



TALSON

— SOLUTIONS LLC

Adding “Your” Value Through a Construction Audit

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The Institute of
Internal Auditors

Atlanta

Presenter

Robert S. Bright

President and Founder of Talson Solutions, LLC, Robert has 40 years of experience conducting design and construction contract audits, compliance reviews and integrity monitoring services, special investigations, risk assessments, and serving as litigation consultant focused around claims analysis and expert witness testimony. Robert has served as the engagement partner providing construction audit services on the \$5.2 billion Panama Canal Expansion Program. Robert holds a B.S. in Mechanical Engineering from Rensselaer Polytechnic Institute and an M.B.A. in Finance from The Wharton School, University of Pennsylvania.



Who We Are

Established in 2001, Talson Solutions, LLC, MBE, is a Capital Program Advisory firm, 100% dedicated to construction auditing, compliance, project management, consulting, and risk assessments.



Talson Culture Tapestry: Est. 2015
Excellence, Respect & Community

Mission: *Provide project **stakeholders**, including audit committees, funding sources, trustees, and executive management, with verifications and assurances that their project team and contractors are executing a well-planned, quality project, are performing efficiently and effectively, and are minimizing risk.*

Talson has audited and/or monitored over \$40 billion in capital projects.

Learning Objectives

- 1) Identifying areas of risk: Contract Administration, Project Reporting, Cost Management**
- 2) Converting Construction Audit Observations to Risks**
- 3) How to strengthen the Capital Project Control Environment**
- 4) Use of Risk Registers and On-Going Risk Management**
- 5) Red Flags of Fraud, Waste, and Abuse**

Agenda



Your Value

Knowledge and meaningful analysis impacting capital program performance.



Assessing Risk

Risk in capital program life cycles; specifically in the areas of cost, schedule, and protection to the owner/ public agency.



Critical Mitigations

Where risk lies and how risk mitigation can reduce potentially crippling effects and adverse public disclosure.

Your Value

“Advocate”

“Thorn-In-One-Side”

“Fortune Teller”

“Investigator”

“Enforcer”

“Reporter”

“We Gotcha”

“Collaborator”

**“Cost Recovery
Specialist”**

“Assurance Specialist”

“Teacher”

“Just Doing My Job”

“Listener”

“Communicator”

Assessing Risk

- Identifying the Areas of Risk
- Red Flags of Fraud, Waste, and Abuse

What Are the Construction Risk Areas ?

Cost/Budget - 

Schedule/Delays - 

Claims - 

Design -  *SeaTac*

Funding - 

Project/Contract Administration -

Fraud, Waste & Abuse - 

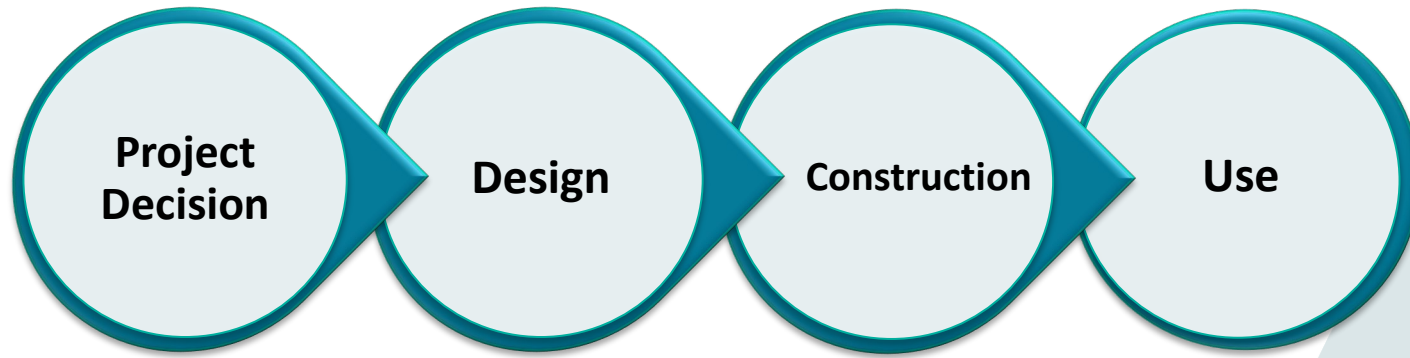
REPUTATION



Question #1

Name three construction risk areas.

