

ACUA - Construction Audit Overview (August 14, 2020)

Questions	Answers
<p>After the bid process, you are reviewing the lowest bidder and find the a % of home office IT services, they say that's how they operate, they are the lowest, would you still request the removal of such included costs?</p>	<p>This would depend on the RFP instructions. In a best case scenario, the RFP would ask instruct the respondents how to quote their pricing for labor, insurance, information technology, etc. If the Contractor did not adhere to these instructions, the issue can be re-visited. If the RFP instructions were not explicit and the firm was selected in a competitive situation, the Auditor has less grounds to insist upon the home office IT costs' removal.</p>
<p>Are there industry standard rates available for comparing what may be in a contract?</p>	<p>For rental equipment, the AED Green Book is most often used to provide competitive pricing for Contractor-owned equipment. For other costs, there is less in the way of industry standard guides.</p>
<p>Are you saying a contract should not include a fee schedule for different "consultants" working on the project? I see this on Inspector of Record contracts.</p>	<p>No, each Subcontractor or consultant will negotiate their own fee for overhead and profit. However, for change orders we recommend the Owner and Construction Manager agree to a set fee for Overhead and Profit depending on the entity doing the work and/or overseeing the work (lower tier Sub-Subcontractor). These rates should then be incorporated into the Subcontract agreements between the Construction Manager and the Subcontractor/consultant.</p>
<p>As auditors would not normally be SMEs on commercial construction projects, what resource can they access (labor rates, etc.) to be sure that the proposed RFP rates are reasonable?</p>	<p>Other than rental equipment, industry guidelines for other rates employed on construction contracts are lacking. Insisting on proper competition in the RFP or RFQ stage for Contractor selection is necessary to keep rates in a reasonable range. Using competitor bids on the current project and the rates employed on recent projects, you should be able to determine what rates, if any, need further scrutiny.</p>
<p>Can you audit the GMP contract before is signed ? and How long will it take to audit?</p>	<p>The proposed Contract can be reviewed prior to Contract execution. We call this review the Pre-Construction Contract Review, and it provides a great ROI because issues are eliminated/mitigated before they occur, and the time needed to conduct the review is much less than a traditional in process or closeout audit. The RFP, the proposed Contract, and the Contractor's response to the RFP are reviewed for consistency. Additionally, the Contractor's billing methodologies for the various costs are reviewed to identify areas where a possible difference of opinion may exist on the definition of 'cost'.</p>
<p>CM owned equipment: When a CM can only bill actual cost, I am asking for the CM's equipment cost summary for each type of equipment. Seems to be push back because this info comes from CM home office instead of through the field PM. What is best data to get to support actual cost for CM equipment billed to a project?</p>	<p>We would recommend the AED Green Book. It provides daily, weekly, and monthly rates for various items of construction equipment. It has index factors for different regions of the country. In addition, it has equipment specifications to allow a proper comparison. Additionally, the CM should be able to provide make/model/year of the equipment. There should not be pushback as this is a reasonable request.</p>
<p>Do CMAR (construction manager at risk) contracts typically provide more cost certainty for the owner?</p>	<p>The benefit of CMAR is cost transparency to the Owner. Fixed sum contracts can encourage cutting corners, with all savings accruing to the Contractor.</p>

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Do you find much in overcharges in insurance rate rebates at the end of the project?	Yes, unless someone is aware of the rebate, this often is kept by the Contractor. During the Pre-Construction Contract Review, the Contractor should be asked about rebates and whether a bond being purchased is 'dividend paying'. This puts all parties on notice that dividends and rebates accrue to the Owner.
Have you ever had issues with companies using "parent company allocations" to impact/obscure costs, and how do you deal with it?	Yes, this issue is often present with Information Technology costs. Most GMP contracts have a statement that costs must be 'reasonably and necessarily incurred' for the project in question. When IT costs are passed down from corporate, you have to work backwards. For example, if the Contract terms only allow project-specific IT costs, you have to ask what the \$5/man hour IT charge is covering. Such a rate represents nearly \$10K per employee on project specific IT. If the only IT purchased for the project is laptops, iPads, and internet connectivity, these costs can be amortized over the projected man hours to create a more accurate hourly rate.
How do you get your rate percentages to compare to theirs?	We assume this question was posed about the labor burden differential. Our estimate is based on statutory rates for payroll taxes (FICA/FUTA/SUTA). For benefits (insurance, retirement), we review payroll records to ascertain participation in various programs plus supporting backup provided by the Contractor to justify program costs. Common variances result from the Contractor's proposed burden rate assuming 100% participation in health insurance and 401(k) programs and not factoring in income level phaseouts for Social Security, FUTA, and SUTA.
If we had one or two areas to look, which two areas of leakage would you recommend we focus?	Labor rates and/or burden and project insurance typically offer the greatest potential for material issues.
Is the 28-day rate an accepted industry practice?	It's not uncommon, but a monthly rate would be a more standard industry practice.
You might cover this, but it would be helpful to know what errors you see most.	Proposed labor rates and/or burden and project insurance are often 'padded' by the Contractor. If you can review prior to these rates being contractually agreed, the 'padding' can be eliminated or reduced.
How important is it for auditors themselves, and/or hired outsource "inspectors" to spend time daily on the construction project to make observations for compliance with the contract?	Generally speaking, it's not feasible for an auditor to be on site on a consistent basis to make such observations. Additionally, the Owner's Project Management staff (or an Owner's Rep) should be walking the jobsite periodically to ensure staff and equipment being billed are actually working on the project.
A sub subcontractor? Does that mean there can be a sub sub subcontractor? First time I've heard of such a thing.	Yes, there can be multiple tiers of subcontractors working on a job. A subcontractor is often call 'first tier', a sub-subcontractor is 'second tier', and etc.