

# Construction Accounting Activities

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# Project Scope & Approach

- Establish the chart of accounts that will be used to capture commitments and costs on the project
- Identify all internal charges that will be charged to the project
- Create the processes and controls that will be utilized to pay contractors, material vendors and consultants on the project
- Identify the partial and final lien waivers that will be utilized on the project
- Establish the audit tests that will be used to verify that the project's job cost system has been reconciled with the general ledger offset accounts within the client's general ledger system
- Create the insurance certificate accumulation and review process
- Create the financial processes and controls to manage the flow of dollars and recording of payments that will be processed throughout the duration of the project.
- Develop specific financial controls including a work authorization system, earned value review process to evaluate monthly billings, construction change directive process, monthly requisition requirements including standardized forms, EEO, WBE/MBE reporting requirements and report criteria, monthly corporate funding requirements and methodology, bid and award requirements, and implement those systems after review by the owner.
- Process all financial transactions after obtaining the required approvals and verifying that the billing has been evaluated to avoid instances where a contractor has billed in excess of the physical completion of the work.
- Meet with the senior project manager within the owner's organization to present the monthly cost report, schedule update report, and to discuss potential corrective actions if the projected cost and projected completion date of the project exceed the original construction budget and project completion date.

## Construction Services Manager

The construction services manager has responsibility for the design of the systems that will be used to control the financial and risk management aspects of the project and the reports that will be generated on a monthly basis. Initial tasks include the creation of the processes and controls that will govern the bond draw and contractor payment functions, coordination of the cost reporting process, including the development of the monthly reporting package. In addition, all guidelines related to project accounting, project audit, and communication protocol, as well as the review of all contracts, subcontracts, insurance certificates, bonding requirements, and the cost projection process, and ad hoc reporting including MBE/WBE participation, EEO percentage reporting and any other overall control procedures are part of this position. This person will also be available to explain schedule, cost and contractor progress whenever called upon to do so.

## Construction Project Accountant

The project accountant will interface with the project's funding source, the client's FF & E purchasers and the multiple construction managers/general contractors, and subcontractors that will provide services (labor and materials), based on scope developed from plans, specifications, and the master construction contract. In addition, communication with the construction management staff responsible to validate amounts billed versus physical completion of the work will be a major responsibility of this person, as well as the monthly audit of all processed transactions, approvals, and the preparation of the project status report.

# How Protiviti Can Assist in the Construction of New or Renovated Projects

**Protiviti will perform the following tasks after the initial financial systems, policies and procedures have been designed, tested, implemented and are functioning efficiently. The detailed work activities related to these tasks have been included on the following pages.**

## **Activity/Risk Area**

- Evaluate progress payment requests, including verification of supporting documentation
- Evaluate process of percentage of completion estimates
- Evaluate and verify draw process
- Evaluate and verify bidding process compliance
- Evaluate and verify project expenditures to budget
- Evaluate and verify adjustments to invoices
- Evaluate and verify payroll costs
- Evaluate and test compliance with change order procedures
- Evaluate and verify general conditions audit process including rental equipment
- Evaluate and verify owner control insurance program, if one is selected
- Evaluate and verify travel & entertainment audit process
- Evaluate and verify bank reconciliations if a separate bank account is being used
- Evaluate and verify proper accounting and administration of out of state tax obligations
- Evaluate and verify MBE/WBE compliance reports
- Verification of lien releases
- Construction cost reporting

## Overview:

- Verify all billings are in compliance with the “cost to be reimbursed” portion of the construction contract. Verify that all supporting documentation is in conformance with the requirements of the owner and if necessary, the bank personnel representing the funding source for the project on a monthly basis.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Payments have been properly authorized.
- Evidence of invoice review and supporting documentation before payments are made, including:
  - Evidence that goods have been received.
  - Evidence that progress billings are based on work completed.
  - Evidence that labor billings are based on approved hourly rates.
  - Evidence that lien releases have been obtained.

## Frequency:

- Monthly

## Overview:

- Verify that all billings based on lump-sum agreements are approved based on the actual work in place versus the cumulative amount billed.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Formal approval process that includes the Earned Value Review of all billings based on the remaining value of the contract amount prior to the payment being requested.
- Calculations of percentage-of-completion estimates are accurate.
- Evidence that partial and final waivers are being obtained and to ensure that payments by the contractor or construction manager are being disbursed on a timely fashion.
- Change orders are not being billed within the base contract value on a monthly basis unless properly authorized by the project manager responsible for the project.

