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the magazine for construction financial professionals



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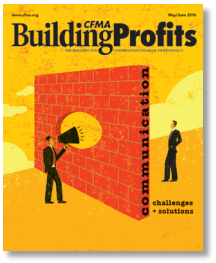
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ceo's MESSAGE

construction financial management association



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Developing & Delivering Member Value

BY STUART BINSTOCK, PRESIDENT & CEO

One of the highlights of our Annual Conference each year (at least for me) is our Annual Board of Directors Meeting, where we discuss our past accomplishments, the future landscape, and (for a group of financial professionals) the all-important financial wellbeing of our organization.

I am pleased to report that CFMA's financial position is very strong and has been over the past few years. Of course, there are many contributing factors, but I can say without reservation that it is due in large part to the support of our generous sponsors.

In particular, three sponsors stand out: CFMA's two Principal Partners, Viewpoint Construction Software and BKD, LLP CPAs & Advisors; and CFMA's educational partner, Sage Software, Inc.

In 2012, Viewpoint became CFMA's Principal Partner for software technology solutions. Then, in 2015, BKD became CFMA's Principal Partner for accounting and related services. The Principal Partner Program supports CFMA's strategic goal to develop and deliver member value.

Since 2011, Sage has been our educational partner in delivering quality programs to CFMA members and the construction industry overall. This partnership accelerates the development of timely, relevant educational content to fulfill the specialized learning needs of financial managers working in the construction industry.

What Does This Mean for You?

While there was some concern about the Principal Partner Program when it first began, it has been an unqualified success and has helped add value to CFMA and its members in professional and modest ways. In addition to helping to keep CFMA's membership dues the same since 2009, here are some ways in which the financial support from these partners has directly benefited our chapters and members.

Because of our recent sound financial position, CFMA was able to make Spring Creek registration and travel expenses free for all chapters for the very first time this past year. Spring Creek is a retreat for CFMA chapter leaders who want to excel in the workplace, improve their work-life balance, and become successful chapter presidents. This very significant financial decision resulted in participation from nearly 60 chapters last year – an increase of almost 100% from the previous year!

The support of CFMA's Principal Partners has also extended to regional CFMA conferences all over the country. In 2015-16, each of the 11 regional CFMA conferences received $6,000 from CFMA as a direct pass through from the contributions by Viewpoint and BKD.

CFMA is stronger and on more sound financial footing than ever before because of this support.

It's Not Too Late to Register!

There's still time to register for CFMA's 2016 Annual Conference & Exhibition on June 25-29 in San Antonio, TX!

Learn how you can "Build It Forward" with other financial professionals, gain insights into how to better operate your company, and meet with exhibitors who can provide solutions to help your company succeed at *www.cfma.org/conference*.

CFMA continues to look for ways to bring value to your membership. Drop me a line at *sbinstock@cfma.org* if you have a suggestion as to how our Association can deliver greater value to you. ■

CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION

Meet Your 2016-17

Volunteer Executive Officers

Learn about your FYE 2017 officers from their responses to these five questions:

1. How do you plan to **build it forward** this year?

2. What is **one challenge** you've **overcome** as a result of being a CFMA member?

3. How has CFMA unexpectedly added **value to your company?**

4. What are your **top industry concerns** for the coming year?

5. What is **one thing** you wish you had more time for **personally or professionally?**



CHAIRMAN
Kenneth L. Chiccotella, CCIFP
Member Since 1998

Controller, Kirlin Carolinas, LLC | Raleigh, NC
Triangle Chapter

1. I plan to build it forward by increasing the **awareness of CFMA's value to our business owners,** which supports our strategic goal for companies to recognize CFMA's education and engagement as essential investments in their success. Company owners should come to know CFMA as the source and resource to meet their company's needs as much as CFMs do.

2. Being a CFMA member has helped me **overcome the challenge of change**. I carry a card with me from the first time I attended Spring Creek that summarizes the key concepts in Spencer Johnson's book *Who Moved My Cheese?* It is a constant reminder that while change will occur, I have tools to help me enjoy change and be ready to quickly change again and again.

3. The **Connection Café** has added value to my company by providing a resource that I can use to research any question or issue that comes up. By starting or reading through discussions, I've been able to answer questions ranging from cell phone policies to depreciation to *per diems* to software and more. I can also share relevant and timely information from *CFMA Building Profits* with others in my company both in print and electronically via CFMA BP Online.

4. My top industry concern is the same as it's been for the past several years – **finding and retaining qualified skilled workers.** How do we entice the skilled workers who left the industry during and after the recent recession, and how do we make the industry appealing to people who are just entering the workforce?

5. I wish I had more time to **develop my photography skills.** I've been a shutterbug for as long as I can remember. Today I mostly focus on photos of my kids while they're performing on the field, either in marching band or soccer. I use only a fraction of my camera's functions and would love to know how to utilize more to take portraits, better scenery, and other artsy photos.



VICE CHAIRMAN
Samantha M. Hutchison, CCIFP
Member Since 1999

CFO, Brookstone, L.P. | Houston, TX
Houston Chapter

1. A highlight of my year will be attending both sessions of Spring Creek with CFMA's chapter leaders. During and after the retreat we will use the **energy, ideas, and leadership skills** learned to create a vibrant member experience at both the chapter and national levels.

2. With **CFMA's Financial Benchmarker,** I am able to compare my company's results to industry peers, adding additional meaning and relevance to my company's financial results and metrics.

3. CFMA provides **a peer network both locally and nationally,** so I can compare best practices, discuss lessons learned, and improve my standards and practices.

4. A shortage of qualified talent in trades and management is a major hurdle that our industry faces. Whether times are busy or slow, a lack of knowledge and skill can have a significant negative impact on performance and profitability, but focusing on **continual training and development** is an antidote.

5. Reading. So much can be gained from books and publications of all genres and topics, and I don't spend as much time as I would like reading for professional development or enjoyment.



TREASURER
Joe McLaughlin, CCIFP
Member Since 2005

Controller, Austin Industries | Dallas, TX
Dallas/Fort Worth Chapter

1. I plan to focus on **professional mentoring.** By sharing the knowledge, experiences, and network I have accumulated throughout my career, I can positively impact my staff and company as well as give back and share information to help my local CFMA chapter and our Association as a whole.

2. My biggest challenge was also my most rewarding experience – **earning my CCIFP certification** last year. It was difficult at first to begin studying for this comprehensive exam since nearly 20 years has transpired since I sat for the CPA exam. Although preparing for the exam was not easy, the encouragement from my fellow CFMA members who wanted me to do well inspired me to do my best and led to my success.

3. My company recently expanded its backlog into a new region. When it was time to report, file, and pay gross receipts taxes in that jurisdiction, we initially had a large gross receipt tax assessment. **I reached out to a CFMA connection local to that area** and after a brief conversation about our goals, we were able to understand the requirements and file our return timely. We also capitalized on several deductions to minimize our tax liability, resulting in substantial savings for our company as well as the project's owner. This is an example of the huge value of these connections!

4. Safety is at the top of my list. As contractors increase their labor forces to execute their backlog, new and potentially inexperienced workers will enter the workforce. We must remain focused on safety, awareness, culture, and training to ensure our employees return home at the end of the day as healthy as they were when they arrived at work that morning!

5. I would love to get in a few more rounds of **golf at some of our country's great courses.** Although I have been afforded opportunities to travel for business, I have not been able to capitalize on these trips as much as I would like!



SECRETARY
Asif Choudhury
Member Since 2007

President, Bahar Consulting | Bethesda, MD
Maryland Chapter

1. My goal is to help facilitate **CFMA's international presence** beyond the U.S. and Canada. The education, information, and networking that members find so valuable will only be enhanced and increased by meeting and learning from CFMs from around the world.

2. Our clients often want to talk to their peers about issues that they face but are concerned about sharing information with competitors. CFMA's widespread presence has enabled me to **connect my clients to peers outside of their geographic areas** to avoid these concerns. Instead, they are able to pick up the phone and speak to a peer across the country who has experience with similar issues. CFMA has helped our company create valuable, rewarding peer groups for our clients.

3. I have introduced numerous clients to CFMA – many of whom have become members and have attended local chapter events, regional conferences, and CFMA's Annual Conference. Attending these events and reading *CFMA Building Profits* has **strengthened their network and expanded their knowledge.** Sharing the valuable information available through CFMA with our clients has helped my company to become an even greater resource and our clients to become even more successful.

4. Suicide prevention in the construction industry is very important to me, and I am glad to see it coming to the forefront. A couple of years ago I lost a friend, whom I met through CFMA, to suicide. We worked closely together on the chapter level and shared many wonderful memories. Previously, I served as president of a suicide crisis intervention hotline.

5. I would love the opportunity to **spend more time with my CFMA colleagues.** Being on the Executive Committee and working with so many amazing people has been a tremendous experience. They are highly successful, extremely bright, and lots of fun! I truly treasure the friendships that I have made.



IMMEDIATE PAST CHAIRMAN
J. Brad Robinson, CCIFP
Member Since 2001

Head of Treasury Services, Lend Lease | Charlotte, NC
Charlotte Chapter

1. During my last year as a CFMA officer, I plan to be **a resource for the other officers** and continue to support where the other officers and staff feel I can add the most value. I am so proud of what we have accomplished, and I look forward to more great things this year!

