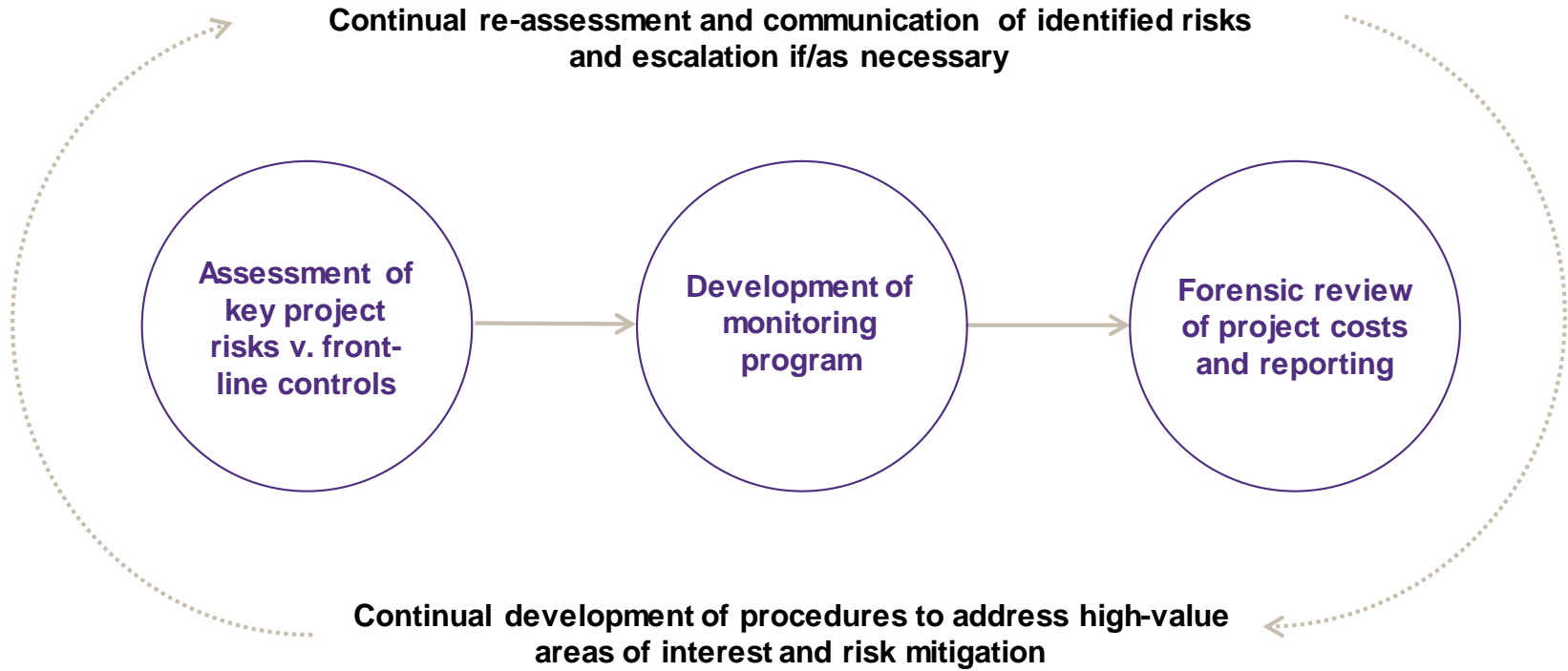
Construction Monitoring Program Framework

Developing an effective program requires an integrated approach that compares and reports on:

- actual construction progress on the site (completion %, downline subs, daily reports)
- construction documents (bids, pay apps, COs, allowance drawdowns)
- terms defined in the governing construction manager agreement (CoW, GCs, Fees)



Construction Monitoring Program Framework



Construction Monitoring Program Framework

	None charged / not applicable
	Compliant
	Reconciliation of pay req schedule of values or other accounting adjustment
	Missing / unclear supporting documentation
	Identified cost recovery / avoidance opportunity

Pay App	General Conditions	Subcontractor Base	Change Order Billing	Fee, Insurance, & Bonds	Allowances and Variants	Total Pay App Costs Reviewed
Pay App Cost Compliance Heatmap						
Pay App 1						\$10,554,250
Pay App 2						\$8,391,693
Pay App 3						\$18,587,938
Pay App 4						\$24,519,453
Pay Reqs 1 – 4	\$3,748,933	\$69,789,577	\$7,492,419	\$6,984,242	\$0	\$62,053,335
Identified Observations by Category						
Costs Requiring Additional Support	\$155,759	\$0	\$732,244	\$0	\$0	\$888,003
Values Requiring Reconciliation	\$3,506	\$76,240	\$897,194	\$9,418	\$0	\$986,358
Potential Cost Recovery / Avoidance	\$215,415	\$3,783	\$3,103	\$64,464	\$0	\$286,765
Total Observations Identified	\$374,680	\$80,023	\$1,632,541	\$73,882	\$0	\$2,161,126

Polling Question #3

What are the top 2 most important factors for a successful monitoring program (select 2):

- A. Alignment and buy-in on scope and roles from key stakeholders (Owner, Owner's Rep, and GC)
- B. Clear, concise, and evidence-based reporting of key issues.
- C. Ability to collect key onsite observations & financial documents
- D. Forensic audit / investigative mindset (how could outsiders perceive this issue?)
- E. Other (enter answer).

Open Discussion / Q&A



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