WAYS TO IMPROVE BILLINGS IN A CONSTRUCTION COMPANY

Construction company billings are a process, not an event. If that process is carried out with thoughtful consistency and an awareness of the many potential pitfalls, cash flow can be accelerated and reliance on credit can be reduced.

Contract Documents

A contractor should never begin work without a signed contract or, at minimum, a properly executed Letter of Intent. “Properly executed”, means that it is signed by someone who has the authority to bind the contracting organization. If you do proceed based on a Letter of Intent, you must be certain that you understand the conditions that are preventing entry into a formal contract and what the consequences will be if the project is abandoned prior to contract signing. The most common reason that a Letter of Intent is used in lieu of a formal contract is that an up-stream contract with the property or facility owner is not yet in place. This would also indicate that project financing is probably also not yet in place; therefore, any work that is done carries a higher risk of non-payment.

Your company should use industry standard documentation for all contracts entered into such as AIA Contracts or Consensus Documents to ensure a balance between the economic interests you, the contractor, and your customer. Any customer-specific contracts or significant changes to industry specific contract documents that are proposed should be reviewed by an attorney representing your interests.

Once under contract, you need to be aware of all details of the governing contract documents including the contract itself, incorporated terms and conditions, supplementary terms and conditions, inclusions and exclusions, design drawings and specifications, material schedules, and any other documents. These documents comprehensively define your obligations. Your initial proposal will have no weight in resolving later disputes unless it is specified as a contract document.

Information Gathering

Contractors must verify that field supervisors understand the importance of deadlines for all approvals of pending change orders as well as for the submissions of monthly progress information upon which monthly draw requests are based.

If site conditions allow, receipts of stored materials should be scheduled for just prior to a monthly cutoff, rather than after. If you intend to claim credit for stored materials, have supporting supplier invoices, photographs, proof of insurance, and other evidence available to submit along with the invoice, rather than waiting until the customer requests it. This will help to avoid delayed payments that will negatively impact your cash flow.

Any requests by the customer for unplanned work must be routed through the project manager for confirmation that the request is within the contracted scope of work, or that the mechanism established in the contract for authorizing extra work has been followed.

Invoice Preparation

The contractor and the customer should have an agreement in place stating that each month's draw will be prepared initially as a "pencil copy" for review by the customer, the customer's representative, the architect, and/or other appropriate parties to pinpoint areas of disagreement prior to the formalization of the invoice. Disagreements later will waste time and delay payment. Billings for change orders that have not yet been fully approved should be avoided because adjustments may cause a delay in payment for the entire draw.

Invoice Submittal

The contractor must submit the pre-reviewed monthly draw invoice on or before the contractually defined due date, by both email and hard copy. The email copy provides an easily verifiable date of transmittal and is the first step is setting an expectation of payment.

Invoice Tracking

The contractor must have a thorough understanding of the customer's invoice approval process - who receives, reviews, and approves the invoice, and who controls the ultimate disbursement. Once that process is understood, you need to communicate to the customer that you will be tracking the draw as it proceeds through each stage of that internal handing process. Learning about circumstantial delays in the invoice process (employee illness, vacation, etc.) after the fact, will delay payment further and negatively impact your cash flow.

Funds Acquisition

Until the funds from a paid invoice are actually in the bank, they remain unavailable to you for your labor and material costs. Payments that come in that are not deposited right away also create the potential for mishandling or fraud within your own office; therefore, it is best to establish an expedited process to get customer payments to your bank account.

The best option is by electronic transfer. The ACH (Automated Clearing House) method is preferable to wire transfers due to the high bank fees for wire transfers, half of which are charged to the recipient. ACH payments are fast and save the issuing organization the cost of accounts payable check generation, which should provide an incentive to your customer to utilize this method.

The next best option is to establish a bank lockbox for mailed payments. The address appears to be a Post Office Box, but the payments are actually received directly by your bank. A minor downside of this method is that accounts receivable recording may be delayed while you wait for transaction details from your bank.

The third option is to receive customer checks at your office and run them through a Remote Deposit Capture device. This is a bank-authorized scanning device that sends images of both sides of the checks for deposit to the bank in lieu of the actual paper check. Due to the Check 21 Act, the digital image of the check is just as binding as the original check (which is retained for record purposes by the recipient). As with any other internal funds handling process, adequate internal controls must be in place.

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