## Frequency:

- Monthly

# Evaluate and Verify Draw Request Process

## Overview:

- Verify that the owner is in compliance with all project financing requirements, and that the construction manager executes payments immediately after funding by the owner.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- The monthly draw request process ensures full reimbursement of all owner internal charges on a monthly basis.
- All required approvals have been obtained prior to submission to the project funding source on a monthly basis.
- The construction manager's checking account to ensure timely disbursement of funds to all lower-tiered contractors.
- Debt compliance activities (e.g., insurance coverage, lien filings, etc.) are monitored on an ongoing basis.

## Frequency:

- Monthly

# Evaluate and Verify Bidding Process Compliance

## Overview:

- Analyze all awards to ensure adherence to a competitive bid and award process. Verify that proper pre-qualification and due diligence has been performed prior to awarding work on behalf of the owner.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Bids from all qualified companies are sought.
- All bid and award files contain documentation of awards made to companies that did not submit the lowest bid.
- Pre-qualification and due diligence activities were performed prior to awarding work on the project.
- The reason management elected not to use the low bidder on the project is appropriate.
- Purchases such as FF&E and professional services to ensure compliance with the same guidelines as construction-related purchases.
- The approval process for any awards made without a formal bid and award process is well documented.

## Frequency:

- As needed based on the schedule of awards on the project.

## Overview:

- Evaluate contractual commitments and expenditures versus the budgeted line item associated with that scope of work to ensure that projected cost variances are identified and analyzed.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- All expenditures have been properly considered in the budget. We would evaluate the process that compares awarded amount to budgeted amount for all awards related to the project.
- Accounting personnel are tracking actual costs versus contractual commitments and line item budgets and are ensuring that all expenditures do not exceed the contract amounts related to the cost being processed and paid expenditures.
- All expenditures have been properly approved, and if not provided for in the budget, that the necessary explanations and approvals have been obtained.

## Frequency:

- Monthly

## Overview:

- Ensure that any adjustments to invoices are properly approved and documented.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Adjustments to invoices contain appropriate approval and supporting documentation
- All previously reduced invoice amounts are reflected on the construction manager's and contractor's requisitions on a monthly basis.
- All supporting documentation has been evaluated prior to allowing resubmitted billings to be accepted by the owner's project manager.
- Timely resolution of issues on a monthly basis is followed.
- Final acceptance of disallowed costs from all service providers including the construction manager and contractors is properly documented.
- All adjustments are reflected in project expenditures reports including project commitment listing.

## Frequency:

- Monthly

## Overview:

- Verify total payroll costs to approved staff listing and rate per hour files. Ensure that all labor billings are in compliance with the “cost to be reimbursed” section of the contract.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Labor billings are subject to an approved staff listing that includes rate per hour, allowable burden component, signed time cards, and a summary sheet that lists work activities associated with the amounts being billed.
- Personnel files are complete and contain all required information (e.g., rate, benefits, withholding, Social Security, etc.).
- Documentation related to submission of payroll data, including evidence of supervisor approval on time cards for hours worked.
- Payroll registers agree to the actual cost requirements of the construction contract.
- Clerical accuracy of payroll processing function.

## Frequency:

- Monthly

# Evaluate and Test Compliance with Change Order Procedures

## Overview:

- All project changes must first be authorized and presented to the Owner's Change Order Committee for acceptance prior to the work taking place.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- All change orders have been properly approved by the Owner's Change Order Committee before work commences.
- The owner has a process in place and has identified a minimum level of approvals for "emergency" change orders.
- A formalized process exists to track change orders and monitor their status and progress.
- Evidence that all change orders requested include all documentation such as the request for information ("RFI") that generated the change in scope, the architect's sketch that details the changed condition and any other supporting documentation.
- Evidence that all change orders have been audited based on the pricing included in the "costs to be reimbursed" section of the contract.

## Frequency:

- Monthly

## Overview:

- Verify all general conditions billings including rental equipment charges are in compliance with the applicable provisions of the construction contract. Verify that all supporting documentation is in conformance with the requirements of the owner and the funding source on a monthly basis.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Supporting documentation is obtained and substantiated, including paid bills, payroll registers, expense reports and fee calculated as a percentage of the overall amount billed on a monthly basis.
- Procedures to identify all invoices and charges not allowed per the contract are followed.
- Procedures ensure corrective action has been taken after disallowed billings have been identified on behalf of the owner are followed.

## Frequency:

- Monthly

# Evaluate and Verify the Owner Controlled Insurance Program, if one is Selected

## Overview:

- Verify that proper insurance coverage is being provided to the owner, either through an OCIP program or through conventional insurance certificates provided by contractors and service providers on the projects under review.

**Scope:** Our testing would include reporting on whether controls over the following activities are operating as designed:

- Interact with the corporate insurance administrator and safety director working for the owner on the project.
- Formal reporting process documents the remaining balance in the loss deposit fund on a monthly basis.
- Change orders do not include charges for insurance that has been covered by the OCIP being administered on behalf of the owner.
- Findings related to safety issues.

