



CASE STUDY

**Construction Cost
Monitoring Saves Medical
Center Millions of Dollars in
Capital Project Costs**

GRASSI
ADVISORS & ACCOUNTANTS

INDUSTRY

**Construction,
Healthcare**

LOCATION

New York

Introduction

Few initiatives undertaken by a healthcare organization hold as much risk as large capital projects. Yet risk management often falls by the wayside after the contract is signed and construction is underway. One of the most overlooked areas of risk in these projects is unknowingly paying more than should be paying under the contract terms.

This was the scenario at a large medical center in Manhattan where the Capital Facilities department was entering into a \$375 million contract for the development of a biomedical research building. Fortunately, the center's internal audit professionals reviewed key terms of the contract before it was signed and recognized the need to have skilled Construction finance professionals review the monthly progress billings and monitor costs and the change order process through the duration of the project.

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The Challenge

While the medical center's attorneys had reviewed and approved the contract for legality and loopholes, no one had focused primarily on the economics of the contract. The legitimacy of job costs, procedure for change orders and accuracy of billing rates went unquestioned.

Furthermore, once the contract was signed, there were no qualified Construction experts on staff to monitor change orders, review invoices and evaluate the contractor's performance according to contractual terms.

The Solution

The Facilities Director turned to Grassi's Construction Group for their expertise in project costs, construction contracts and financial reviews. The team began with reviewing the contract and contractor financials to identify any areas of concern, hidden costs or unnecessary risk.

Throughout the project, the Grassi team stayed alongside the client, monitoring costs and advising them on each change order, invoice and financial decision. More than \$14 million of change orders were quantified and evaluated by the Grassi team, and all invoices from contractors and sub-contractors were reviewed for accuracy prior to payment.

At the project's substantial completion close-out process, Grassi was instrumental in verifying the final cost and billing submissions from the construction manager to make sure that all change orders and pending items were addressed

and recorded properly based on the agreed-upon resolutions during construction. Additionally, the Grassi team assisted the capital facilities personnel to ensure that all warranty items were properly submitted, final waivers of lien were executed by each trade subcontractor and final insurance certificates for completed operations were obtained.

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The Results

Working directly with the medical center and their architecture firm, the Grassi team drew from extensive Construction industry expertise to uncover millions of dollars in erroneous charges.

Grassi's pre-contract review and ongoing cost monitoring yielded more than \$2 million of savings in contractual terms and identified more than \$2.6 million of improper costs and change orders.

Errors that were caught during the cost monitoring process included: inaccurate billing rates when workers were off-site, change orders that were not performed according to the contract, hidden costs to cover sub-contractor defaults, and other insurance-related costs that were inappropriately passed down to the medical center.

On the surface, all of these changes would seem like the normal course of business. Grassi's Construction experts dug deeper to protect the client from overspending and help alleviate financial risk.



For more information on how Grassi can help your organization with cost monitoring projects, please contact:

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