2. Over the past few years, I have had numerous opportunities as a CFMA officer to speak to large and small groups, which has helped me overcome my intense fear of **public speaking.** CFMA has literally changed my life.

3. There are too many specific examples to list in this space, but my company's staff has benefited from many local and national **educational opportunities.** We also utilize the Connection Café regularly to respond to questions or address issues in our company.

4. I also agree that the lack of trade labor availability as the Baby Boomers continue to retire is a top issue, especially since there doesn't seem to be a clear solution. I am also concerned that our finance teams are still very unprepared for the new **revenue recognition and lease accounting standards** that will be effective in the coming years.

5. I wish I had **more time with my kids.** I have three teenagers now – one is in college and the other two will soon follow. I try to take advantage of the time that I have with them. I want ensure that they grow up knowing that they are the most important people in my life.

CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION

Meet Your 2016-17

Volunteer Executive Committee

In addition to meeting your FYE 2017 officers, it's important to recognize this year's Executive Committee members.

This group of volunteers sets the organization's direction, ensures necessary resources, and provides oversight to help move toward fulfilling the goals of CFMA's Strategic Plan.



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Member Since 1997

Director of Construction Industry Services, GBQ Partners LLC
Columbus, OH



Kevin Booth, CCIFP
Member Since 1994

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Las Vegas, NV



Ben Ellingson
Member Since 2004

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Kevin Foley, CCIFP
Member Since 1998

CFO, E. Allen Reeves, Inc.
Yardley, PA



Pamela Hepburn, CCIFP
Member Since 1997

Vice President,
OCP Contractors, Inc.
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Pam Hummel
Member Since 1990

Strategic Sales Manager, National Accounts
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Michelle Leonard
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Member Since 2005

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A 21st Century Makeover for the CCIFP Exam

BY HEATHER WALDENMAYER, CCIFP, CHAIRMAN

As I mentioned in my previous Chairman's message, evaluating new technology to streamline the entire CCIFP process is one of my primary goals for the year.

The Institute's most frequently asked question is, "Where or when will the next exam be offered?" While the CCIFP exam has been offered at CFMA's Annual Conference & Exhibition since 2004 as well as at many CFMA regional conferences, local exams are not as frequent or consistent. Consequently, this lack of availability has made the CCIFP designation difficult to obtain.

Over the past few years, the ICCIFP Board of Trustees has prioritized reducing the "barriers to entry" associated with becoming a CCIFP. I am happy to report that the ICCIFP Board recently approved a plan to transition the CCIFP exam to an electronic "on demand" format.

Exams On Demand

Starting this fall, the ICCIFP will be partnering with a third-party testing provider to offer the CCIFP exam electronically at hundreds of testing facilities across the country. The paper and pencil tests will still be administered for exams scheduled through the end of 2016; exclusive on demand testing will begin in 2017.

On demand testing allows applicants to take control of their own test scheduling. Once an exam application has been approved, the applicant will receive an authorization code, which is valid for 60 days, to schedule an exam.

For example, if you participate in CFMA's CCIFP Overview course and feel you are prepared, upon application approval you can schedule to take the exam at your convenience. However, if you feel you need more time to study, say, percentage of completion, then you can schedule your exam accordingly (within the 60 days of application approval).

The electronic exam also allows for faster scoring and communication of results, which is a request we have received from our stakeholders for quite some time and are excited to make a reality.

And, local chapters will no longer need to pay for or find proctors to oversee CCIFP exams. With on demand testing, the cost for proctors is built into the cost of the exam. In addition, the staff at the third-party testing facilities are specifically trained in maintaining the safety and security of exams and meet the CCIFP exam proctor requirements.

I am thrilled that the ICCIFP has been able to take this step in providing additional value for our stakeholders. We are excited for the possibilities that this will bring for the future. ■

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COMING THIS FALL **ON DEMAND TESTING**



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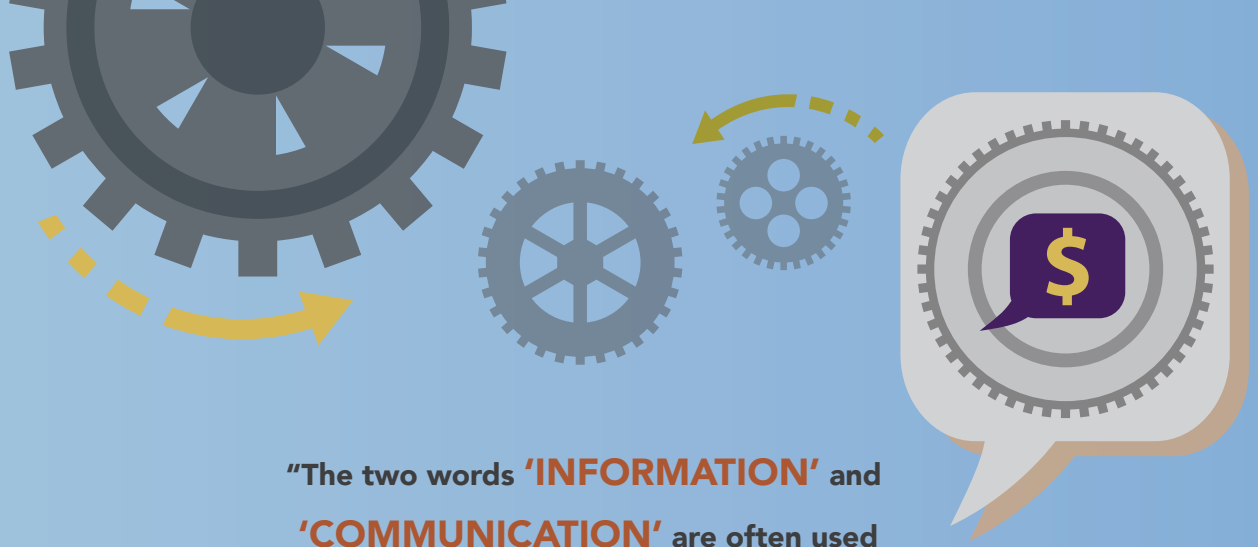
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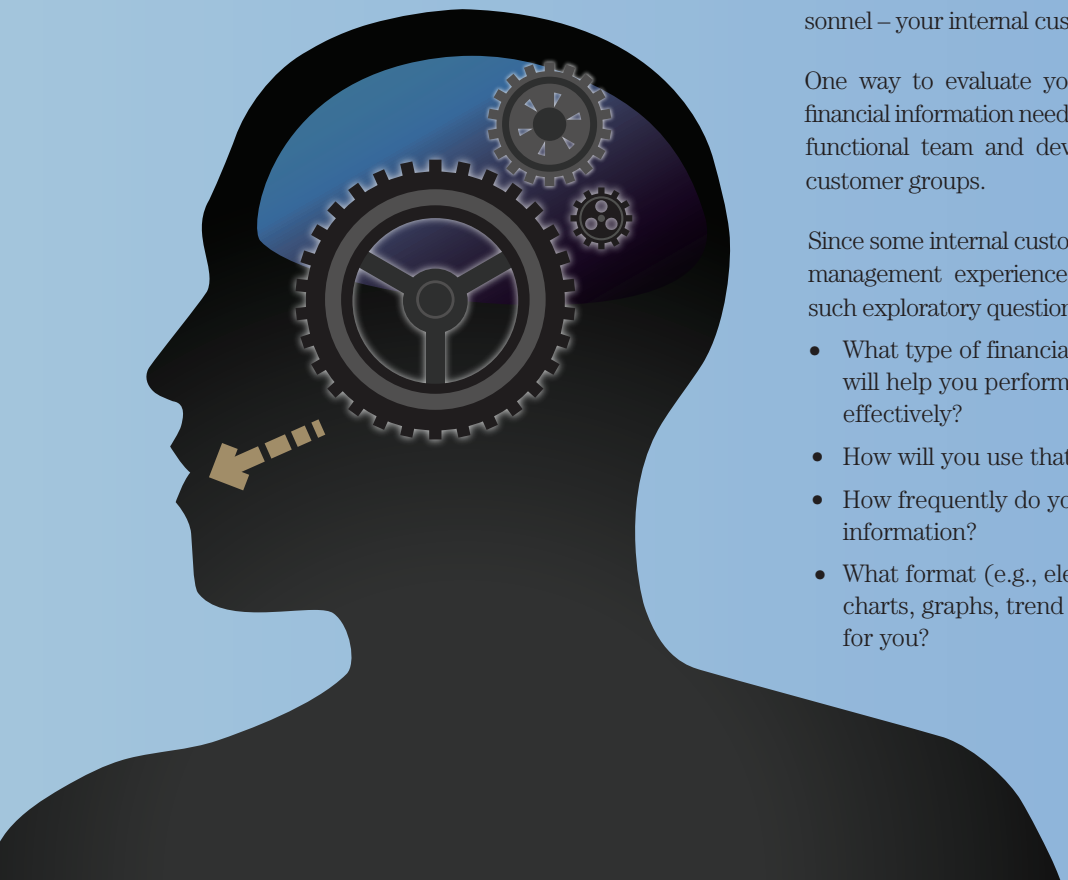
"The two words 'INFORMATION' and 'COMMUNICATION' are often used interchangeably, but they SIGNIFY quite DIFFERENT things. Information is giving out; COMMUNICATION is getting through."

