CCM Consulting Group

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Tear Down the Walls

A long time ago, some of us worked at a company that believed in partnerships and few walls. Partners and employees alike had desks in the middle of the office floors where everyone could see everyone else going about their business. This concept is in stark contrast to the job site we witnessed a few weeks ago, where the Contractor compound had office trailer after office trailer, all largely inaccessible to the Owner or other members of the project team, and who each had their own trailer fiefdoms. No one trusted anyone else. Each kept their own files, many of which were duplicated. Distrust and loathing filled the space between the trailers.

Similarly, we have seen a project early this year where the Owner had to make an appointment to be allowed into the Contractors project site office and then, were only allowed into an exterior conference room.

We wonder when we decided it would be in the best interests of the project for the GC, Owner, and Architect to all have separate job site offices? Who first initiated this concept? Was it the GC, or the Owner, or was it just a natural byproduct of the win/lose contracts that we enter into? Regardless, how bad could it be if the Owner, GC, and Design consultants shared one space, one set of files open to everyone on the team, one set of contract documents, drawings, and common support staff. What if we all knew each others budgets and helped solve each others problems? What if we all celebrated each others successes and marveled at each others children and grandchildren? How much money would we save, how much more productive would we be, and how did we get here instead?

No End to Creativity

As you could guess, auditing could get boring if it were not for the bottomless pool of contractor creativity. Our experience shows that this creativity is greatly enhanced when there is a profit motive, otherwise known in GC lingo as an “unaudited opportunity”.

On a recent project, the owner had agreed to fixed unauditable general conditions. The GC, seeing his clear shining path in this world, negotiated with an individual to perform Superintendent duties (of course, a part of the fixed GC’s) but to also perform key subcontract responsibilities like windows and framing. It will come to no great surprise that all of these costs were charged to the subcontracted cost to be reimbursed and none were charged to the fixed GC’s. Based on the estimated cost of the GC duties subcontracted, it appeared as if the Owner was overcharged $360,000.

A SubGuard Insurance Certificate

We were visiting with an Owner representative recently and, of course, the subject of SubGuard came up. This Owner had just begun a project where they had agreed to pay a flat percentage on all subcontracts and PO's. We asked if they were sure PO's were covered and if they had seen the policy along with all endorsements. The Owner asked, "What endorsements?"

SubGuard policies can either include PO's or exclude them. Sometimes PO's are excluded unless they are reported to Zurich within a set limited time frame. We had witnessed the aftermath of a project where the GC had billed the Owner for SubGuard on all subcontracts and PO's. A major supplier refused to honor the terms of the PO and it was discovered that no SubGuard coverage existed even though the Owner had paid the money to the GC. We have also witnessed many projects where the GC had billed the Owner for SubGuard on subcontracts that were never enrolled because these subs were bonded. The largest one of these "clerical errors" resulted in a credit of $500,000 to the Owner.

So our question is, how can we avoid these types of situations? What if we required the GC to give the Owner a SubGuard Insurance Certificate? Such a certificate would be obtained from Zurich and indicate which subcontractors and suppliers were actually enrolled. Theoretically, this certificate would deter the GC from billing for SubGuard on subcontractors/suppliers not enrolled or anticipated.

Allowance Reconciliations

Another new audit twist came up in the last few weeks. The GC, on a project that had experienced substantial overruns and had finished 10 months late, had submitted a final reconciliation of allowances. One of these allowances had overrun by $80,000 on a $210,000 allowance. The GC had offered, as proof, a stack of T&M tickets submitted by the subcontractor that performed the allowance work. When we added up the stack, the amount only came to $80,000 not the $290,000 as expected. When questioned, the GC said that the original subcontract amount had included all of the original allowance scope and that the T&M tickets only related to changes in the allowance scope. Although the audit trail was very sketchy in this regard, there was one interesting item; a $150,000 credit change order was written to this same subcontractor with no backup to indicate why. The explanation given by the GC was that the credit was a voluntary credit offered by the sub, essentially after the contract was complete, for a bid duplication.

Some of you have probably been around longer than we have, and may have witnessed such an event. We however, have seen a sub offering to pay for lunch when a job has gone well, but on a job that lasted 10 months too long, a sub with a lump sum contract, in this market, volunteering a $150,000 credit for no reason? Of course, the credit could have had something to do with the allowance that was "bought out", but no, because that would mean that the GC was not telling us the truth.

The Fee is Just the Beginning

In a meeting a few weeks ago, the former head of one of our largest Construction Managers, told a group of businessmen that, in a recent year, the CM charges for insurance, Subguard, and purchasing had contributed 60% of the overall profits of the company. Are you surprised?

How Long?

As CCM Consulting enters into 2010, we wanted to recognize the longevity of our members.

Vince Chapman – 18 years
David Butler – 18 years
Steve Roberts – 16 years
Nestor Santiago – 15 years
Mike Byrne – 10 years
James Brumfield – 7 years
Chris Wolbrink – 6 years
Willie Reuter – 4 years
Joe Stephens – 3 years
Walter Trojanowsky – 1 year