

Project Cost Review Services



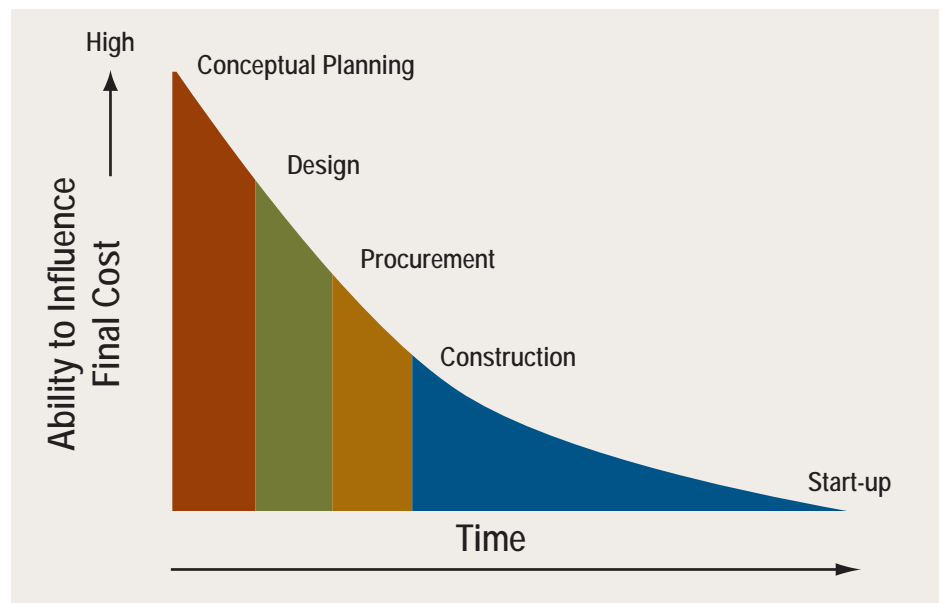
Consultant Credentials

- » Certified Public Accountants
- » Certified Fraud Examiners
- » Professional Engineers
- » Cost Estimators
- » Quantity Surveyors
- » Licensed Architects
- » CPM Schedulers
- » Economists
- » Commissioning Professionals
- » Construction / Project Managers
- » Real Estate Professionals

Are You Proactively Monitoring Project Costs to Manage the Risk of Excessive Charges, Project Overruns, and Claims?

If not, you will face an increased likelihood of having the success of your project impacted by unanticipated and potentially invalid costs. Cost risk is an inherent part of construction projects from an investment standpoint, because the expenditures are influenced by parties with varying interests. From the owner's perspective, the stakes are even higher as a result of the impacts of financial impropriety and the increased responsibilities of owners to shareholders, financing providers, employees, and end users. Navigant Consulting's financial and construction professionals combine their unique knowledge, backgrounds, and seasoned project experience to provide Project Cost Review Services to assist owners (and the parties to whom owners are responsible) in reducing potential areas of risk that can lead to overcharges, project overruns, and ultimately claims.

During the entire project lifecycle from conceptual planning to project startup, Navigant Consulting provides specialized cost review expertise to address cost risk in each stage. As illustrated by the chart below, the ability of an owner to control project risk and total project cost is at its maximum early in the planning phases of the project. However, there are benefits to be gained by taking proactive steps even during the procurement and construction phases to mitigate unplanned items that lead to claims costs and litigation fees. Traditional processes, contract language, and controls are no longer adequate to maintain project budget and schedule requirements. These situations call for more thorough planning and greater sophistication in anticipating, identifying, addressing, and rectifying problematic issues before they become claims.



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Representative Project Experience

- » Airports
- » Convention Centers
- » Correctional Facilities
- » Government Structures
- » Healthcare Facilities
- » Highways & Bridges
- » Manufacturing
- » Offices, Hotels, Resorts & Casinos
- » Power Generation
- » Schools & Universities
- » Sports Complexes
- » Water & Wastewater Facilities

The ability to successfully manage the risk of increasing costs begins during the planning, acquisition, development, and preconstruction phases of a project, where scope, budget, schedule, rights and procedures, and the overall terms of each agreement are defined. As the project progresses, establishing new controls becomes increasingly difficult; hence the magnitude of cost overruns, schedule delays and completed project performance, disputes, and litigation tend to rise dramatically without a system of controls in place at the outset of the project.

Navigant Consulting understands the risk inherent in construction projects and is experienced in providing guidance at all stages of the process. Navigant Consulting has the depth of experience and resources to provide assistance to projects through all phases of the project lifecycle. We can assist with projects in the planning phase by implementing a control framework or, in the construction phase, to troubleshoot problematic projects that lack or want to strengthen established monitoring procedures. Our decades of experience and proven expertise with capital project risk management, combined with our market-leading position in the analysis and resolution of construction claims, make us uniquely qualified to help owners minimize the risks inherent in today's construction market. The unparalleled combination of our financial and construction experts provides owners an experienced, independent and objective team to support their major capital project needs.

Why Should Owners Undertake Project Cost Reviews?