Project Life Cycle



Due Diligence

- Initial Schedule
- Budget
- Scope
- Procurement

Management

- Cost Control
- Schedule Control
- Quality Control
- Project Reporting

Oversight

- Project Controls
- Trades Coordination
- Quality
- Commissioning
- Change Mgmt.

Project Close-out

- Punch List
- Final Payment

ASSESSING & MITIGATING RISKS – Time, Cost, Scope

Risk Areas: Project Life Cycle

Design	Contracting	Procurement
<i>Open issues or excessive specifications</i>	<i>Incorrect project delivery method</i>	<i>Lack of transparency</i>
Construction Management	Project Administration	Closeout
<i>Poor oversight</i>	<i>Inadequate reporting/ Financial controls</i>	<i>Claims/Litigation /Payment</i>

Key Personnel Change, Communication, Change Mgmt

Risk Area: Project Delivery

Contracting Methodology

- Design-Bid-Build
- Design-Build
- Construction Manager/
General Contractor
- Time & Material
- Indefinite Delivery/
Indefinite Quantities (IDIQ)
or Unit Price
- P3 = Public Private
Partnership

Considerations

- Contractor experience
- Is this the “Right Type of Contract”?
- Have the subcontractors/
vendors worked together?
- Is the real scope defined?
- Are the “Business Controls”
in place?

Question #2

Name two types of contracting methodology.

Risk Area: Change Management

Change Management

- Budget/Funding Sources
- Contingency/Allowances
- Insurance
- Overhead & Profit
- Savings
- Final Contract Value

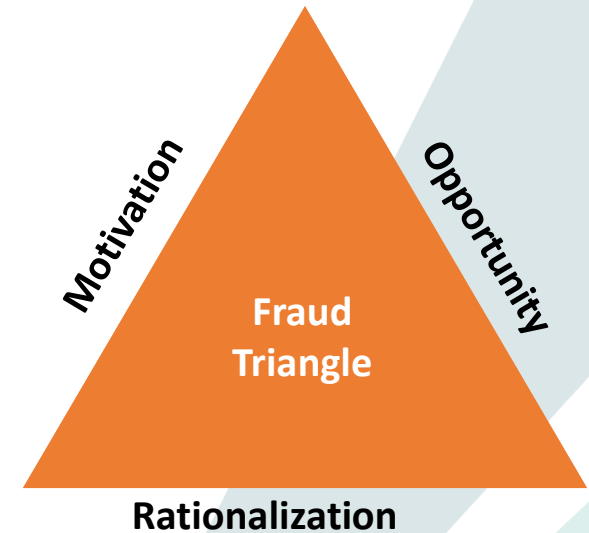
Considerations

- Volume of Change
- Pace of Change
- More Than Just “Cost”
- Reporting Accuracy



Red Flags of Fraud, Waste, and Abuse

- Falsified payments/invoices
- Bid-Rigging/Bribery (42% of construction fraud)
- Substituting materials with components of lower quality
- Embezzlement
- Quality
- M/W/DBE Engagement





















Almost 90% of those who engage in fraud have no prior record



Fraud, Waste, and Abuse Headlines

- Las Vegas Contractor Will Repay Workers \$3.6 Million in **Wage Theft** Case (Jan 2023)
- Rhode Island Contractor Accused of **Illegally Disposing** Contaminated Landfill to Project Site (Feb 2023)
- Gilbane/Hunt JV Agrees to \$1.9 Million Pact in State **W/MBE** Lawsuit (Dec 2022)
- CM, Subs Stole \$5 Million in **Bid-Rig Scheme** (Jan 2023)
- 14 Charged in Construction Scheme Motivated by “**Greed at All Costs,**” Manhattan DA, May 2023

