

7 Reasons Construction Fraud Merits Attention

By Courtenay Thompson

1. Fraud increases costs for owners.

1 to 2%? No one knows how much. Some have told us of runaway construction fraud costing as much as 45% of the final project cost.

2. Fraud can lead to a failed project.

If the fraud involves substandard materials or improper installation coupled with payoffs for those monitoring or inspecting work, the consequences could be expensive rework or a project that has to be redone or abandoned. To protect against substandard materials some now routinely send steel, fasteners, fuses and bearings to labs to be tested.

3. Construction costs have been used to provide cover for payoffs to elected officials, civil servants, corporate executives and mobsters.

Brazil, Canada and China have made the news, but bribes and payoffs are not confined to countries outside the USA. Federal, state and local governments have been rocked by corruption as well.

4. Organizations can be victims without involvement of their own employees.

Contractors and subcontractors have gotten together to rig bids or fix prices, often without the knowledge of the owners. Vendors or suppliers have billed for material never delivered, or for substandard or counterfeit parts. Vendors have billed for equipment and people not at the jobsite.

5. Construction fraud often goes undetected.

In today's world the nemeses of excellence are the mantras "Faster," and "Do more with less." Discounting the value of approval processes and onsite monitoring may mean that critical review comes into play only when investigating cost overruns or a bridge falling down.

6. Some investigations of suspected fraud in construction fail to address important elements.

Complete investigation leaves few unanswered questions. The knowledge, skills, and independence of the investigators, along with executive and board support can enable them to determine what really happened and sometimes surface serious matters.

7. Construction fraud investigation can result in recovery of losses.

Complete investigation includes developing the amount of the loss. Recovery can be through a negotiated settlement, an insurance claim, court ordered restitution or other means.

Four Steps for Prevention

Screen better including criminal background checks, and litigation searches.

Reduce opportunity for fraud to occur and go undetected. Good management practices, constant vigilance and attention to detail can help reduce construction fraud. Creative use of data analytics can provide insight into bidding and cost overruns.

Increase fear of getting caught. Hotlines, vendor audits, monitoring at jobsites and critical review of work, pay requests and change orders lets others know you are watching.

Increase fear of getting punished. Holding owner managers accountable sends a clear message that they are supposed to know what is going on in their areas. Holding contractors accountable by requiring rework, payment of liquidated damages, or repaying billing errors clarifies contract administration. Debarring or suspending contractors or reporting the situation to law enforcement in accordance with law and your policy is appropriate in some cases.

These steps are addressed in detail in our 2-day seminar: [Construction Fraud: Detection, Prevention & Response](#)