



CASE STUDY: CONTRACT COMPLIANCE AUDIT

GENERAL CONTRACTOR



BACKGROUND

A Fortune 500 pharmaceutical company engaged SC&H Group to review transactions with their general contractor building a clean room facility. SC&H worked directly with the general contractor to obtain transaction details and validate compliance. The review was completed in roughly 60 days.



OVERVIEW OF TERMS

Key contract terms included:

- Actual wage rate plus mark-up for project labor
- General contractor home office personnel and expenses were non-billable
- Fixed percentage fee on direct construction costs
- Subcontractor costs passed through without mark-up



AUDIT RESULTS

The client recovered non-compliant charges totaling \$900,000, roughly 4.5% of the total spend during the audit period.

EXCEPTION TYPE	TOTAL EXCEPTION AMOUNT
Refund not passed to client	\$450,000
Non reconciled payroll accrual	200,000
Overbilled labor costs	180,000
Billing of home office personnel	50,000
Duplicate job cost charges	20,000
	TOTAL \$900,000



ADDITIONAL VALUE-ADDED REPORTS

- Best practice recommendations to improve contract language and areas for control development to reduce financial leakage moving forward
- Resolution of discrepancies as the project progressed enhanced both parties understanding and compliance with the agreement
- Validation that the significant amount of costs being incurred and passed through were valid according to the contract terms
- Knowledge of local sales and use tax statutes