Converting Observations

Observation	Risk			
Change orders not resolved in timely manner				
Incorrect wage rates, unallowable markups, excess insurance				
Lack of support documentation				
Inconsistent reporting				
Contingency/allowances not reconciled				

Critical Mitigations

- **Strengthening the Capital Project Control Environment**
- **Use of Risk Registers and On-Going Risk Management**
- **Discussion of the “Three Lines” Model**

Early Audit Reviews

- **Readiness:** An *early audit opportunity* to assess the “Readiness” of an organization to move forward with critical spending.
- **Governance:** An audit opportunity to assess and evaluate governance framework and compliance to established controls.
- **Project Controls:** Audit opportunity to assess implemented control tools...and specifically the project teams compliance to the use of these tools.

Evaluation:

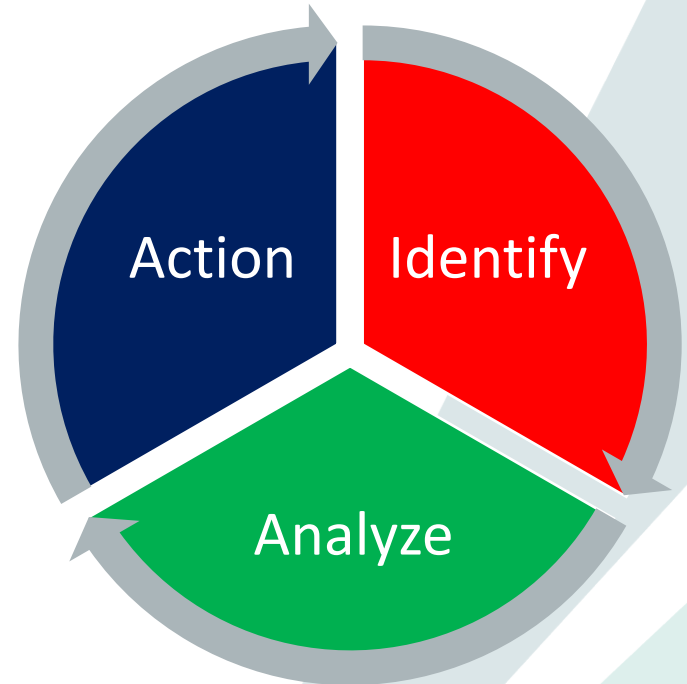
- Adequate
- Inadequate
- Compliant
- Non-Compliant:

- Unacceptable Risk
- At-Risk
- Marginal Risk
- Acceptable Risk

Risk Management by Project Team

Risk Management has three important parts:

- 1) **Identify** - Generation of the Risk Assessment
- 2) **Analyze** - Qualitative and/or Quantitative (Risk Register)
- 3) **Action** - Assigning an owner and mitigation actions (managed using Risk Register)



Objective: Create the “Risk Register” for ongoing project life cycle

Question #3

Please check the three parts of risk management by the project team.

Escalate

Analyze

Action

Identify

Use of Risk Registers & Ongoing Risk Management

Risk Register is a tool that is used to identify potential risks that impact the project's objectives.

The Risk Register will memorialize **Qualitative (subjective)** and **Quantitative (measurable)** analysis results.

Examples of Risk Register Events:

- **Project funding not 100% sourced**
- **Unstable market conditions logistics/inflation**
- **Permitting/approval delays**
- **Code changes impact design**
- **New technology**
- **Governance/Political Cycles**

