

Construction Audit and Cost Control Institute

Is construction-related fraud inevitable?

Kickbacks and corruption, price fixing and bid rigging, overcharge and non-performance combine to drive up construction costs for owners.

12 STEPS for Reducing Exposure to Construction Fraud

What role can auditors and other construction management professionals play in making it more difficult for fraud to occur and go undetected? Here are some practical steps to take to help defend against construction-related fraud:

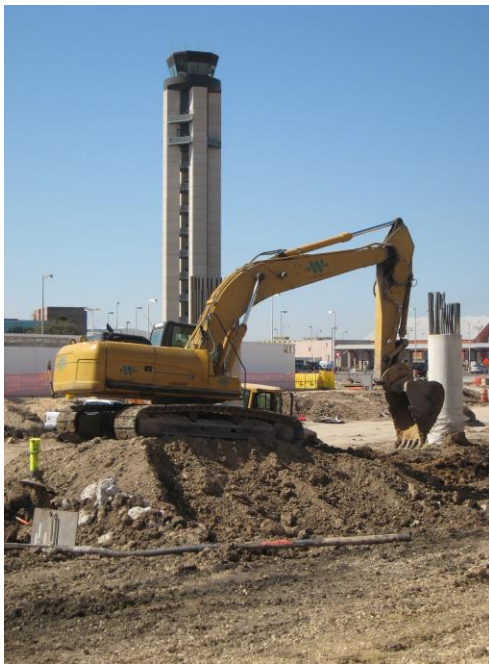
- 1. Know your projects** - *the capital expenditures, the types of projects and contracts, the status and how capital expenditures are recorded in books and records.*



“...overcharge and non-performance combine to drive up construction costs for owners.”

2. Know your vendors – *who are the contractors and subcontractors and major suppliers. Know their ownership, performance history, prior problems including litigation, fines and settlements. Know your organization’s prior experience.*

3. Know the frauds associated with your types of projects – *gain insight from your own experiences and the experiences of others. Research construction-related fraud.*



4. Understand the culture for your projects - *the location and industry practices. Understand gifts and entertainment rules and practices. Understand the relationships and political connections.*

5. Understand your contract management environment – *Know who manages and controls the projects and how your management interacts with contractors, subcontractors and suppliers.*

6. Learn recent construction experiences – *Identify overruns and failed projects, delays and litigation. Determine what the grapevine has to say about project management.*



7. Learn how work is monitored – *Identify construction errors and how often monitoring has resulted in rework, or corrections, credits from contractors or contractors being debarred.*

8. Determine administrative procedures and how they are applied - *for bidding and awarding work, pay requests, change orders. Identify exceptions, protests, change orders and contract claims.*

9. Reduce opportunity for fraud to occur and go undetected - *Harden the target through effective contracting, and monitoring of work and billing, defining, communicating and enforcing travel and entertainment guidelines*

10. Audit books and records of contractor and subcontractors – *Some fraud is reflected only in the books and records of others. Have right to audit provisions in all contracts. Use them.*

11. Drill down into detail – *Inspections, counts and measurements, lab tests, and review of detail supporting billing provide insight.*

12. Effectively respond to indicators of wrongdoing – *Professional response starts with addressing the indicators and may include a complete investigation. Outcomes may be debarring vendors, referral to law enforcement or regulators, civil suits, and termination of employment. Effective response sends a clear message.*

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