

E - B O O K :

The Three Hidden Benefits of Construction Audits: Less Risk, More Visibility, Stronger Partnerships



The Three Hidden Benefits of Construction Audits: Less Risk, More Visibility, Stronger Partnerships

Executive Summary

Construction projects face unprecedented financial pressures, with material costs surging 40.5% since 2020 and 75% of projects finishing over budget. Strategic construction audits deliver three transformative benefits that address these challenges head-on:

Risk Reduction: Proactive identification of billing errors, compliance issues, and fraudulent activities before they compound into major losses.

Enhanced Visibility: Real-time project oversight through systematic monitoring of General Conditions and cost allocations, preventing the "black hole" effect where legitimate expenses get buried with inappropriate charges.

Stronger Partnerships: Transparent audit processes that build trust with contractors while establishing clear expectations and accountability frameworks.

Proven ROI: PRGX's experience across 200+ projects and \$27 billion in construction costs consistently delivers savings of 0.25% to 1% of total project costs. Recent case studies include over \$6M recovered across retail fulfillment centers and \$18M in total savings across multi-facility projects.

The key insight: audits implemented during pre-project planning and active construction phases prevent problems rather than just identifying them after costs are locked in. Combined with strategic contract management that addresses root causes of cost overruns, this transforms audits from historical reviews into active management tools that benefit owners, contractors, and subcontractors alike.



Contents

◆ EXECUTIVE SUMMARY	1
◆ HOW STRATEGIC AUDITS TRANSFORM CONSTRUCTION PROJECTS	3
◆ THE GENERAL CONDITIONS BLACK HOLE: WHY IT’S HAPPENING	4
◆ DRIVING VISIBILITY AND REDUCING FININANCIAL RISKS FOR CONSTRUCTION PROJECTS	8
◆ REINFORCING THE STRUCTURE - IMPROVING CONTRACT MANAGMENT AND COMPLIANCE	12
◆ BUILDING BRIDGES, NOT WALLS - STRENGTHENING CONTRACTOR RELATIONSHIPS	15
◆ PARTNER WITH PRGX: EXPERTS IN CONSTRUCTION AUDIT AND CONTRACT MANAGEMENT	18



How Strategic Audits Transform Construction Projects

Construction projects face mounting financial pressures with **material costs increasing by 40% since 2020** and **overall costs predicted to rise 5-7% in 2025**. But the real challenge isn't just rising costs—it's the hidden risks lurking in contract compliance and billing complexities.

For an industry with "a million moving pieces in flight," audits transform uncertainty into clarity that benefits owners, project managers, contractors, and subcontractors alike.

Strategic construction audits are a way for project owners to stay prepared in the face of rising costs and uncertainty, because it's more than just projects completing on time and on budget.

Audits can offer reduced risk through early identification of pay app errors and compliance issues, enhanced visibility into project cost breakdowns that supports existing work done by project managers, and stronger partnerships built on transparent expectations and accurate future collaboration with general contractors.

Understanding these mounting cost pressures reveals why one particular area has become the most common source of budget overruns and billing disputes in modern construction projects: General Conditions.

The General Conditions Black Hole: Why It's Happening

Construction projects are inherently complex and capital-intensive. While there is considerable financial leakage that happens well beyond General Conditions and change orders (avoidable overcharges, billing misclassifications, and contract non-compliance), General Conditions can cover many categories.

From payment terms and change procedures to management personnel and contractor relationships, General Conditions can quickly become a catch-all category. Project managers typically focus on the overall budget and timelines, so individual line items buried in General Conditions can be missed if the project is “technically” within budget and on time.

THE FOUR MOST PROBLEMATIC GENERAL CONDITIONS CATEGORIES

The most problematic General Conditions categories consistently include project management staffing, change management procedures, payment protocols, and subcontractor oversight. There are four key reasons why these categories become cost magnets:

1 Contract Confusion creates the primary opening for wrong cost placement. Common examples include allocating fleet vehicle maintenance costs across multiple projects, charging corporate legal fees for routine contract reviews as project-specific expenses, or billing company-wide professional memberships and industry association dues as direct project costs.

2 Poor documentation and payment systems frequently bury costs in lump sums without proper breakdowns, and many owners lack systems to verify General Conditions expenditures, creating a lack of clarity that allows expenses to grow beyond their intended scope.