This quote from the late newspaper columnist Sydney J. Harris highlights the challenge facing CFMs: Despite advancements in construction accounting technology, construction managers and field leaders are challenged by a lack of accurate, timely, and relevant financial performance feedback.

This article provides eight tips to effectively collect and communicate this critical financial information to key operations personnel, including project management and field employees.

Tip #1: Understand Your Internal Customers

While external customer value can be defined as "what your external customers are willing to pay for," internal customer value is a little trickier. However, it can be viewed in a similar light: What key financial information helps operations personnel – your internal customers – deliver value?



One way to evaluate your internal customers' financial information needs is to assemble a cross-functional team and develop a list of internal customer groups.

Since some internal customers may lack financial management experience, it's important to ask such exploratory questions as:

- What type of financial information will help you perform your job more effectively?
- How will you use that information?
- How frequently do you require that information?
- What format (e.g., electronic, hard copy, charts, graphs, trend lines) works best for you?



EXHIBIT 1:
INTERNAL CUSTOMER FINANCIAL NEEDS



Exhibit 1 at left illustrates results from an internal customer value brainstorming session.

Tip #2: Standardize Cost Codes for the Field

When designing job cost structures, particularly labor cost codes, cost categories created by accounting and estimating don't typically take the needs of project management and field leadership into account. Often, cost codes are broken out by material type and system rather than sequence of installation. While feedback to estimating is important, if the work is not broken out by the actual sequence of installation, then the data from the field will be inaccurate.

A more effective method is to map out the field installation process, identifying key activities that can be budgeted and tracked. This structure can be used to create standardized labor cost codes for all jobs, allowing for rollup information at the PM, department, and company levels. If further breakdown is required, then an area or phase designation can be used to keep the activities codes the same.

Exhibit 2 illustrates the transition from an estimating- or take-off-based coding system to a field-centric coding system that aligns with the installation sequence for a typical electrical construction project. In this example, several of the standard cost codes are broken out by area for more detailed tracking.

EXHIBIT 2:
TAKE-OFF VS. INSTALLATION-BASED LABOR CODING STRUCTURE

TAKE-OFF-BASED code structure

LABOR CODE	DESCRIPTION
100	CONDUIT
200	WIRE
300	SWITCHGEAR
400	RECEPTACLES
500	LIGHT FIXTURES

INSTALLATION-BASED code structure

LABOR CODE	AREA	DESCRIPTION
100	A	UNDERGROUND ROUGH IN
200	B	OVERHEAD ROUGH IN
200	C	OVERHEAD ROUGH IN
300	B	IN WALL ROUGH IN
300	C	IN WALL ROUGH IN
400	B	FIXTURE INSTALLATION
400	C	FIXTURE INSTALLATION
500	B	FINISHES
500	C	FINISHES

Tip #3: Error-Proof Data Collection

Pay close attention to how performance report data – especially field labor and material costs – is collected and entered. While it may not affect payroll if labor and material are posted to the incorrect cost code, it can impact the quality of production feedback to the PM and field personnel as well as complicate their cost forecasting efforts.

Training as well as the use of an automated and controlled data entry process can improve accuracy. Employees responsible for filling out time cards should be trained on what codes to use for specific activities. At the beginning of each project, this training should be reinforced by reviewing the project budget and work breakdown structure.



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Automation can also expedite the time entry process and reduce errors. Traditionally, field employees manually record their labor hours in a field log, which is then transferred into a daily or weekly timesheet that is delivered to accounting. Accounting then keys the same information into the system to process payroll and post job cost.

This manual and duplicative process is not only inefficient, but it also increases the potential for errors. An automated time card system enables field employees to enter their time using drop-down menus that only allow them to select valid job and cost codes. Also, most time card approval systems can be configured with an approval routing that allows PMs or other designated reviewers to check for errors prior to posting.

Another common source of errors is material posting. Many companies still rely on verbal commitments or handwritten purchase orders to buy materials. These purchase orders may get forwarded to accounting for entry as committed cost, but often are missing such vital information as cost code or pricing. As the material invoices are received, accounting personnel must try and determine:

1) Items purchased, quantities, and units
2) Job number
3) Cost code
4) Price
5) Verification of material receipt

As an example, one A/P manager determined that 75% of invoices were delayed while this missing information was tracked down. Missing information can delay not only job cost posting, but also invoice payment and prevents the client from taking advantage of prompt payment discounts.

These errors can be reduced by centralizing the purchasing process and integrating purchasing software with an ERP that requires all relevant information to be entered prior to generating a valid purchase order.

This also allows for materials to be immediately posted as committed cost. Once the invoice arrives, automated matching software can match invoice to purchase order and receiving report, again eliminating the need for manual research.

By automating both time card entry and material purchasing processes, job cost information can be posted quickly and effectively, enabling your internal customers to receive accurate and timely job cost reports.

Tip #4: Measure Field Performance

The real-time measure of field performance is productivity. Many PMs have difficulty defining productivity, and most foremen can only quantify it as it relates to field workers being productive. In most cases, productivity is defined as quantity installed divided by man-hours (or quantity installed divided by equipment hours).

In order to accurately measure field productivity, you must collect not only correctly coded labor hours, but also the production output (quantity installed or percentage of work activity completed). As with most processes, measurement of work activity installation or completion percentage can be simplified using construction accounting field modules or third-party software.

Tip #5: Tailor Your Communication

Try to match financial reporting to the roles and responsibilities of the position. A "one-size-fits-all" financial performance report for the operations manager or PM may seem beneficial, but it can result in one of two undesirable situations:

- *Undersharing Information:* The PM tells the foreman, "You are over on hours!" However, the foreman has no idea what activities experienced labor overruns or how to correct the problem.
- *Oversharing Information:* The PM provides the field foreman with a detailed job cost report that includes engineering hours and rates.

  But instead of focusing on the work at hand, the foreman sees that the engineering hours exceeded the budget and believes the project will lose money regardless of what he does in the field.

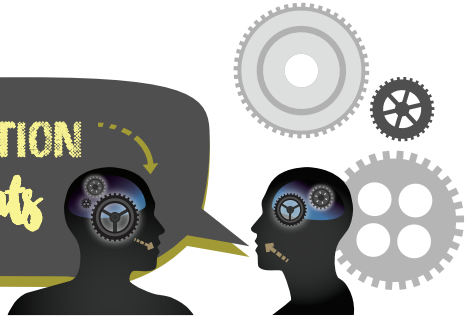


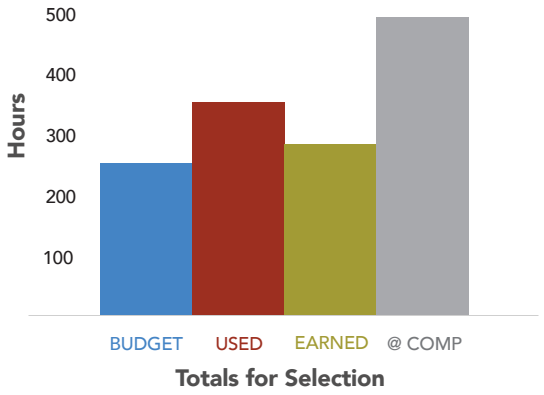
EXHIBIT 3:

LABOR PRODUCTIVITY BY TASK CODE

DISPLAY: TOTAL FOR SELECTION

THROUGH WEEK STARTING: 07/20/2015

SHOWING: PHASE = A, AREA = 1, COST CODE = 02-150



By tailoring reports to provide only the relevant information for each role, you can filter out unnecessary data while retaining the level of detail that will drive desired behaviors.

In other words, translate financial information into the appropriate currency of trade. For example, if your foremen are responsible for managing the labor effort on a project but not for material, subcontract, or equipment cost management, then prepare financial performance reports that provide detailed labor information in terms of hours, not dollars.

Tip #6: Use Visuals to Relay Critical Data

Construction operations personnel need to quickly understand data and take action without becoming overwhelmed by too much data. Rather than tables full of data, use conditional formatting (e.g., red equals over budget, green equals under budget) and visual representations of numbers to highlight pertinent information to help personnel quickly assess data and take appropriate action.

Exhibit 3 above illustrates how to visually relay important job performance information. It provides key performance data for one labor cost code. The blue column shows budgeted hours for this particular activity; red shows actual hours used; and green shows the calculated earned value (quantity installed to date/total budgeted quantity multiplied by budgeted hours). The gray column shows the projected hours at completion, assuming the same rate of productivity.

The field foreman does not have to know the formula for earned value to understand that there is a productivity issue. If the red column is bigger than the green column, then there is a problem.

Tip #7: Set the Right Tone

The tone of your communication is often as important as the information itself. This is especially critical during a project's Work In Progress (WIP) meeting.

If your goal is to provide valuable, actionable information, then you must create an atmosphere of trust and transparency where performance problems are openly examined and solved rather than ignored or concealed.