Project Cost Reviews provide several benefits that reduce the risk of the improper inclusion of costs, invalid cost increases, inflated charges, and construction claims:

- » **Deterrence** – Proactive monitoring lets all parties know that support for submitted costs will be thoroughly reviewed. The existence of this practice may in itself deter claimants from submitting fraudulent or inflated costs.
- » **Transparency** – Cost reviews make clear to all that each individual party's cost submittals will be reviewed using the same guidelines and requirements.
- » **Compliance** – Per contractual or governmental requirements (such as Federal Acquisition Regulations), owners must be able to show that costs for which it is being reimbursed have been properly reviewed and are supportable. Instituting project cost monitoring provides this assurance as a matter of course.
- » **Risk Mitigation** – Project cost reviews tend to bring problem areas to light earlier in the project lifecycle, so that they can be properly mitigated and resolved.
- » **Process Improvement** – The review process allows owner personnel and owner's counsel additional opportunities to continuously improve contract terms to avoid loopholes and ambiguity.
- » **Issue Resolution** – The process brings relevant information forward for both sides and the arbitrators/mediators to conduct informed settlement discussions.
- » **Vendor Integrity** – Owners need to continuously test and refine their list of acceptable vendors/contractors. If you have suspicions of malfeasance on the part of a vendor or contractor, our reviews allow you to make an informed decision about continuing that business relationship.

solution[s] – moving beyond today’s challenges

Contemporaneous Contract Cost Review



An experienced, objective perspective at the outset of a capital project enhances the definition of the plan and greatly reduces the inherent risks throughout the project’s lifecycle. In addition, it is clear that periodic, visible cost monitoring reduces the likelihood of fraudulent billing submissions and claims. We provide the guidance to establish these procedures to maximize benefits and minimize risk.

- » In the pre-construction phase, review contract terms for clarity regarding pricing, markups, escalation, change orders, RFIs, applications for payment, termination, scheduling requirements, audit rights, etc.
- » Identify procedures for cost tracking and verification throughout the course of construction
- » Identify procedures and measurement tools for tracking of project completion by task
- » Assist in implementation of above monitoring procedures, including forms, required reports, timing of updates, etc.
- » Assist in secondary independent verification of payment applications
- » Prepare or assist in preparation of periodic secondary verification of labor, materials, and equipment costs
- » Analyze key labor components of work to identify potential areas of delay or slow progress
- » Provide independent secondary verification of proposed change order costs, amounts and/or engineering necessity
- » Assist in preparation of updated contractual terms/clarifications for future contracts and agreements

Change Order Review



A proven program of controls gives management visibility to issues in a timely manner and allows for corrective action on emerging schedule, cost and quality challenges. Change order reviews can be performed either contemporaneously or post-completion. However, contemporaneous reviews have the advantage of resulting in improved processes during the construction phase.

Work Approval

- » Review change order documentation to verify that the work was owner-approved and directed per appropriate signatures and approvals
- » Track change order and RFI approval status and monitor responses and response time

Labor Rate Review

- » Verify that rates charged agree with contractual rates (if agreed-upon rates exist in the contract) and are based on relevant union wage and fringe rates
- » Analyze markups on labor to verify that markups are not double-charged within and as an adder to the rate
- » Analyze areas of labor overrun to segregate the portion of overage caused by rate variance versus manhour variance

Case Example – Contemporaneous Review

NCI was retained by the owner of a riverboat casino project in the southeastern United States during the early stages of its project to monitor its cost tracking procedures, review payment applications and the support submitted for payment requests and change orders. We worked with the owner’s site personnel to establish control procedures to be used throughout the project for both cost and schedule issues. Our work on the project resulted in direct changes to the owner’s cost system and controls, creating clearer project documentation for early resolution of disputes.

Case Example – Change Order Review

NCI was retained by a power equipment supplier to evaluate job costs and change order requests related to the construction of a power plant. NCI performed a cost review of the civil/general contractor’s job cost records to assess the validity of the total job cost claimed as incurred in completing the project work. This review provided valuable information related to the claimants’ labor usage, manpower (planned and actual), productivity in certain key project periods, materials usage and cost, and turnover of personnel. In this process, NCI also evaluated the contractor’s change order submittals (over 600 requests) to determine if they were submitted in accordance with the pricing terms of the contract. The results of this analysis showed that the contractor’s use of inflated labor and markup rates resulted in change order submittals in excess of allowable amounts by several million dollars.

expert[s] – foresight over obstacles

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Case Example – Post Completion

Related to the construction of an airport maintenance facility, NCI was retained to evaluate the root causes of several cost overruns which had led to contractor claims. We reviewed the timing of site expenditures and specific labor costs to understand when workers were on site and when certain work had been completed and by whom. This analysis ultimately found that the contractor's cost records actually refuted its claims and resulted in the issuance of an expert report to be used at trial.

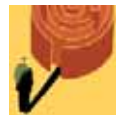
Manhour Verification

- » Verify through payroll and other records that employees were on site and that payment for manhours claimed have actually been made to employees by the contractor

Material/Equipment Cost Verification

- » Verify receipt of and payment for materials as well as the presence of the equipment on site
- » Review and verify rates charged for owned and rented equipment, including markups

Post Completion Contract Cost Review (Project Close-out)



- » Identify major areas of cost overrun along with trends and timing of overruns to isolate problem areas of construction work based on actual cost and completion
- » For submitted claims (based on available cost information permitted by contractual terms), perform testing of actual claimed costs versus backup documentation
- » Analyze key areas and historical timing of labor expenditures to identify problem areas
- » In response to Total Cost or Modified Total Cost claims, prepare cost- and bid-based evaluations of claim items
- » Evaluate fulfillment of notice requirements
- » Evaluate timeliness of responses to RFI's, payment applications, change order requests, etc.

Instituting solid project controls at any stage of the capital project lifecycle is a proactive step in reducing the cost risk that is inherent in any construction project. Navigant Consulting has the expertise and experience necessary to assist you regardless of where you stand in the process.



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