

Are Silent Costs Hidden in Project and Construction Expenses?



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THE BOOM IN U.S. CONSTRUCTION *Has Silent Costs Attached*

The U.S. construction industry is experiencing an unprecedented boom, with construction spending up **6.5 percent in the first 11 months** of 2024, according to the U.S. Census Bureau's Monthly Construction Spending report. This surge coincides with stubbornly high costs for labor, equipment, and

materials, creating a need for auditors to identify "silent costs" hidden in construction expenses.

But there are "silent costs" hidden in construction expenses that can be **1-to-5 percent of project invoices**, say the auditing experts at CPRS.



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High Costs Continue to Plague Supply Chains



SUPPLY CHAIN

With more than \$700 billion worth of construction megaprojects (projects valued at more than \$1 billion) announced in North America over the last 5 years, huge project expenses are being tallied nationwide. More recently, the federal government's CHIPS and Science Act is investing nearly \$53 billion to bolster U.S. semiconductor capacity. All this spending creates massive construction projects, and massive opportunities for errors and mismanagement.

Direct costs of labor, equipment and materials remain stubbornly high. The cost of capital, while still historically low, is double the rate of just a few years ago. Constrained resources and faster cycle times are creating a cost of time that can lead to inefficiencies and bad planning.

Will the Titans Make a \$100 Million Fumble?

"For example, the new \$2.1 billion home of the Tennessee Titans football team could have as much as \$100 million in silent costs hidden in project invoices," said Dan Berg, Senior Vice President of CPRS, a Cost Recovery Audit firm delivering innovative solutions to payment-accuracy problems for the world's largest corporations.

CPRS helps clients recover millions in invoice payment errors using proprietary, AI-powered technologies and industry-best Recovery Audit experience.



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Coupa and Other BSM Software are not a Panacea

Some companies do a very good job of managing CapEx and MRO expenses. Project and program management software and techniques have improved greatly over the past decade. Automating procurement with Business Spend Management (BSM) software also can significantly improve business processes. Even with these recent technologies, silent costs generally go unseen. They are silent – in the room, but no one notices them, and frankly, no one looks for them.

“At a time when accounting, project management, and other tracking software are at their finest, silent costs in CapEx and MRO expenses still linger. They’re tough to find when you have invoices with hundreds or even thousands of line items,” Berg said. “The silent cost is the sum of billing errors that go unnoticed, occurring outside of the compliance systems most companies utilize.

Errors and overcharges can have a significant impact to the bottom line.”

“Silent costs often hide in the minutia of many transactions,” Berg added, “and can only be identified through an experienced audit process. They are not fraudulent – but silent costs are created by inefficient processes at suppliers and other partners, or sometimes internally. **Silent costs also are real – often 2-to-5 percent of expenses for labor, materials, and equipment.**”

Duplicate Line Items Across Multiple Invoices

For one supply-chain client, CPRS identified a single, chargeable activity double-billed in distinctly different manners across multiple invoices. Unfortunately, this anomaly did not fall under the category of preventable duplicate payments in AP, nor did it constitute a duplication of invoices.

“This type of third-party billing validation process is the best approach to finding and fixing silent costs,” Berg continued. “The best billing validation processes not only identify and reconcile silent costs, but also create system improvements to prevent them in the future. These processes include root cause analysis and other analytics to define the source of error, and where applicable, deliver recommendations via defined feedback loops meant to fix those root causes at the source.”

In the above example, CPRS confirmed its findings and recommended solutions to its supply-chain client. The team then met with the supplier to review and confirm their understanding of the excess charges. The resulting recovery was a full 50 percent of the invoiced amounts.

Using proprietary technology and processes, CPRS auditors researched source documents to identify the overlapping charges that went unnoticed by conventional systems.

Supply Chain Managers May Compound Silent Costs



According to a recent survey, supply chain managers may be compounding the problems of silent costs. The survey, conducted by Globality and reported in Supply Chain Management Review, said that **8 in 10 requests for proposals** are still taking place via emails and spreadsheets. The survey also found that 82 percent of procurement leaders acknowledge their indirect spend is not well managed and cost savings are being left behind as a result.