As an example, our team has worked with PMs who would sometimes hide contingency dollars in their project budgets and forecasts so that if a cost overrun did occur, those funds could pay for the cost overrun without scrutiny from the management team. When pressed, the PMs explained that if the contingency money was revealed, then the CFO would likely remove it from the budget, which left the PM with no margin for error.

The solution was to create a contingency line item in the original project budget that decreased as the job progressed and performance risk diminished. Adding this simple line item to project budgets increased transparency and improved trust between the financial management and operations teams.

Tip #8: Knowledge Is Power When Used Wisely

Once you have relayed pertinent financial information, how do you use it?

For example, if financial reporting indicates a consistent problem with aging A/R, how do you solve for it? What is the root cause – is it a billing issue, a collection issue, or a combination of multiple issues?

Having standard processes for continuous improvement and problem-solving are critical for maximizing the value of financial performance information.

Lean manufacturers use a model that includes defining the problem, clarifying the problem, analyzing root causes, developing and implementing solutions, and analyzing results. This same model can be applied in construction applications with measurable results.



Exhibit 4 below shows a standard problem-solving process applied to an A/R aging issue. This approach enables cross-functional teams, including members from accounting and operations, to work together to come up with effective solutions.

Summary

CFMs are the collectors and keepers of the data needed to measure operational performance.

Understanding what information your internal customers need, how to gather and communicate that information, and how to act on that information is critical to your company's long-term success. ■

CHRISTINE RAHLF is an Associate Director at Maxim Consulting Group in Denver, CO. She works with construction-related firms of all sizes to evaluate business practices and assist with management challenges.

Christine has extensive experience in both the government and private industry, where she has managed complex projects and led technical teams to successful results. Her areas of specialization include productivity improvement, process reengineering, scheduling, cost control, risk analysis, and training.

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Website: www.maximconsulting.com

EXHIBIT 4:
ACCOUNTS RECEIVABLE CYCLE PROCESS IMPROVEMENT

DATE: 6/1/2016 OWNER: A/R MANAGER
APPROVAL DATE MANAGER APPROVAL:

BACKGROUND
- AGING RECEIVABLES FOR THE COMMERCIAL DIVISION ARE AVERAGING 68 DAYS
- REDUCING THE PAYMENT CYCLE WOULD FREE UP CASH TO FUND GROWTH AND PAY DOWN DEBT

CURRENT CONDITIONS
- THE PM CURRENTLY COMPLETES THE PROGRESS BILLING TEMPLATE AND SUBMITS TO ACCOUNTING. ACCOUNTING FORMATS THE INVOICE AND MAILS TO CLIENT. ACCOUNTING GENERATES AN A/R AGING REPORT. IT IS NOT CLEAR WHO HAS THE RESPONSIBILITY TO FOLLOW UP ON LATE PAYMENTS.

GOAL
- REDUCE AVERAGE DSO RATE TO 45 DAYS FOR COMMERCIAL DIVISION

ANALYSIS
REASONS WHY INVOICES NOT PAID, LATE PAID, OR SHORT PAID:
- DISAGREEMENT ABOUT PERCENTAGE OF WORK COMPLETE (55% OF REJECTED/SHOT PAID INVOICES)
- MISSING ATTACHMENTS INCLUDING LIEN WAIVERS, CERTIFICATIONS (15% OF REJECTED INVOICES)
- MISSED BILLING DEADLINE (12% OF INVOICES)

PROPOSAL
- VERIFY CORRECTNESS/COMPLETENESS OF INVOICES PRIOR TO MAILING
- FOLLOW UP WITH CUSTOMER TO ENSURE INVOICE IS RECEIVED AND IS BEING PROCESSED
- VERIFY PROGRESS BILLINGS WITH CUSTOMER PRIOR TO BILLING
- ESTABLISH BILLING CALENDAR TO ENSURE INVOICES ARE SUBMITTED ON TIME

PLAN
- UPDATE BILLING CALENDAR AND DISTRIBUTE TO PM – A/R MANAGER
- REVIEW INVOICE FOR ACCURACY PRIOR TO SENDING – CONTROLLER, WITHIN TWO DAYS OF GENERATION
- PHONE CALL TO CUSTOMER A/P TO ENSURE INVOICE RECEIVED AND PROCESSED – A/R MANAGER, FIVE DAYS AFTER SENDING
- VERIFY PERCENT COMPLETE AND BILLED FOR ACCEPTABLE TO CUSTOMER – PM, PRIOR TO FILLING OUT BILLING TEMPLATE
- FOLLOW UP IF INVOICE IS OVER 30 DAYS – A/R MANAGER
- FOLLOW UP IF INVOICE IS OVER 60 DAYS – PM
- FOLLOW UP IF INVOICE IS OVER 90 DAYS – OPERATIONS MANAGER

FOLLOW UP
- NEED TO ENSURE LIEN RIGHTS ARE MAINTAINED AND FILE FOR LIEN WHEN NECESSARY

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BY KEITH ROLLAG

SUCCEED IN new SITUATIONS

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SUCCESS

almost always requires putting yourself into new situations.

To further your career, you must take new jobs, join new organizations, transfer to new office locations, and meet and build relationships with new customers, suppliers, and industry peers.

Executives get a lot of advice about how to manage such scenarios: A new hire should negotiate his goals and responsibilities up front. A newly promoted leader must build credibility and influence with early wins. A relocated expatriate should study her new country and its culture. Novice conference attendees hoping to do some networking should arrive with a list of target contacts in mind.

All of those are good practices. But in 20-odd years of studying, teaching, and counseling executives and MBA students, I've found that the challenge many of us face in new situations is much more fundamental. Surprisingly large numbers of professionals do less than their best because they haven't mastered three basic yet critical getting-to-know-you skills: introducing themselves, remembering people's names, and asking questions.

Through interviews, surveys, and studies with hundreds of people, I've found that the anxiety most of us feel in new situations is rooted in these three activities. In the heat of the moment, we simply aren't confident or comfortable enough to perform them well. We know we need to connect with coworkers at the office and strangers at industry events, but we hesitate to approach unfamiliar people – and instead hope others will come to us. We recognize that people are impressed if we remember their names – but still find ourselves forgetting, feeling awkward, and then avoiding conversation. We realize that others have information we need, but we're reluctant to bother bosses or peers with questions about things they might expect us to know already. And it's not just shy introverts who suffer; even extroverts tell me they're frequently uncomfortable introducing themselves or asking questions, and more than 80% of people I've interviewed admit they're bad at recalling names.

Some discomfort is only natural. For most of human history, caution in new situations and around unfamiliar people was an advantage. Throughout childhood, we're told to avoid strangers and ask questions only after raising a hand. We're given little formal guidance on how to approach contacts, make introductions, and remember names. And yet, by the time we're adults, it's assumed that we're experts at these basic skills.

My research indicates that we're not. Fortunately, however, it's fairly easy to improve at them. Some of the following advice may seem familiar, but I've been told by executives at high levels – company presidents, entrepreneurs, and consulting partners – that they've benefited from it. If you're proactive and take steps to train yourself in the techniques offered here, you can set yourself up for success.





SUCCEED IN new SITUATIONS

Introducing Yourself

A few years ago, Columbia professors Paul Ingram and Michael Morris used a clever experiment to show that even seasoned businesspeople are reluctant to introduce themselves. They organized a networking event and, prior to it, asked attendees both what they hoped to achieve from it and whom on the attendee list they already knew. More than 95% said that their goal was to meet new people.

At the event, everyone wore a special badge that tracked who talked to whom. The researchers found that despite their stated intentions, most of the executives spent the majority of their time with attendees they already knew and met new people only if they had acquaintances in common.

In my interviews I've heard three reasons why people hesitate to approach others: They worry about interrupting or bothering people, fear making mistakes during an introduction, or dread the possibility of rejection. But it's important to push through those feelings.

If introductions don't happen at a networking event, you miss out on opportunities. If they don't happen at the office, you fall into a pattern of awkward smiles, nods, and waves and never forge critical relationships.

How do you get better at introducing yourself?

Put Yourself in the Other Person's Shoes

If the roles were reversed and that individual came up to you, how would you feel? If you'd be open to an introduction, expect that he would be too, and go for it. Don't assume that senior executives have little interest in meeting people further down in the organization.

Practice Your Opening Lines

While all introductions are unique, the name exchange, handshake, and ensuing small talk usually follow common patterns. Create some opening lines and try them out. Write down, rehearse, and experiment with what you will tell others about yourself. Note what sustains interest and what causes other people's eyes to glaze over. Then edit your approach accordingly.

Make the Other Person Feel Heard, Valued & Respected

Great first impressions rarely hinge on what you reveal about yourself; what matters is how you make your counterpart feel. Ask her about herself and her job, listen intently, show interest, and be energetic.

Write Things Down

Don't trust your memory. As soon as you can, write down everything you have learned about the person's background and interests. When you know you're going to meet again, review your notes.

