

Different contract types present different risks...and rewards

CONSTRUCTION CONTRACTS

Several different types of contracts are used in construction projects. We have extensive experience with all types of contracts, which include:

- *Cost - Plus Fee.* The cost of the project is typically determined by multiplying the direct costs actually incurred on the project by some specified percentage, often referred to as the "overhead rate".
- *Time and Materials.* Time and materials contracts are similar to cost-plus contracts. The cost of the time and materials is determined by the actual cost of direct materials used plus some additional amount based upon labor used.
- *Guaranteed Maximum Price (GMP).* A GMP contract is generally a time and materials contract with a maximum total price established in the contract.
- *Lump - Sum.* The cost of the project is fixed; the profit is the fixed contract amount less the contractor's costs.



Experiences and References

Mission Statement:

We are committed to achieving professional excellence and will continually provide ethical, progressive, and responsive service to our clients.

McMahan and Associates has provided professional accounting and auditing services for over thirty years. Our staff has extensive experience on projects of all different types and sizes and includes Certified Public Accountants and management consultants. We are proud members of:

- American Institute of Certified Public Accountants (AICPA)
- Consulting Services section of the AICPA
- Colorado Society of Certified Public Accountants (CSCPA)
- Listed with the CSCPA as industry specialists in auditing and construction services

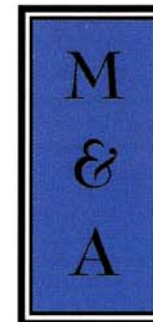
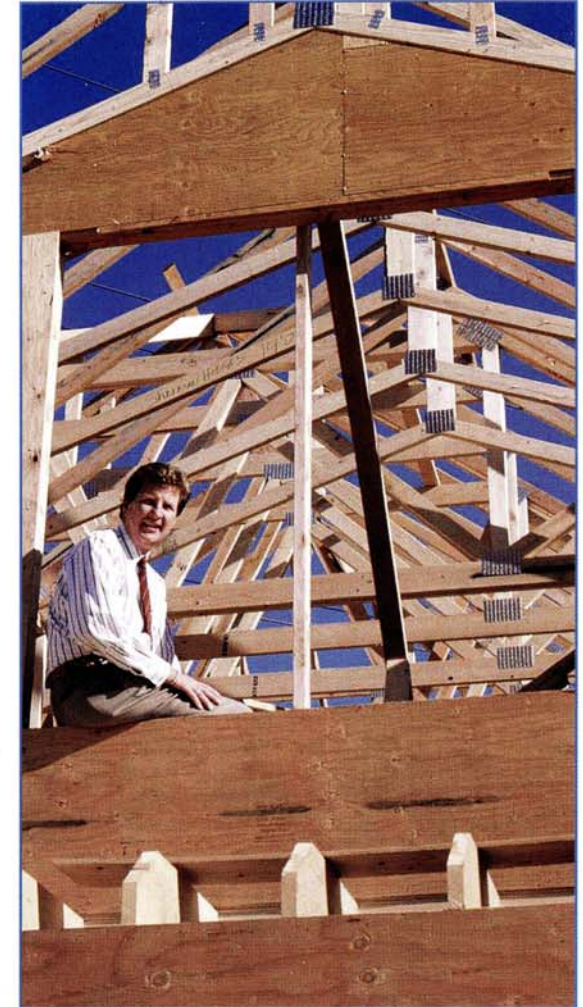
These memberships help insure that you will receive the highest quality auditing and consulting services available.

We offer a complete range of flexible engagement options to fit your business needs and financial goals. For a formal proposal or to discuss your particular construction auditing needs, contact us at:



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McMahan & Associates Construction Services



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Construction projects are among the largest and most complex financial expenditures undertaken by many organizations, whether a commercial business, government or nonprofit. Most organizations do not participate in large construction projects every day, so they frequently do not have appropriate internal expertise to manage these contracts and the related costs. Additionally, project owner's staff frequently do not have the in-house resources to actively monitor and audit the detailed cost information reported by the contractor. As a result, many owners often end up with ineffective expenditure controls and place too much reliance on their contractor.

Manage the project and its risks or let risks manage you

EFFECTIVE AUDITS OF CONSTRUCTION CONTRACTS CAN ADDRESS MANY OF THE RISKS ASSOCIATED WITH CAPITAL PROJECTS INCLUDING:

- Labor costs may not reflect actual contractor costs or may not be charged in accordance with the contract.
- The contractor may fail to give credit for costs included in the contract price that are paid directly by the owner or for discounts, rebates or refundable deposits received by the contractor.
- The contractor may include administrative costs that are intended to be built into the overhead rate.
- Contractors may charge for costs not incurred on the project such as materials purchased but not used, or for materials used on other projects.
- Material costs may include charges for items not reimbursable under the terms of the contract.
- The owner may be charged for inappropriate equipment costs or rental rates.

Wishful thinking about your project can result in big problems

CONSTRUCTION SERVICES AUDIT OBJECTIVE

All organizations have differing objectives when undertaking capital projects. Regardless of the type of project undertaken, success is measured by those to whom you are accountable. A construction services audit will help you meet your obligations to your constituency which may include shareholders, management, Board or the electorate.

Your fiduciary responsibilities include:

- Controlling costs
- Managing risks
- Compliance with contractual obligations



Trust but verify

CONSTRUCTION SERVICES AUDIT PROCEDURES

Our construction auditing methodology blends critical financial as well as operational approaches to provide a complete review of your project or program. Our audits are designed to provide you with comfort that your project charges are reasonable, related to the project, and comply with the construction contract. This often yields opportunities to recover costs but, more importantly provides opportunities for process improvements and to enhance key business functions. Although the specific procedures will vary depending upon your contract, our general approach includes:

- Evaluating the effectiveness of controls over construction expenditures: We evaluate the system of reviews and controls over construction expenditures and provide recommendations on system changes to ensure the most effective cost controls over your construction contract.
- Determining if costs comply with the construction contracts: We review areas of risk commonly overcharged by contractors. Our audits ensure charges comply with the contract.