Often faced with highly complex invoicing, the invoicing intake, review, and payment processes in large organizations may not have the proper governance structure either. Even when governance is tight and running smoothly, silent costs can creep in.

82%
of Procurement Leaders
admit that their indirect
spend is not managed well.

3 Reasons for Silent Costs



Silent costs are ignored for many reasons, including:

- 1** **Belief that ‘There are no errors in CapEx or MRO expenses.’** CPRS has found that silent costs exist with almost all expenses related to indirect labor, materials, and equipment. While systems and processes have improved, **silent costs remain from 1-to-5 percent or more**, according to audits conducted by CPRS.
- 2** **Hubris.** Arrogance and pridefulness remain in the business world. No one wants to expose that the work they are currently doing may have holes.
- 3** **Lack of reward and recognition.** Finding silent costs is not incentivized by most businesses, since it’s a back-office activity. It’s an added cost to a business, and so often ignored. Growing the business gets the limelight. Finding silent costs is an investment project, yet it can have a **3x, 4x, even 5x ROI.**

Benefits of Billing Validation

CPRS’ Contract Billing Validation Services follow a rigorous process to compare vendor invoices or project cost summaries to the contractual terms governing the payment of invoices. CPRS provides a comprehensive suite of services, including Active Invoice Review, Cost Summary Review, and Recovery Audits.

“Many clients are using our new Active Invoice Review process to find invoice errors before paying that invoice,” Berg added. “With CPRS Active Invoice Review, we can validate for accuracy before your internal approvers see the final invoice, saving you time and money by eliminating the costs of rework and outright errors.”

Contract Compliance Errors Lead to Overcharges



Active Invoice Review also can solve problems before they happen. For example, one CPRS client unknowingly paid additional charges on **\$2.5 million in invoices** from a subcontractor. The charges did not adhere to the original terms and conditions of one of their contracts and **resulted in a \$41,488 credit memo**. Such instances, if left unchecked, could cast a shadow of doubt over even the most solid partnerships.

CPRS stepped in, armed with expertise and dedication, to unveil the hidden charge, engage with all parties involved, and rectify the situation. Through its diligent efforts, CPRS resolved the matter promptly and effectively for its client and maintained an important subcontractor relationship. With CPRS Active Invoice Review, this situation might never have occurred.

While CPRS is often brought in when a project has run off the rails and the budget is blown, smart

companies are engaging our experienced audit teams earlier. This forward thinking allows companies to maximize their savings and improve business processes.

CPRS has 30 years' experience helping companies with billing validation and systems improvement, using a mix of proprietary technology and the best-trained audit team in the industry.

“Our vision is to be the innovator in cost-recovery solutions,” Berg said. “Cost recovery solutions improve complex sourcing-to-payment processes and the financial health of any organization by recovering and preventing overpaid funds and identifying underpaid incentives, billing errors, fraud, or other factors. Our innovative approaches and best-trained audit teams deliver proprietary, cutting-edge solutions that address the ever-changing nature of B2B contracts and transactions.”



PARTNER WITH CPRS

CPRS is the bulldog recovery-audit firm – **tenacious, loyal, and smart**, CPRS delivers innovative solutions to payment-accuracy problems for the world’s largest corporations. With over 30 years’ experience, we have consistently delivered a remarkable ROI exceeding 300% on our project engagements. Bringing forth the outcomes mentioned above - ***results that truly matter.***



POWERED BY CUTTING-EDGE TECHNOLOGY

CPRS is at the forefront of innovation, leveraging its proprietary CPRS Pearl™ software stack with Advanced Text Analytics engineered with machine learning tools.



LEVERAGING BILLING VALIDATION EXPERTISE

Our experts bring years of experience as auditors, giving us a unique advantage in performing expert reverse sales and use tax, contract compliance, retail, and accounts payable audits.



REAL-TIME DATA & INSIGHTS

Our data metrics offer a comprehensive internal visibility into your cost recovery efforts. This empowers you to identify overpayments close to real-time, all within a proven process enhanced by our proprietary workflow software.



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GET IN TOUCH!

JEFF MEAUX
Vice President of Business Development
Direct: 425.209.3006 | Mobile: 404.916.3422
jmeaux@cprs-inc.com