IN PRACTICE: **IT'S UP TO ME** TO TAKE THE INITIATIVE

Arthur, a new engineer at an internet start-up, initially shied away from introducing himself to his busy coworkers in his first week on the job. He was frustrated that so few of them had reached out to him. But, recognizing that he couldn't succeed without getting to know his peers, **he finally decided to put himself out there.**

He rehearsed opening lines, then walked around the office looking for colleagues who seemed interruptible. **After saying hello, he introduced himself, described his role, and asked about their work.**

The experiment was a success. "I approached several other design engineers, and they all dropped their work and shifted attention to me," he later wrote in his journal. **"The lesson is that it's up to me to take the initiative** instead of waiting in my cubicle and feeling disappointed about others' inactivity."

With newfound confidence, he subsequently approached the CEO and other senior managers and ultimately **developed a productive mentee-mentor relationship with the VP of engineering.**

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Remembering Names

When I ask students in my executive education and MBA classes if they easily learn and recall people's names, typically fewer than 10% of them raise their hands. You might think you're particularly forgetful, but many of us forget names within seconds of hearing them.

Why? Neuroscientists have shown that we actually process and store proper names differently from other things we learn about people, such as their faces, roles, and life histories. Initially, the neural connection between what we know about people and their names tends to be very weak, so when we meet them again we blank on the latter.

The problem isn't in forgetting a name; it's what we do when we suddenly come up blank. We might avoid the person, fake familiarity with a "Hey, man," or awkwardly try to get the person to reintroduce himself. According to a survey by the British gaming company Ladbrokes, the embarrassing moment we fear most is forgetting the name of someone we're introducing.

Although this is a widespread and understandable problem, it's also one executives must overcome. People feel more warmly toward those who remember crucial information about them, including their names, and that amity can serve as a springboard to fruitful conversations and deeper trust. Taking these steps can help:

Commit to Paying Attention

Often we blank on names because we aren't focusing on them when we first hear them. Our minds are preoccupied with the handshake, what we'll say next, or other random thoughts. Every time you meet someone new, remind yourself to pay attention to his or her name.

Repeat the Name & Test Your Recall During the Conversation

Saying a name out loud right after you hear it helps lodge it in your short-term memory, and mentally testing your recall, even as you're in the midst of the introduction, helps reinforce the neural pathways. If you still forget the name, you can ask for it again before you part ways.

Write It Down

As with other key details about people, the best thing you can do to ensure recall is to record their names as soon as possible in a place you can access later (a notebook, phone, or computer). Research has shown that writing or typing a name improves retention.

Study & Retest Your Recall

Find time to review the names you've written down and try to call up the faces of those people and their personal information. Walk around the office (or look at coworkers' pictures) and in your mind go through the names of those you see.

IN PRACTICE: SEVEN TIMES **BETTER AT NAME RECALL**

Doug, a senior manager at a financial services firm, used to be "pathetic" at remembering names. "It would be in one ear and out the other," he explains. This became a big liability when he moved from managing operations to managing sales. "I was building a relationship with a potential client and over several months met him at networking events, even a few times for dinner and drinks. **I thought his name was Jason** and called him that multiple times. Only later did a colleague pull me aside and tell me that his name was Mark. I was horrified. I apologized, and he was nice about it, **but for months I was gun-shy about saying people's names."**

However, once Doug committed to paying attention to names and began repeating and reviewing them and associating them with mental images, his recall began to improve. "Before, I'd probably remember only 10% of names. **Now I remember 75% or more."**

Today he's much more confident of his ability to recall names. In fact, a few months ago he saved the day for a former boss and mentor during an unexpected encounter with a potential business partner, whom both men had met at a networking event. After a few minutes of small talk, the other person excused himself to visit the restroom. Doug's mentor turned to him in a panic and said, **"For the life of me, I can't remember his name."** Doug not only was able to recall it but could also provide a few more facts about the man so that, when he returned, the conversation was much more successful.



SUCCEED IN new SITUATIONS

Use Vivid Imagery

Because we remember the things we know about people better than names, it helps to associate a person with a mental picture that provides a clue to his or her name. Imagine Phillip Carmichael trying to fill a car with all the Michaels you know. When talking to Gayle, focus on her glasses, since that word starts with the same first letter as her name. Combine these techniques with frequent tests of recall, and eventually you won't need the imagery to trigger your memory.

Use Cheat Sheets

You can't plan for unexpected encounters, but meetings and events are a different story. Find out which people are attending, and review their names in advance. Research has shown that this gets names back into your short-term memory and significantly increases the chance you'll retrieve them when you need to.

Asking Questions

According to several studies, including those by Elizabeth Morrison at New York University, the more questions new employees ask and the more help they seek, the better they perform. Research shows that question askers are also more satisfied in new jobs and more committed to new organizations. But when interviewed about what in hindsight they got wrong in starting a new role, executives most commonly say, "I didn't ask enough questions."

Consider the story of one computer programmer I spoke with. A few weeks into a new job, he discovered that his first project would require him to combine two large segments of computer code. Rather than asking his cubicle neighbors how he might accomplish that task, he dove in and spent two weeks working alone to complete it. After he was done, he found out that his company had months earlier purchased a software tool that could have done the job in minutes.

Why are we loath to ask questions? As with introductions, some of us are uncomfortable interrupting busy coworkers. Others find it hard to admit that they don't know something or can't figure it out. Our egos keep us from reaching out to the experienced people that can much more easily solve our problems.



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SUCCEED IN new SITUATIONS

How can you get better at asking questions? Here are a few ideas:

Consider What You Want & Why

Do you need information, advice, feedback, assistance, or permission? Are you asking for a few minutes of time or something more? The clearer you can be about what you want, the easier it will be to ask.

Determine Whom to Ask & If the Time Is Right

Given your question, who is most knowledgeable, available, and approachable? Can you catch that person alone at her desk, after a meeting, or during lunch? One trick is to ask people during introductions if you can contact them later for advice. Then you have them on record with a commitment to help you. And sometimes changing your question from "Do you know how to…" to "Who might explain how to…" makes it less intrusive to the person being asked.

Ask Short, To-the-Point Questions

Avoid multipart questions that are hard to understand, much less answer. Instead of saying, "Hey, I'm not sure what to do with this report, and what goes where, and do we have to distribute this to both sales and marketing?" it's better to ask, "Can you show me how to format this report? Five minutes of your time, and I'll be good to go." Once someone has helped you with formatting, your next question can be about distribution strategies.

Say Thank You & Close the Loop

Don't underestimate the power of gratitude. Researchers Adam Grant and Francesca Gino have shown that expressing appreciation makes other people feel valued and predisposes them to help you the next time.

Cultivate a Buddy

Many newcomers discover that finding a colleague who'll agree to be their initial "go-to" person makes it much easier to ask questions. Often this person is not a highly experienced veteran but someone who still remembers what it's like to be new.

For most of the executives and students I coach, the difficulty isn't in understanding how to introduce themselves, ask questions, or recall names. It is in fighting natural biases against social risk and changing lifelong habits.

Real progress comes only through mindful reflection and practice. Be patient but committed, and remember that as you become more confident with introductions, names, and questions, you'll set yourself up to be more proactive and effective at all the other skills required to be a successful newcomer at any event, office, or organization. ■

KEITH ROLLAG is an Associate Professor at Babson College, where he teaches leadership and organizational behavior. His forthcoming book, *What to Do When You're New*, is designed to help people become more comfortable, confident, skillful newcomers.

IN PRACTICE: **A NEW ATTITUDE** TOWARD INQUIRY

Sarah, an engineering project manager who graduated from a prestigious university, admits that she was "terrified" of asking questions when she first started working at a fast-growing technology company. "I was afraid I would seem dumb," she explains. As a result, she found herself wasting a great deal of time. **"I was trying to learn what someone could have told me in a few minutes."**

When she was assigned to her first project, she really wanted to ask the founder and CEO of the company about its history and strategy. But for weeks she hesitated, thinking, **"I can't. He's out-of-control busy."**

When she finally mustered the courage, his response couldn't have been more positive.

"He said, 'Of course – I can't believe I didn't do this earlier,' and led me into a room, so excited to talk to me," Sarah recalls. **"I was kicking myself for not asking earlier."**

After that, it became much easier for her to approach not only the CEO but other senior managers with questions. Her career at that firm was successful and, **capitalizing on her new attitude toward inquiry,** she eventually became the chief technology officer of a major corporation.

