



External Oversight Helps Keep Construction Costs in Line

A short stroll around any neighborhood in New York City will undoubtedly reveal the telltale signs of the construction boom. It seems cranes, scaffolding and heavy equipment are everywhere as organizations from hospitals to schools and museums are expanding their footprint. Managing a construction project is a serious undertaking for a not for profit. The Board has undoubtedly spent many hours of careful consideration to choose the right architect and construction manager based on their vision and expertise. But has any consideration been given to the management and risk control of the financial aspects of the project? Is the organization's current accounting staff experienced in reviewing construction invoices and supporting documentation? Do they even know what to look for? Is the current staff able to absorb this extra work? These are all questions that Board members should be thinking about as they fulfil their fiduciary obligations to the organizations they serve.

Increasingly, project owners are turning to outside experts for construction cost oversight to address these concerns.

Construction cost oversight involves everything from establishing a set of financial controls around the payment process to reviewing every payment application and all of the related supporting documentation. A thorough review, conducted on a monthly basis as each payment application is received, will improve the chances of identifying problems such as:

- Front-loading costs
- Unapproved change orders
- Change orders for work that was in the scope of original contract
- Lump-sum change orders billed at excessive rates
- Duplicate billings
- Labor billed at rates in excess of those agreed upon in the contract
- Billing for items unrelated to the project
- Improper general contractor overhead allocations

While these findings can result in significant cost savings, the best reason to hire a construction cost oversight team is the immeasurable deterrent factor. Having an oversight team in place is a control that prevents issues from happening in the first place. The result is an increase in general contractor compliance with the organization's requirements for the documentation of payment applications. It is not unusual to achieve an increase in contractor compliance from 45% in the initial stages of a project to more than 90% after just a few months of interacting with an oversight team. Once a contractor knows what is expected in terms of required documentation in order for them to receive payment, they quickly bring themselves into compliance.

Unfortunately, many owners do not bring in a construction cost oversight team until after a project has been underway for many months or even years, after the project is over-budget and the owner is now trying to figure out what went wrong. This is certainly a worthwhile process, however, without costly litigation, it is often difficult to recoup overpayments months or even years after the payment applications were approved and paid.

There is a benefit to preventing the problem in the first place, rather than trying to deal with it later. By engaging a team of professionals to assist in ongoing construction cost oversight, Board members can significantly reduce the risk to their organizations. These services are scalable based on the size of the project and relative risks and therefore, should be considered for any size capital project being undertaken by an organization that does not have the expertise in-house.

As a recognized leader in the areas of construction, real estate and forensic and investigative services, Anchin is perfectly positioned to assist clients with construction cost oversight, and has successfully done so many times. To discuss the impacts of cost oversight in greater detail, contact your Anchin relationship partner or Margaret Kolb and Anthony Bracco, members of Anchin's Litigation, Forensic and Valuation Services Group at 212.840.3456 or info@anchin.com.



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