## Frequency:

- Monthly

## Overview:

- Verify that all travel conducted by Company employees and the construction manager has been properly approved and that all expenses have been properly documented and are in compliance with the owner's policies.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- Travel authorization forms contain approval, authorized vendor, receipts where appropriate and business purpose.
- Receipts supporting the request for reimbursement, approval of expense report, business purpose for expenditure incurred are evaluated and maintained.

## Frequency:

- Monthly

## Overview:

- Verify that accounting personnel are properly reconciling cash on a regular basis and that all reconciling items are identified and disposed of in an appropriate manner.

## Scope:

Our testing would include the following activities:

- Evaluate selected bank reconciliations, to report that:
  - Deposits in transit have properly cleared;
  - No large and old outstanding items;
  - Outstanding check list is accurate and complete;
  - Support for unusual items is proper.
- Evaluate selected bank reconciliations for evidence of supervisory review and authorization.
- Timeliness of reconciliation.

## Frequency:

- Monthly

# Evaluate and Verify Out of State Tax Obligations and the administration of the Taxable Status of the project

## Overview:

- Verify that the construction contractor properly accounts for out of state tax obligations, and that the assessments imposed on the owner are actually paid to the state where the purchase originated. If applicable, ensure that taxes are not assessed to a tax exempt project, if applicable

## Scope:

Our testing would include the following activities:

- Complete evaluation of the sales tax charged to the owner for out of state purchases.
- Procedural manual listing guidelines for sales/use tax applications.
- A thorough evaluation of invoices pertaining to the construction project will be undertaken to determine proper administration of all taxes charged to the owner on the project.

## Frequency:

- Monthly

## Overview:

- Verify that MBE/WBEs are encouraged to bid and that the owner monitors its stated objectives with respect to contracting with certified minority and women-owned businesses.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- The owner has established the proper policies and procedures to capture information related to MBE/WBE compliance.
- Reports based on awards issued to certified MBE/WBE entities.
- Perform selective audits to ensure the accuracy of the reports submitted to the owner and other regulatory agencies.

## Frequency:

- Monthly

## Overview:

- All requisitions must be supported by executed partial releases and in the case of retainage payments, a final lien release prior to issuance.

## Scope:

Our testing would include reporting on whether controls over the following activities are operating as designed:

- The owner obtains releases prior to disbursing payments for self-performed work activities.
- The construction manager has provided a lien release for its overall cumulative billed amount on a monthly basis.
- Evaluate selected contractor billings with the construction manager to ensure proper lien releases have been provided on behalf of the owner.

## Frequency:

- Monthly

## Overview:

- Provide monthly cost report projections based on the accumulation of information for all construction projects under review.

## Scope:

Monthly cost report meetings would be facilitated by Protiviti. Contractual commitments and the related costs processed against those contract amounts would be tracked and compared to the budget on a monthly basis. Projected costs through completion would be accumulated by Protiviti with input from the owner's project manager, and the owner's finance personnel responsible for the project. In addition, the executive summary of the monthly cost reporting package would also include the following key milestone measurements:

- Change orders submitted through the date of the report.
- Variance analysis with a detailed explanation of the increased cost of the project, and management's plan to resolve the projected increase in cost.
- Status of contracted work versus uncommitted work with a schedule of projected award dates.
- Schedule analysis that includes the original completion date, revised completion date if slippage has occurred, and management's action plan to expedite completion of the project with the associated cost impact.
- Evaluation of the construction budget and any approved funding increase, including required authorizations.
- Accumulation of the projected costs through completion for all owner incurred charges including, but not limited to, internal labor, legal expenses, environmental remediation and technology-related charges.
- Alignment of all contractual commitments to processed costs and solicitation of projected costs through completion from all service providers and construction managers.
- Evaluation of all change order logs to ensure recognition of all items that could affect cost or schedule.

## Frequency:

- Monthly

**Director**  
New York

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## Service Line

- Construction and Real Estate

## Areas of Practice

- Capital Projects & Construction

- Outsourced Construction  
Accounting

- Project Controls

- Construction Cost Audits

- Forensic Auditing

- Process Improvements

## Industry Lines

- Energy & Utilities

- Manufacturing

- Transportation/Infrastructure

- Construction

- Hospitality

- Gaming

## Background

Fred is a Director within the Protiviti Capital Projects and Construction Practice specializing in all aspects of construction consulting including operational and financial controls, construction project management, outsourced project accounting and contract administration, risk management, fraud identification, examination and quantification, forensic auditing, construction cost recovery, schedule analysis and claim resolution.