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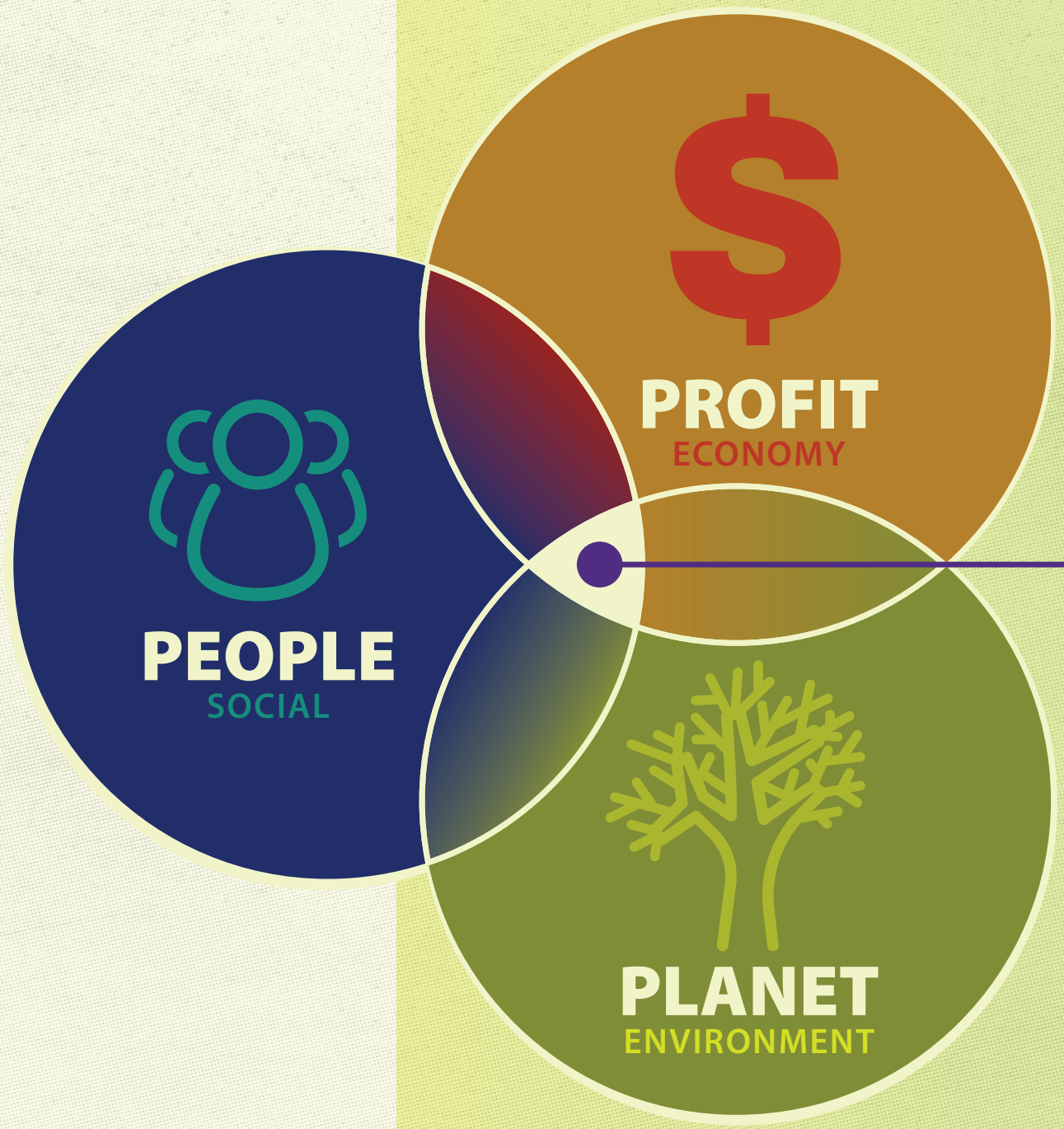
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BY EDWARD JOHNSTON

ACCOUNTING FOR SUSTAINABILITY:

IT'S TIME FOR CFMS TO LEAD THE CONVERSATION

Regardless of industry sector, size, or location, businesses throughout the construction supply chain must contemplate their position in the sustainability discussion. Will your company lead or follow?

If you're wondering how a finance professional could take the lead in helping a company become more "green," you (and your company) may already be well behind in remaining competitive, enhancing future bid opportunities, and realizing stronger margins than your competitors.

Before determining if there's a place for sustainability in your company's business model, several questions must be addressed:

- Where does sustainability fit within your business environment?
- Does your team believe that the precepts of sustainability apply to your company?
- What is sustainability anyway, and is it truly something that needs to be on the table for busy management teams?

This article will present an overview of sustainability and recent trends, the business case for considering a sustainability strategy, and ways to help determine your company's readiness to educate, train, and promote a cultural change to embrace this movement.

What Is Sustainability?

More than "green," sustainability is the economic, environmental, and social impact on the communities in which we work. It can be defined as a business's ability to endure and be mindful of the greater impact of activities on the world in which it operates.

Over the past 20 years, the phrase "triple bottom line" has gained traction to specifically describe how the social, environmental, and financial components of business are becoming critically interwoven.



REALIZING THAT SUSTAINABILITY plays a role in **RISK** management, **COST** reduction, **REVENUE** growth, or **EMPLOYEE DEVELOPMENT** will highlight the **BOTTOM LINE IMPACT** of sustainability business drivers.

To build the complete foundation for this discussion, people, the planet, and profit stand as the "three pillars of sustainability." Even more recently, discussion of a quadruple bottom line has begun to emerge as "future generations" demonstrate the requisite long-term nature of sustainable actions.

The demand for corporate transparency on sustainability in the U.S. is growing. The core of this trend takes many forms, from distinguishing companies that became part of Fortune's "Change the World" list to identifying those that are champions of such external accreditation systems as LEED, Envision, or Living Building Challenge. For our industry, it is akin to stacking our departments with Certified Construction Industry Financial Professionals (CCIFPs)!

Contractor & Employer Selection

Embracing sustainability will increasingly drive the award of projects as both public and private owners look to contractors to help address both natural and societal concerns. Rich Goode, Executive Director of Ernst & Young's Climate Change and Sustainability Services, increasingly hears clients say that "sustainability-related issues like energy reduction targets or a green supply chain have gone from nonissues to the top 10 or even top five decision criteria when selecting a vendor."

And, as the more environmentally aware (i.e., Millennials) enter the workforce, sustainability will distinguish where extremely talented young job seekers choose to spend their careers.

Reflecting on companies that are struggling to attract and retain Millennial employees, Rich Goode provides insight into the minds of a population that "…think differently about the environment and feel that 'doing the right thing' for the planet is not a negotiable item. They simply will not work for a company with a poor, or no, reputation or strategy for sustainability. For growing companies, this is a real concern."

Investor Interest

Integrating corporate sustainability performance into the investment analysis process is similarly gaining momentum. No longer confined to values-based investors, mainstream institutional investors recognize the materiality of key sustainability issues that impact a company's financial performance, valuation, and future risks and opportunities. As a result, investors are seeking more useful information than current sustainability reporting provides.

Once sustainability initiatives are integrated with corporate strategy and become part and parcel of the corporate mindset, the paradigm will shift from a sustainability strategy (i.e., discreet initiatives and tactics) to a sustainable strategy (i.e., a coherent plan to balance long-term viability – for the benefit of both shareholders and society – with demands for short-term competitiveness and profitability).[1]

CFMs have an opportunity to play a pivotal role in their company's capital planning, as investors naturally gain more comfort from finance peers than they might from a generic discussion of the impact of global warming on a business value chain. Communicating your intentions in this area often reaps tangential benefits, such as improved employee morale and enhanced corporate reputation.

Sustainability Accounting Standards Board

The Sustainability Accounting Standards Board (SASB) is leading the effort to improve and standardize corporate disclosures on material sustainability issues. Produced by an independent, nonregulatory organization, the SASB's industry-specific standards address a narrow set of sustainability issues, which are likely to have material impacts on a typical business sector. These standards also provide guidance in selecting metrics designed to communicate company performance.

"The result," says Bryan Esterly, the Infrastructure Sector Analyst at SASB, "is a cost-effective corporate reporting tool that yields comparable, decision-useful information on key sustainability topics that help drive economic value – in other words, exactly what the investor community is looking for in corporate sustainability disclosures."

SASB has released Provisional Standards for 79 industries, including Engineering & Construction Services (one of eight industries within the Infrastructure Sector).[2] While the SASB Accounting Standards for Engineering & Construction are not mandatory, the standards are applicable to mandatory regulatory filings (like the SEC).

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These standards also contain sustainability disclosure topics and accounting metrics. Sample topics include incidents of noncompliance with environmental regulations, safety and rework-related expenses, backlog for hydro-carbon related projects and renewable energy projects, etc.

The Business Case for Sustainability

By 2030, almost $90 trillion in additional global infrastructure capacity will be needed,[3] and humankind will require 35% more food, 40% more water, and 50% more energy.[4] Also, 195 countries recently agreed to lower greenhouse gas emissions to an extent that will allow only 20% of total current fossil fuel reserves to be burnt unabated.[5]

The Genuine Progress Indicator (GPI) may begin to replace the Gross Domestic Product (GDP) as the key metric for measuring economic growth, and companies may be forced to reflect the cost of pollution created in their value chain either directly through taxes or indirectly in expanded financial statement reporting.

Have you considered capital investment changes to ensure that your company can meet the needs of a warmer, more extreme environment? Are you planning for possible cost implications within your respective organizations and supply chains? Can you envision running your business at zero net carbon?

"How sustainability impacts companies varies widely by industry," according to Bryan Esterly. "SASB's standards can help narrow the focus on the industry-specific issues that investors are most likely to be interested in, as issues contained in the standards already have a significant body of evidence that demonstrates their actual or potential impact on company value." (See SASB's Materiality Map on page 33.)

For most companies, the results of embarking on the sustainability journey are well worth the investment. In fact, a 2014 National Bureau of Economic Research study of more than 175 companies and their results of operations over 18 years concluded that "***high sustainability*** companies perform better when considering accounting rates of return, such as return-on-equity (ROE) and return-on-assets (ROA)."[6] As various functional teams collaborate on sustainable initiatives, many see increased innovation and reduced waste.