3 Common industry practices often override contract terms when contractors don't understand specific contract requirements, or no clear expectations are set per sub-categories. This includes staffing manipulation where contractors either add unnecessary personnel to increase costs or intentionally understaff to force overtime and inflate billable hours. Contractors may also charge senior rates while staffing junior personnel. This gap between contract specifics and practical execution perpetuates misallocations through estimating systems and training.

4 Schedule pressures and relationship concerns means that owners often avoid requesting a detailed review of charges to prevent schedule impacts and tension with contractors, prioritizing project momentum over potentially significant cost discrepancies—creating an environment where misallocations build up unexamined.

With General Conditions serving as a catch-all category for misallocated costs, the solution lies in implementing systematic processes that provide real-time visibility into these expenses before they spiral out of control.

What's Inflating Your General Conditions Costs?

Industry	Biggest GC Cost Drivers	What to Watch For
All Industries	Equipment rental, Storage fees, Labor rates, Subcontractor markups, Permit fees	Overtime rates for standard hours, Double markups on sub-subs, Permit "expediting" fees, Equipment sitting idle, Wrong personnel classifications
Retail	Coordination complexity, Security during operations	Excessive "coordination" fees, Inflated after-hours premiums
Manufacturing	Downtime mitigation, Production coordination	Inflated "disruption mitigation" costs, Excessive equipment protection charges
Data Centers	Power continuity, Security protocols	Standard work billed at "critical facility" rates, Inflated "specialized cooling" fees
Oil & Gas	Safety protocols, Remote logistics	Padded "enhanced safety" premiums, Excessive mobilization charges
Grocery/Food Service	Health compliance, 24/7 operations	Inflated "food safety" consulting fees, Excessive cold storage protection costs
Pharma/Telecom	Validation testing, Regulatory documentation	Excessive "regulatory compliance" charges, Inflated clean room premiums

Driving Visibility and Reducing Financial Risks for Construction Projects

Construction audits can fall into three phases: pre-project audits that establish proper controls through RFP development and payment terms; in-flight audits (including change order reviews) that provide real-time oversight during active construction; and post-project closeout audits.

CATCHING PROBLEMS WHILE YOU CAN STILL FIX THEM

In-flight audits identify critical financial and operational risks while there's still opportunity to prevent small discrepancies from becoming major disputes. These proactive reviews create immediate accountability with contractors by establishing regular oversight expectations, unlike post-project audits which only provide lessons for future projects when costs and risks are already locked in.

When auditors spot questionable staffing levels or expense classifications mid-project, owners can address these issues immediately rather than discovering them months later during final reconciliation.

This real-time visibility transforms audits from historical reviews into active management tools.

QUESTION

Would you notice if a project manager lacked the specialized experience you were billed for? And if not, how soon would the consequences show up—in compliance gaps, cost overruns, or operational risks?

PREVENTING THE BUDGET BLACK HOLES

While most issues involve routine cost overruns and incorrect billing practices, real-time visibility can also uncover more serious problems like fraudulent billing patterns, phantom employees, or kickback schemes with subcontractors that require immediate intervention.

Regular checkpoints don't just catch problems; they prevent them by creating accountability structures that discourage mis-allocation from the start. When contractors know their General Conditions expenditures will be reviewed regularly, billing practices naturally become more accurate and transparent. And while some may worry about the impact that this oversight can have on contractor relationships, it's important to note that reputable contractors understand that diligent and accurate record keeping works to their benefit as well.

THE MINI-MAX APPROACH: GRANULAR FINANCIAL CONTROL

A [Mini-Max](#) or "Not-to-Exceed" approach sets a predetermined ceiling on General Conditions costs to ensure resource efficiency, bid consistency, and enhanced transparency. While contractors may initially resist this approach, clear communication and applying industry benchmarks can ensure mutual agreement on cost ceiling accuracy.

The implementation should occur during the pre-project audit with detailed initial budgets featuring specific personnel allocations, equipment schedules with durations, and clear not-to-exceed limits established using verifiable data sources like [RSMeans benchmarks](#). Contract language should mandate detailed cost breakdowns, incorporate owner audit rights, include penalty provisions for cost manipulation, and allow change order requests for scope modifications.

Mini-Max controls can also be implemented mid-project during in-flight audits as a course correction when cost overruns are identified, establishing General Conditions caps on remaining work and enhanced monitoring procedures.

