

How to Spot and Avoid Fraud

in Your Next Renovation Project

By Adriana Mot

The two most common methods of renovating an existing condominium



Adriana Mot

building are hiring one team that does both design and construction or hiring a designer first and then tendering the contractor afterwards. It sounds easy. Yet,

under this apparent simplicity lies a web so intricate and complex that boards can rarely cut through all the fine print with confidence and ensure a reliable service for their owners.

Every time there is ambiguity in what is offered, there are opportunities for mishaps. Unlike products, the sale of services occurs based on a contractual promise made before any service is provided. Inevitably, the risk of fraud is lurking in the fine print.

Fraud in refurbishment projects is easily avoided once you understand why

it happens and how unlikely companies and individuals intentionally commit fraud. Most are pushed by need. Fear of hidden and escalating costs is a top concern for condominium managers, but the fear of not making a profit is a top concern for designers and contractors. Having sufficient knowledge of how these businesses turn a profit and the costs of delivering a good service can lead to open and honest communication, hence a mutually solid and beneficial project.

Transparency

The first step is to hire transparent companies that fully disclose the costs associated with a project. As a condominium manager, sourcing business services that operate their practice based on transparency and full disclosure establishes trust and great long-term relationships. Yes, you may be shocked when the detailed fees are presented, but ask yourself whether

this is because the costs are outrageous or because you may not know enough about how they are calculated.

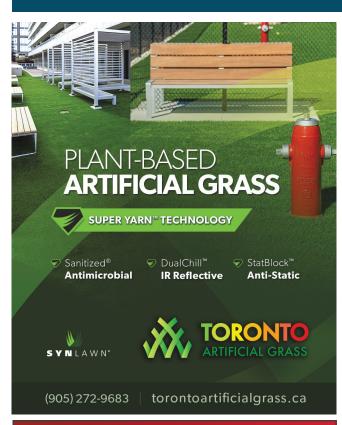
Interior design fees are based on staff hours allocated to tasks. With an experienced firm that knows how long things take, you will not overpay. Staff hourly rates are calculated based on payroll cost, overhead and liability costs, and profit. When the hours allocated for a task go over that estimate, the firm makes less profit and possibly incurs a loss.

General contractor fees are based on subcontractor costs, management fees, overhead and liability costs, and profit. They share the same risks and carry, additionally, the risk of subcontractors' increasing fees for extras.

Time is Money

Once full disclosure is secured, and the contract is signed, the next step is to ensure that the project moves as planned. When that happens, nobody thinks of

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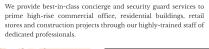
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breaking the rules. Think of construction as a timed, yet elegant, soccer game. Every person needs to pass the ball and not stall the momentum. Construction stalling generates un-proportionate costs because trades schedule their time back to back. If one job is delayed, it overlaps with the following one. If this happens, the first job fits in the "in-between" time, and the second gets prime time. The good news is that timing can be controlled from the get-go, and communication, especially the decision-making process, is crucial in keeping things on track.

Beware of "Free" Services or Products

Every service or physical product has a cost in business, and the reality is that nothing is free – all charges are built into fees. The second you are offered something for free or for below cost, you have to ask yourself if you're happy with not knowing the actual price. For instance, some design-build companies offer either free design services or design included in the overall fees. This has both advantages and disadvantages as a contract method, but I would always suggest assuming that you're not getting anything for free and opt for transparency.

Clients are Ultimately Responsible for the Final Design

The time it takes to get client decisions and move forward is the most feared fee variable for a professional because they have little or no control over it yet are commonly asked to price it. To err on the side of caution, substantial allowances are

allocated to review and re-discuss materials, logistics, costs, options over and over again. For example, if a two-hour meeting allocated for decisions needs to be repeated three times, the allowance is 300% of its cost.

Interior design is a team product. As much as a designer's or contractor's role is to suggest practical and aesthetically suitable solutions, the decision-makers, the Board, Owners, or Design committee have the power to veto it or even redirect it entirely. They are, essentially, the ones that determine the design outcome.

It is crucial to hire a team able to clearly and logically communicate solutions and coach the owners on how to make informed decisions that they are permanently comfortable with. This will ensure that the process is on track



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and eliminates the corporation's need to cover unexpected costs somewhere else.

Checkpoints and Project Management Tools

Scams often happen in small, undetectable increments. A well-known concept is salami slicing or penny shaving, a fraudulent practice of incrementally rounding up small costs that add up to a bigger scam. Setting up checkpoints and detection tools allows you to avoid this. Here are some of the most useful:

- · A detailed and comprehensive scope of work must have a contractually matching detailed and comprehensive process and fees outlined
- · Client approvals should have a written sign-off process that protects both the interest of the building owners and

that of the contractors and consultants

- A quality control plan is a must be in place, and the level of acceptable imperfections should be established upfront
- Even at an apparent extra cost, allow for sufficient mockups, testings, and sampling that give you the opportunity to adjust everything before construction
- · Outline how money is deployed in parallel progression with the service being received. Other than initial deposits or retainers, work should not progress too far ahead of the money, or vice-versa
- · And lastly, ensure that the decisionmakers are democratically appointed and accept the fact that those who are not direct decision-makers may have a different opinion and not agree with the decisions that their representatives will make

The process of design and construction has many parts moved by many people.

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From aesthetic choices debated by many to deliveries that always get delayed, the broken telephone type of communication poses a perpetual threat to a successful project. To avoid that, managers and boards should get themselves familiar with the best design and construction practices and deliberately set up processes to prevent fraud, one step at a time.

Adriana Mot is a multiple awardwinning designer and founder of Dochia Interior Design, Toronto, specializing in multi-unit condominium developments, refurbishing common areas of existing buildings, as well as hospitality projects and single-family homes. She has served on the board at ARIDO and recently launched a YouTube design & lifestyle channel. dochia.com



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