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.
University construction misappropriation scandal spreads to other campuses: Report

By Mark Bueckho - February 28, 2019

US Reaches $68 Million Settlement of Korea Base Construction Fraud

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?
- How robust is the established cost control framework?
- Does the contract type allow for deep dives into project costs?
- Are audit rights extended down to the subcontractor level?
- Are change orders expected due to design updates and/or unknown field conditions?
- Does the Owner (or GC) have an effective vendor due diligence program?
- Does the complexity of the project put the anticipated completion date at risk?
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

Assessment of key project risks v. front-line controls

Development of monitoring program

Forensic review of project costs and reporting

Continual re-assessment and communication of identified risks and escalation if/as necessary

Continual development of procedures to address high-value areas of interest and risk mitigation
# Construction Monitoring Program Framework

## Pay App Cost Compliance Heatmap

<table>
<thead>
<tr>
<th>Pay App</th>
<th>General Conditions</th>
<th>Subcontractor Base</th>
<th>Change Order Billing</th>
<th>Fee, Insurance, &amp; Bonds</th>
<th>Allowances and Variants</th>
<th>Total Pay App Costs Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay App 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$10,554,250</td>
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<tr>
<td>Pay App 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$8,391,893</td>
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<tr>
<td>Pay App 3</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>$18,587,938</td>
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<tr>
<td>Pay App 4</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>$24,519,453</td>
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<tr>
<td>Pay Reqs 1 – 4</td>
<td>$3,748,933</td>
<td>$69,789,577</td>
<td>$7,492,419</td>
<td>$6,984,242</td>
<td>$0</td>
<td>$62,053,335</td>
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</tbody>
</table>

## Identified Observations by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Observation 1</th>
<th>Observation 2</th>
<th>Observation 3</th>
<th>Observation 4</th>
<th>Total Observations Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs Requiring Additional Support</td>
<td>$155,759</td>
<td>$0</td>
<td>$732,244</td>
<td>$0</td>
<td>$374,680</td>
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<tr>
<td>Values Requiring Reconciliation</td>
<td>$3,506</td>
<td>$76,240</td>
<td>$897,194</td>
<td>$9,418</td>
<td>$888,003</td>
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<tr>
<td>Potential Cost Recovery / Avoidance</td>
<td>$215,415</td>
<td>$3,783</td>
<td>$3,103</td>
<td>$64,464</td>
<td>$86,765</td>
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<tr>
<td>Total Observations Identified</td>
<td>$374,680</td>
<td>$80,023</td>
<td>$1,632,541</td>
<td>$73,882</td>
<td>$2,161,126</td>
</tr>
</tbody>
</table>
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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