



Welcome to today's Webinar

Cost Recovery Auditing

December 19, 2008



What is Cost Recovery Auditing?

- **Capital Improvement Costs**
 - New construction
 - Maintenance (refurbishment) of assets

- **Leased Property Audits**
 - Common Area Maintenance (CAM)
 - Other lease costs: rents, taxes, insurance

- **Outsourced Services Agreements**
 - Sales & marketing
 - Human resources, payroll, health, other benefits
 - IT processing or data storage
 - Travel or training

- **Joint Ventures: Partner designated “operator”**₂



Why is this Auditing Important?

- Provider agreements are large & complex
- Internal expertise unlikely for one-time expenditures
- Ranked low in risk
- Economic pressure to reduce costs
- Value-added service with an ROI
 - Construction - commonly 1% to 2%
 - CAM - commonly 5% to 15%



Construction Project Audit Objectives

- Ensure compliance with established P&P
- Adequate control in Project Management processes?
- Verify compliance with contractual agreements
- Identify and recover overcharges and inappropriate billings



Types of Construction Contracts

- Fixed price (lump sum) or GMP
 - Competitively bid
 - Negotiated

- Cost plus fee
 - Fixed fee
 - Percentage fee

- Time and materials (agreed upon or best rate)

- Unit price (agreed upon per unit price x units provided)



Verify charges are appropriate:

- Direct labor
- Labor burden
- Equipment rental: contractor-owned & third-party
- Job-owned equipment
- Bonds and insurance
- Material purchases
- Verification of contracted scope of work
- Quality Assurance and Quality Control
- Independent field inspection
- Subcontract management
- Change orders process and pricing



The CAM Audit

- Objective is to determine whether tenant was properly billed according to the agreement
- Focus is on identifying and quantifying invoiced cost exceptions that will result in savings to tenant
- For CAM audit to be effective, auditor must have the experience to analyze the language in the agreement and any other agreements or amendments that may apply to the situation.



Types of CAM Agreements

- **Lump sum:** tenant contributes a fixed annual amount toward CAM
- **Pro rata with maximum:** tenant pays their pro rata share of all CAM costs up to a maximum dollar amount
- **Pro rata without maximum:** landlord bills tenant their pro rata share of all CAM costs. (Greatest risk; most frequently audited)



CAM Agreement Risk

- Pressure on profitability creates incentive for landlord to bill CAM costs inappropriately
- Accounting systems designed to accommodate majority of tenants (smaller tenants)
- Landlord often fails to consider major tenant's agreement exclusions negotiated under lease terms

These factors can result in overbillings.



Areas Reviewed on CAM Audit

- Reconciliation of CAM payments to monthly and year-end adjustment billings
- Pro rata share calculations
- Allocations among EMM (Enclosed Mall Maintenance), CAM and HVAC (Heating, Ventilation and AC)
- Parking facilities' lighting, sweeping, snow removal
- Various payroll charges and benefits
- Capital improvements & depreciation charges
- Utilities
- Contracted services (trash removal, lawn care)
- Insurance premiums & real estate taxes