Audit Phase	Key Actions	Results
Pre-Award Review	<ul style="list-style-type: none">• Create clear RFP language• Vet bid responses and contractor capability• Review construction agreement and first Work Order• Establish Mini-Max controls• Set documentation and reporting requirements	Prevent cost overruns before they start
Labor Rate Review	<ul style="list-style-type: none">• Review wage cost components of proposed billing rates and revise based on “real” costs	Set accurate wage costs before project begins
In-Flight	<ul style="list-style-type: none">• Real-time expense monitoring• Course correction on staffing and costs• Quarterly compliance reviews• Address issues while fixable	Stop issues and leakage while you can still act
Change Order Review	<ul style="list-style-type: none">• Review all project change orders for contract compliance• Ensure billing terms are clear and transparent	Prevent change order “scope creep” or payment issues
Closure Review	<ul style="list-style-type: none">• Review draft final invoice to ensure billing accuracy prior to final acceptance and payment• Review balances compared to contractual terms	Identify overpayments to be removed from the final invoice
End-Point Review	<ul style="list-style-type: none">• Recover overcharged costs• Validate final compliance• Extract lessons for future projects• Assess contractor performance	Recoup losses and improve future performance



Reinforcing the Structure – Improving Contract Management and Compliance

Most construction contracts contain hidden vulnerabilities that only become apparent when projects go wrong. The problem isn't usually what contracts say—it's what they don't say clearly enough.

While audits capture errors and steer parties toward compliance, the path to less leakage and lasting innovation lies in strategic contract management.

Contract reviews allow organizations to explore best practices across their industry to choose the most prescriptive and profitable terms for all parties. This proactive approach addresses root causes rather than just symptoms.

THE RISKS HIDING IN PLAIN SIGHT

Ambiguous contract language creates opportunities for resource misallocation and cost manipulation that often go undetected. When contracts fail to specify exactly what constitutes acceptable General Conditions expenses or how staffing levels should be determined, both parties operate with different assumptions about what is permissible. The result is disputes, cost overruns, and damaged relationships that could have been prevented.

BUILDING ACCOUNTABILITY THROUGH CONTRACT COMPLIANCE

Regular compliance reviews establish accountability frameworks that enhance transparency and ensure expenses align with actual project requirements. These structured evaluations ensure consistency to the cost structure outlined in their original proposals, reducing post-award cost manipulation and fostering **stronger contractual adherence**. They also provide future learnings for better contract renegotiation for both parties during the Contract Optimization phase.

CONTRACT OPTIMIZATION: SAFEGUARDS THAT WORK

At a high level, **Contract Optimization** involves analyzing patterns across multiple projects to identify structural inefficiencies and craft best-in-class terms that generate value while preventing future leakage.

The process involves extracting insights from existing deals to enhance unfavorable language, applying proven terms that deliver more favorable benefits, and systematically plugging gaps to create ongoing value. Rather than reactive fixes, this proactive approach transforms how organizations structure all future construction relationships.



CONTRACT MONITORING: CONTINUOUS REVIEW

Contract Monitoring prevents issues by creating ongoing oversight that can provide immediate course correction for misunderstandings. When contractors know their expenses will be regularly reviewed against contract terms and are given practical guidance, billing accuracy is going to improve naturally. This proactive approach transforms compliance from a lengthy post-project discovery process into an active management tool that benefits everyone.

In practice, this strategic framework translates into specific contractual provisions. However, effective contracts balance control with flexibility, allowing appropriate change orders while maintaining accountability structures that recognize construction projects inherently involve change.

Contract Optimization Framework: Controls That Deliver Results

Optimization Area	Key Controls	Key Benefits
Cost Management	Mini-Max caps, GC exclusions, Penalty provisions (5-10%)	Prevent category overruns and cost drift
Staffing Controls	Personnel requirements, Overtime rules, Change approval	Control labor cost inflation
Material Management	Procurement standards, Markup limits	Prevent material cost manipulation
Change Management	Approval procedures, Documentation requirements	Maintain scope and budget control
Risk Allocation	Weather clauses, Force majeure terms	Clarify responsibility and liability

Building Bridges, Not Walls – Strengthening Contractor Relationships

Construction audits don't have to create adversarial relationships. When positioned correctly, systematic reviews build trust through transparency and create collaborative partnerships that benefit both owners and contractors. The key lies in framing audits as process improvements rather than compliance enforcement.