Sustainability becomes a progression of values that embraces much of what is important to investors, employees, and companies throughout your supply chain. Ultimately, it is yet another component to strengthening a company's financial P&L.

What Is the Role for CFMs?

Actively embracing a deep-rooted sustainability agenda within the accounting and finance province is a natural fit to:

- Build brand value to recruit and retain top talent;
- Strengthen public perception of your company as an ethical leader;
- Minimize exposure to environmental fines and regulatory compliance;
- Increase client satisfaction; and/or
- Reduce supply chain and material costs.

A sustainability-related agenda requires CFMs to considerably increase their interactions throughout their companies, using traits characteristic in the accounting and finance field: probing, inquisitive minds and the tenacity to convert operational performance, risk indicators, and forecasts to financial metrics with a healthy degree of professional skepticism. When delivered by financial professionals, sustainability reporting will be accompanied by the credibility and value that our trade offers.

As with any relatively new discussion, proceed with caution and do not exaggerate either benefits or risks. Be sure to maintain a perspective that pragmatically assimilates both values and value, lest you lose internal or external support as key stakeholders perceive your reporting as greenwashing your initiatives – nothing more than promoting an image of engagement.

While implementing sustainability initiatives does have short-term effects, the discussion better lends itself to a long-term perspective – building metrics that communicate how the contractor balances its impact on people, planet, and profit while playing an integral role in building a platform to deliver long-term sustainable financial performance.

Once CFMs understand the true influence of sustainability issues within an organization, they will be better able to guide senior executives in the long-term governance of the business.

Understand the Language

As CFMs begin to plan and conduct conversations to move their companies forward, the following terms, issues, and concerns will need to be addressed.

Natural Capital

Consider the environmental "bank" from which we draw material resources needed to build our projects. While some

EXHIBIT 1:

SASB Materiality Map™ for Infrastructure Sector That Includes the Engineering & Construction Services Industry

SASB's Materiality Map identifies sustainability issues likely to constitute material information on an industry-by-industry basis. To see all industries, visit *materiality.sasb.org*.

SECTOR LEVEL MAP

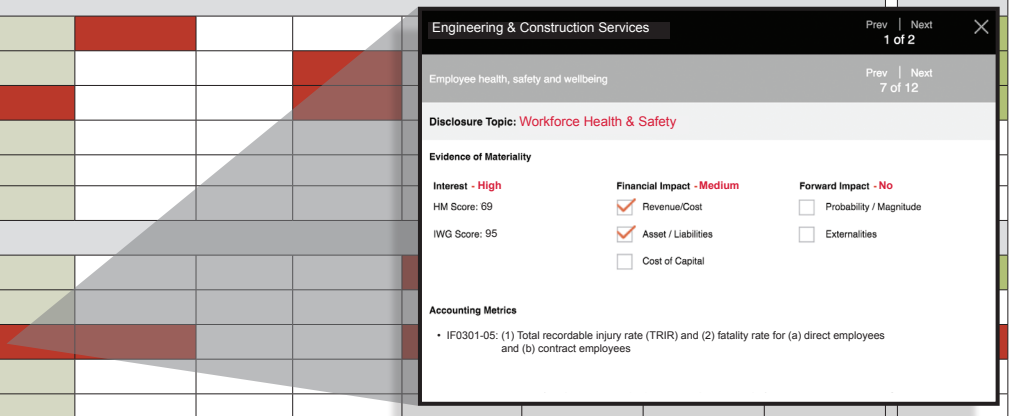
- Issue is likely to be material for **MORE THAN 50%** of industries in sector
- Issue is likely to be material for **LESS THAN 50%** of industries in sector
- Issue is **NOT LIKELY** to be material for any of the industries in sector

INDUSTRY LEVEL MAP

- **NOT LIKELY** a material issue for companies in the industry
- **LIKELY** a material issue for companies in the industry

INFRASTRUCTURE SECTOR

ISSUES	Engineering & Construction Services	Electric Utilities	Gas Utilities	Water Utilities	Waste Management	Home Builders	Real Estate Owners, Developers & Investment Trusts	Real Estate Services	Infrastructure Sector
ENVIRONMENT									
GHG emissions		■			■				■
Air quality		■			■				■
Energy management				■			■		■
Fuel management					■				■
Water and wastewater management		■		■		■	■		■
Waste and hazardous materials management		■			■				■
Biodiversity impacts	■					■			■
SOCIAL CAPITAL									
Human rights and community relations		■							■
Access and affordability				■					■
Customer welfare	■			■					■
Data security and customer privacy									
Fair disclosure and labeling									
Fair marketing and advertising									
HUMAN CAPITAL									
Labor relations					■				■
Fair labor practices									
Employee health, safety and wellbeing	■	■			■				■
Diversity and inclusion									
Compensation and benefits									
Recruitment, development and retention									
BUSINESS MODEL AND INNOVATION									
Life cycle impacts of products and services	■	■	■	■	■	■	■	■	■
Environmental and social impacts on assets and operations	■			■		■	■		■
Product packaging									
Product quality and safety									
LEADERSHIP AND GOVERNANCE									
Systemic risk management		■							■
Accident and safety management		■	■						■
Business ethics and transparency of payments	■							■	■
Competitive behavior	■								■
Regulatory capture and political influence		■							■
Materials sourcing									
Supply chain management									



Note: "Systemic Risk Management" is understood in the context of "probability of loss or failure to all members of a class or group or to an entire system."

core financial metrics are already in play, others are still being developed to inform strategic operational planning, and factor such diverse elements as the availability of raw material, potable water, or the impact of carbon emitted by a project.

Unfortunately, the creative development of measurement tools will be needed since, "on average, 60% of business and natural capital impacts and risks are embedded in supply chains,"[7] therefore leaving our companies exposed to less-obvious risks.

"The ultimate bank on which we all depend – the bank of natural capital – is in the red; the debt is getting ever bigger and that is reducing nature's resilience and considerably impeding her ability to restock. It leaves us dangerously exposed."[8]

As awareness grows, governments respond by forcing companies to address the impact of their activities on their local environment. For example, landfill taxes (including gate fees) range from as low as $2 per ton in the U.S. to almost $200 per ton in the Nordics. It is only a matter of time before CFMs will be forced to factor these costs into business forecasts.

Social & Human Capital

These are the people with whom we interact and rely upon in our businesses; they are supported through in-house training programs or an organization's community-based initiatives. The lack of a determinable market value of social, human, or intellectual capital often results in an underinvestment in the very resources that ensure a company's viability.

As with natural capital, considerable discussion will ensue when addressing or attempting to measure social and human capital, as placing a value on what is perceived to be invaluable requires subjective evaluation by the person performing the measurement, as well as accounting for the judgment of those who produce the social capital when measuring the benefit derived.

Regardless of the difficulty in measuring the impact of corporations' activities on society, recent trends are moving away from inwardly facing P&L evaluations and toward an inextricable link to the society within which it operates. Sustainable businesses factor for the jobs provided and economic stimulation generated by their operations.



Integrated Reporting

Beyond a company's balance sheet or P&L statement, integrated reporting encompasses the larger view of how its resources lead to value creation, using a frame of reference that includes the external environment as well as the measured organization. Such a mindset helps businesses develop more comprehensive strategies, managing a wider spectrum of risks while embracing concerns of a diverse stakeholder base and enhancing long-term corporate results.

Companies that utilize these reporting methodologies experience early improvements in collaboration with clients, enhanced data quality, and deeper internal engagement resulting in greater skills and respect for colleagues in varying departments. Investors tend to favor integrated reporting as it provides insight into the values and culture of the business while demonstrating how initiatives support each other and the long-term business plan.

As previously described, the SASB's work is contributing to the growing integrated reporting movement. "The SASB standards serve as practical implementation of integrated reporting – while the standards are not an integrated report themselves, they are designed to serve as an input into existing corporate disclosure processes, thereby adding tremendous value to the integrated reporting movement," says Bryan Esterly.

Identify & Address Sustainability Challenges

Insights into the challenges and rewards of embracing sustainability within your business model have been identified by the Accounting for Sustainability Project (A4S, see page 36).[9] Primary among the challenges that the A4S has identified include:

- The long-term nature of addressing sustainability concerns, without a predictable timeline for demonstrable results;
- The need for collaboration across business functions;
- That control over the actions that drive results often resides outside your organization; and
- The disparate nature of preferences, responses, and requirements among customers, regulatory agencies, and other outside stakeholders when viewing your company's sustainability platform.

With these challenges in mind, where should you start?



Benchmark Your Company

In order to gain a comprehensive perspective, first benchmark your company's level of sustainability maturity and consider its next steps in embracing this imperative. Identify risks found in sustainability models that relate to your business, understand and assess their potential effects on your organization, and move the discussion toward including these risks within senior management's strategy and business plan models.

Include Sustainability in Strategic Planning

Incorporate sustainability goals into your company's strategic planning and demonstrate the value that these goals bring to the business to foster support from all levels of the organization during both profitable and challenging economic climates.

Consider developing an Environmental Profit & Loss (EP&L) statement to assist in measuring and monitoring more comprehensive and holistic results of operations while building awareness of the importance of the environment to the long-term viability of your business.