Qualitative Risk Analysis

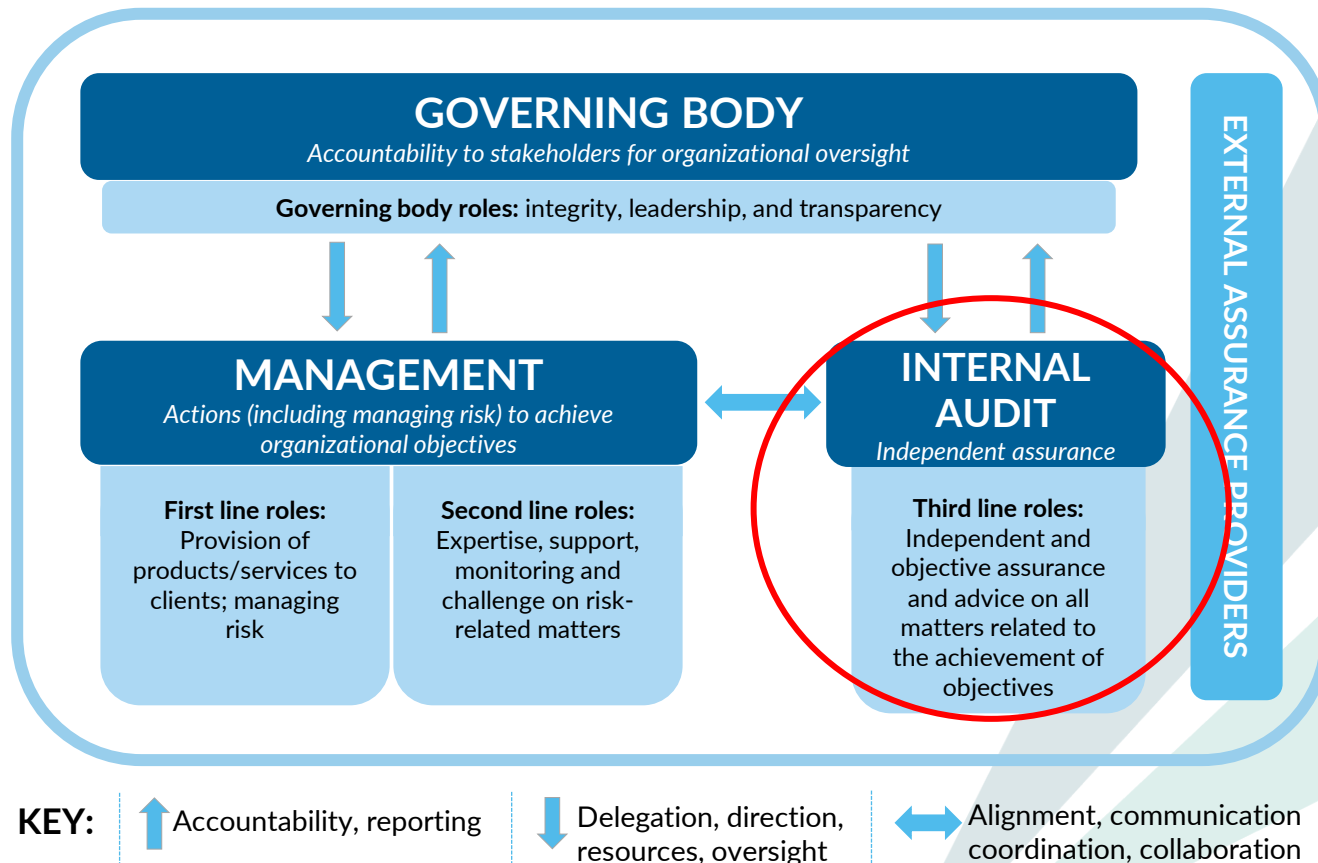
- Theory Based
- Uses Experience
- Subjective
- Likelihood Assumption

Quantitative Risk Analysis

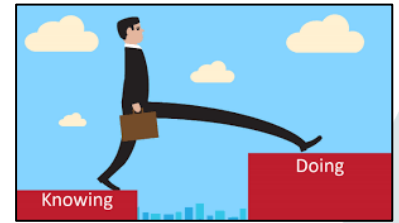
- Detailed & Complex
- Measurable
- Assigns a numeric value
- Probability Assumption

How to Integrate Yourself into the Process

The IIA's Three Lines Model



What Auditors Can Do !!!



Increase immersion in project/program

Engage Early: Readiness, Governance

Understand Project Delivery Methods

Convert “Observations/Findings” to Risks

Build relationships with internal and external parties

If needed, hire the experts

Thank You

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