DEBUNKING THE MYTH THAT AUDITS ALIENATE CONTRACTORS

Many owners hesitate to implement audits, fearing project delays or damaged contractor relationships, yet the reality is quite different. Established contractors routinely accommodate audits as standard business practice, with many maintaining dedicated "audit rooms" that are regularly booked for various projects. Far from creating friction, systematic audits actually reduce disputes by establishing clear expectations upfront.

Furthermore, contractors who have successfully undergone audits gain a marketable credential, as audit compliance becomes [evidence of transparency and reliability](#) that reduces perceived risk for prospective clients. This transforms audits from a burden into a competitive advantage.

REAL-WORLD PARTNERSHIP BENEFITS

Contractors increasingly recognize audit value beyond compliance. One subcontractor reported significant operational improvements after an audit, even sending a formal thank-you note for clarifying client expectations and helping them refine their processes. Multiple contractors have integrated audit recommendations into their standard operating procedures, creating more precise estimating protocols that improved profitability by reducing the risk of underbidding General Conditions costs. These process improvements often generate value that extends far beyond individual projects.

COLLABORATIVE COMMUNICATION STRATEGIES

Position audits as mutual learning opportunities during pre-construction meetings rather than compliance enforcement, emphasizing how findings help both parties avoid disputes and misunderstandings. With payment delays now driving up industry costs by an estimated \$280 billion annually and **82% of contractors facing payment waits exceeding 30 days**, audit-driven improvements in payment clarity and efficiency deliver tangible financial benefits that contractors increasingly value.

Establish transparent review schedules announced well in advance, allowing contractors to prepare documentation efficiently without disrupting critical project tasks. Create feedback loops where audit findings inform process improvements rather than just corrections and offer to share anonymized benchmarking data that helps contractors understand how their performance compares to industry standards.

The evidence is clear: construction audits and contract management deliver measurable value through risk reduction, enhanced visibility, and stronger partnerships. The question for construction executives is not whether to implement audits and contract compliance, but how to do so most effectively.

PROVEN RESULTS IN CONSTRUCTION CONTRACT MANAGEMENT

These principles consistently deliver measurable outcomes for our clients, companies managing some of the largest construction projects in the world.

A global retailer recovered over \$6M across multiple fulfillment center projects through comprehensive contract compliance audits of \$2.46B in construction billings. The audits identified overbilling in soft costs, general conditions, insurance, and fees while strengthening future contract governance.

Similarly, a multi-facility construction project review delivered over \$18M in total savings through systematic contract compliance audits across \$2B in project spend. The audits identified excessive markups, unallowable charges, and billing errors while implementing ongoing training and pre-payment audit programs for future prevention.

Beyond immediate cost control and compliance, the data gathered through systematic contract reviews creates a strategic intelligence foundation that transforms how organizations approach future construction projects and forecasting.

Partner with PRGX: Experts in Construction Audit and Contract Management

PRGX brings deep [construction audit and contract compliance experience](#) with over 200 projects and \$27 billion in construction costs reviewed over the past three years. Our expertise spans diverse environments including data centers, retail super centers, manufacturing facilities, healthcare, and industrial complexes, consistently delivering savings between 0.25% to 1% of total project costs.

This track record demonstrates our ability to navigate the unique challenges each construction sector presents, from specialized equipment requirements to regulatory compliance complexities

BEYOND COST RECOVERY: PROACTIVE COST CONTROL

Our approach extends far beyond traditional post-project audits. Pre-agreement labor rate audits reduce costs by 20-50% and General Condition charges by up to \$800,000 before construction begins. Insurance markup reviews cut charges by 40-75% before contract signing, while strategic contractual terms protect allowances and contingencies.

We provide comprehensive validation of all cost assumptions, ensuring transparency from developers to subcontractors. This proactive methodology transforms audits from reactive cost recovery into strategic cost prevention.



DELIVERING THREE KEY BENEFITS

PRGX solutions directly address the construction industry's core challenges through risk reduction via [contractual safeguards](#) and compliance verification, improved financial visibility through detailed cost analysis and tracking, and strengthened industry relationships through transparent, fair practices.

Our integrated approach ensures that every audit engagement simultaneously reduces financial exposure, enhances project oversight, and builds stronger partnerships with contractors who value transparency and accountability.

Learn more today by chatting with a [PRGX construction expert](#) to discuss your unique requirements.

[Speak to an Expert](#)



About PRGX

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data.

We pioneered this industry 50 years ago, and today we help clients in more than 20 countries take back \$1.2 billion in annual cash flow.

It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

For additional information, visit:

www.prgx.com





PRGX