Prior to joining Protiviti, Fred worked for a large general contractor for eighteen years, Arthur Andersen for four years and Ernst & Young for six years. During the eighteen years at the general contractor, Fred was responsible for the financial and operational status of approximately \$350 million of work in place on an annual basis. The scope of the contract administration role at Macomber included management of all aspects of the organization including project management and financial management.

While at Arthur Andersen and Ernst & Young, Fred served as the client service leader for a variety of corporate clients in several industries that required outsourced internal audit services or outsourced construction accounting services. A partial list of the client engagements Fred has executed has been listed below.

## Major Projects

Outsourced project controls/construction accounting/contract administrator on the \$1.8 billion Newark Airport expansion project on behalf of Continental Airlines.

Outsourced internal audit function for a privately owned real estate development company located in Tribeca, New York.

Outsourced construction project controls and accounting manager for a five plant, \$1.0 billion expansion program located in Juarez, Mexico.

Performed construction process reviews, outsourced construction project accounting/contract administration and construction cost recovery audits for several large projects located in Leiden, The Netherlands, Trinidad/Tobago, Puerto Rico, Bermuda, Canada and in various locations in the United States.

Provided ongoing consulting to resolve all identified or breached compliance issues including the initial report, identification of inappropriate expenditures resulting from prohibited business relationships, inappropriate contracts, and non-compliance to the requirements contained within the corporate governance charter.

Developed job cost accounting and contract modules prior to administering all financial transactions and risk based management tools on client projects.

# References and Relevant Project Experience

Steve Goepfert, Continental Airlines, Inc. Senior Director of Internal Audit: 713-324-7302

## **Continental Airlines, Inc. (Newark, and Houston)**

Oversaw fiduciary responsibility for the 1.6 Billion Dollar Global Gateway Expansion Project currently underway at Newark International Airport, and the 1.0 Billion Dollar project at Intercontinental Airport in Houston. The projects were staffed with a team of auditors, and Fred Monsour served as the overall engagement Principal with all of the responsibilities related to the reimbursement of construction related funds due Continental on a monthly basis and the monthly bond draw process including interaction with the bond trustee, and disbursement of funds to the construction managers and service providers involved with the projects. In addition, separate bond draws were also prepared on a monthly basis to draw down different bond issues and Port Authority funds. In total, the firm managed 35 active projects in Newark, and 40 projects in Houston, ensuring proper job cost allocations.

Tom Hicks, Chairman of the Board, 214-740-7300

## **Tom & Cinda Hicks Estate Construction Project**

Assumed the operational and financial responsibility for a 26 acre Estate construction program in Dallas Texas. Fred Monsour executed the role of owner's representative with responsibility for scheduling, cost reporting, change order management, construction and consultant procurement processes and the coordination of site security, In addition, the review of the construction manager's monthly cost report, requisition for payment, and drawing submittal log were performed prior to acceptance by the owner on a monthly basis. This project also included the day to day management and cost control of the various design elements of the project including architectural, hardscape, landscaping, irrigation, structural, mechanical, and the cost control of the interior fit out portion of the project.

Myrk Harkins, Director of Internal Audit, Southern Company: 205-257-2135

## **Southern Company, Birmingham, Alabama**

A contractor's claim in the amount of \$ 31 Million dollars was analyzed as part of a review of the project controls related to the construction of two deregulated power plants. **The deliverable that was provided to Southern Company reduced this claim to \$ 8 Million dollars and the contractor accepted the settlement amount.** Prior to review of the contractor's claim, the audit included a review of all processed transactions charged to Southern Company by the construction manager on the project including labor, material, subcontractors and equipment charges. In addition, a review of Southern Company's administration of time and material charges, insurance, bonds, partial and final lien waivers, and the projected costs at completion that were reported to senior level management at Southern Company was performed.

## Intellectual Property Restriction

*"This proposal contains confidential material proprietary to Protiviti Inc. ("Protiviti"), a wholly owned subsidiary of Robert Half International Inc. ("RHI"). RHI is a publicly-traded company and as such, the materials, information, ideas, and concepts contained herein are non-public, should be used solely and exclusively to evaluate the capabilities of Protiviti to provide assistance to the Client, and should not be used in any inappropriate manner or in violation of applicable securities laws. The contents of this proposal are intended for the use of the Client and may not be distributed to third parties. This proposal does not constitute an agreement between Protiviti and the Client. Any services Protiviti may provide to the Client will be governed by the terms of a separate written agreement signed by both Protiviti and Client. This proposal is based solely on information provided to us by the Client, which we have not verified. Accordingly, we are not responsible for any inaccuracies in that information. Furthermore, changes in the Client's definition of requirements will necessarily affect the proposal set forth herein."*

At Protiviti, we believe the companies that most effectively understand and manage their risk are the companies that most often succeed. Or as we like to say...

Know Risk. Know Reward.®

protiviti®  
Independent Risk Consulting