

# Creative Use of Construction Auditing Can Yield Dramatic Results Elsewhere

Courtenay M. Thompson Jr.

Years ago my employer began auditing construction contractors for the purpose of determining that billings were in accordance with the terms of the contract. These audits had not only yielded impressive cost recoveries for the company but also led to dramatic improvements in contract management practices. The construction audit manager showed us his approach.

At that time my audit responsibilities were related to insurance operations and fraud investigations, with minimal exposure to construction. But the construction audit manager's workshop on construction-specific ideas and concepts presented lessons that could be applied to areas other than construction:

- **Go look.** Costs that are reflected in a third party's books and records may include errors or misinterpretation that can be identified only by looking at the third party's records.
- **Reconcile.** Third party costs in your books should be reconcilable to the books and records of the contractor.
- **Read the contract.** Learn key points. Costs should be in accordance with the contract.
- **Follow the money.** Asking for detail and digging into what makes up billings identifies overcharges.
- **Persistence pays off.** Access is sometimes not easy and roadblocks get in the way.

On the next audit of an insurance joint venture we applied the concepts learned. By following the detail in the joint venture partner's books and determining what the charges were for, the auditors identified \$100,000 in overcharges on \$3 million in costs. Some of the overcharges were invoice coding errors. The rest related to miscalculation of overhead percentage.

Overcharges may be modest or monstrous. 1% to 2% is common on well-controlled projects. If corruption is involved overcharges can reach 30% to 60% or more.

**Lessons from construction auditing can be applied to other contracts.**

**Attendees have reported cost recoveries after training:**

Recovery of \$600,000 from a food service contractor, and detection of a kickback

Asking for details supporting an IT invoice yielded \$400,000

Recovering over \$1 million from a landlord for escalation overcharge

An enhanced audit of health benefits administration resulted in recovery of over \$4 million, and rewriting the contracts

**The training also led to better contracting practices:**

Negotiating a blasting contract reduced costs by \$1.1 million

Defining costs and overhead, eliminating duplication in markup reduced IT billings

Defining IT storage needs yielded a future cost reduction and a credit for >\$1 million

Courtenay Thompson & Associates  
Dallas, Texas

214-361-8346

[cmt@ctassoc.com](mailto:cmt@ctassoc.com)

[www.ctassoc.com](http://www.ctassoc.com)