By developing a consistent, integrated, long-term strategy that is communicated to both internal and external stakeholders, your business will provide the context within which its short-term and longer-term actions can be viewed. Addressing longer-term risks may well identify new business opportunities and reduce exposure to resource, pricing, or regulatory changes, while creating the landscape within which key performance metrics will be built.

Be sure to relate your long-term sustainability discussions to risk management, cost reduction, revenue growth, or employee development. For instance, encourage engineers to achieve LEED AP and Envision® Sustainability Professional (ENV SP) certifications, estimating departments to include these discussions within their tender protocols, and marketing teams to initiate discussions with prospective clients that impact the environment and community.

Realizing that sustainability plays a role in these domains will highlight the bottom line impact of sustainability business drivers.

ACCOUNTING FOR SUSTAINABILITY PROJECT

Founded by His Royal Highness (HRH) The Prince of Wales, the Accounting for Sustainability Project (A4S), leads with a vision of enabling CFOs to be better equipped with practical tools for building effective business cases; evaluating risks with economic, environmental, and social impacts; and making more informed decisions that will ultimately increase engagement and create growth opportunities.

Capital markets are similarly addressed within the A4S mission, which supports regulatory and reporting regimes that encourage change and embrace sustainability.

HRH The Prince of Wales has leveraged his charitable influence by forming ancillary organizations, the CFO Leadership Network and an Accounting Bodies Network, to create cross-border collaboration and strengthen each member's sphere of influence when promoting sustainability.

A4S has also taken steps to collaborate with business schools, integrating business-related sustainability discussions within research and MBA studies, and has recently initiated its Global Leadership Network within the U.S.

Member companies within the A4S CFO Leadership Network have shared several other "top tips" for companies progressing along similar journeys, including to:

1) **Drive innovative thinking and set targets based on senior level leadership;**
2) **Collaborate internally both within your organization and across the value chain; and**
3) **Highlight the financial benefits of sustainability by focusing on ROI, particularly when first bridging the gap with non-sustainability-minded operational colleagues.**

Find case studies, a guide to integrated thinking, and other tools to stimulate sustainability discussions and assist in evaluating your company's position at *www.accountingforsustainability.org.*



Kelly Gangotra (CFO of Skanska UK), Edward Johnston, and HRH Prince Charles at the A4S CFO Forum at St. James's Palace, December 10, 2015. *© Paul Burns Photography 2015, all rights reserved.*

Beyond LEED AP and ENV SP certifications, sustainability must be ingrained in the fabric of construction business plans, financial forecasts, and business development strategies. Be aware before embarking down this route: It represents a journey that will be engaging and fully-engrossing. Do not proceed halfheartedly.

Manage Sustainability Metrics

How should your company begin to measure and report sustainability metrics or develop internal activities supporting a sustainable business model? The SASB Materiality Map for Engineering & Construction on page 33 demonstrates the shift away from economic risks in general and toward environmental risks.

"SASB's standards include an average of only five sustainability topics and 14 metrics per industry," as explained by Bryan Esterly. "This greatly narrows the focus on the issues that matter most from an investor's perspective, and it provides a valuable resource to companies striving to manage sustainability risks and opportunities, and improve the effectiveness of disclosures."

As mentioned, a strong commitment will be required to execute a successful sustainability strategy.

In the experience of Jennifer Clark, Senior Vice President at Skanska, consider a few generalities when building a sustainable plan. "There is typically resistance in the beginning, and this is often due to lack of knowledge and understanding. Many people just get it, while others may need to become better informed. Colleagues need to know that they do not have to believe in climate change or global warming to reap the benefits of sustainability."

Conclusion

Sustainability will be a source of distinction in future corporate analyses. In short, all indicators point to the need for financial experts to become thoroughly versed in the impact of sustainability on their business model.

CFMs who get ahead of the curve by embracing the move toward sustainable accounting and supporting their executive teams will ensure preparedness for the accompanying fiscal implications; they will position their companies as industry leaders.

Short-term decisions made with the long term in mind ultimately become part of a systematic and pragmatic approach to an integrated triple bottom line. ■

Endnotes

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With more than 25 years' experience in the NYC construction market, Ed is a past president of CFMA's Long Island chapter. He has earned an MA and MBA.

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DON'T MISS
SKANSKA'S CASE STUDY & SUSTAINABILITY AGENDA *ON PAGE 38*

CASE STUDY:
Skanska's Color Palette

Among many companies within the construction community to embrace sustainable thinking, Skanska maintains a "color palette" in its journey toward what it refers to as Deep Green – the construction process and performance that yields a near-zero effect on the environment through reduced impact on energy, carbon, materials, and water consumption.

It is often easier to envision your place along a continuum than to attempt a specific calculated position while considering "next steps" in the sustainability campaign.

Within this approach, Skanska utilizes a project life cycle analysis to ensure a thorough pursuit of sustainable opportunities and "Green BIM," intended to enable early and fast scrutiny of construction design at a low cost.

Such a perspective acknowledges the incremental approach required to build a successful, holistic platform from which a sustainability mindset could permeate a business.

Additionally, Skanska measures how its performance in areas such as safety, ethics, inclusion, and community investment contribute to sustainability. (See below.)

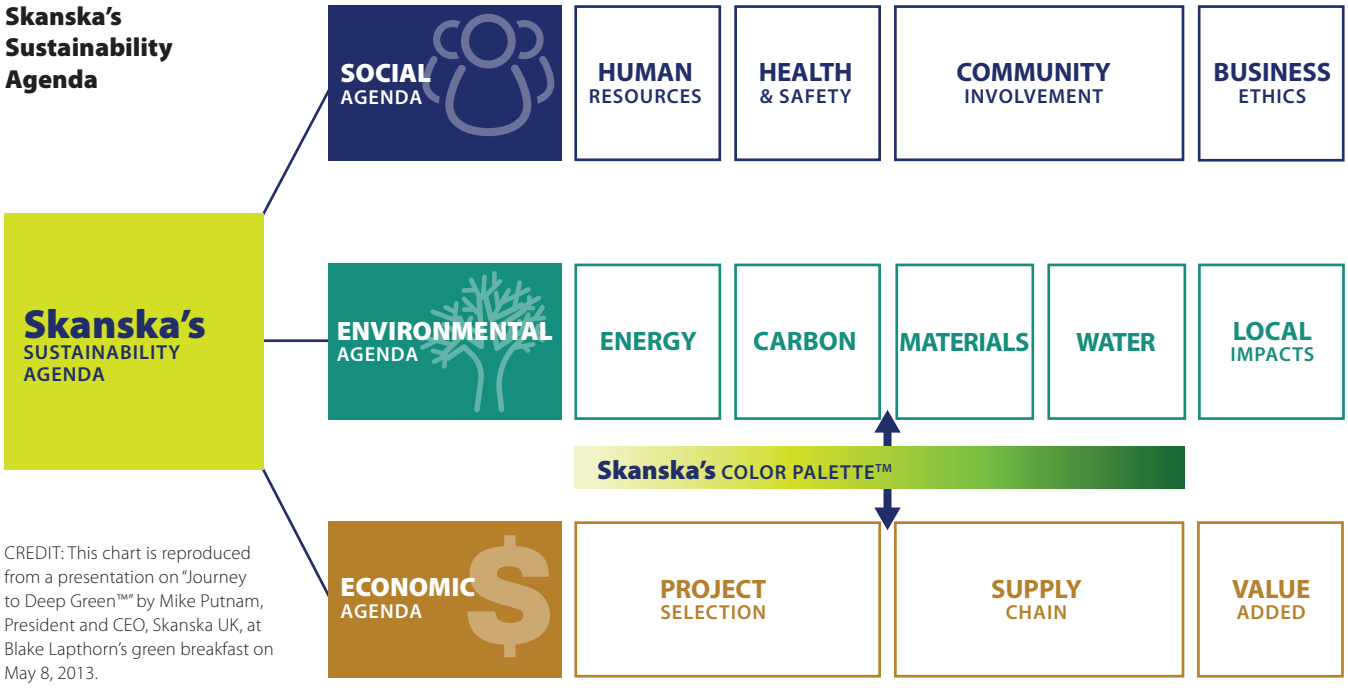
Within the color palette, the company begins by meeting legislative regulations and client requirements, progressively moving toward demonstrating thought leadership in sustainability by identifying profitable ways to sustainably impact the environment within which we work.

In social capital exchanges, we:

- Encourage core training for the next generation of construction experts (as through the ACE Mentor Program);
- Support local communities within which our businesses perform construction projects, with a view toward improving the standard of living of those affected by our work; and
- Take deliberate actions toward sensitizing colleagues to specific and unique initiatives of their client and stakeholder community.

It is indeed a journey, with colleagues joining all along the route and continually developing their sustainable knowledge base and skill sets.

Skanska's Sustainability Agenda



CREDIT: This chart is reproduced from a presentation on "Journey to Deep Green™" by Mike Putnam, President and CEO, Skanska UK, at Blake Lapthorn's green breakfast on May 8, 2013.



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DOING BUSINESS AWAY FROM HOME: *Have You Done Your Homework?*



When contractors leave home to follow their customers to new areas or look to pursue public work in new geographical locations, the risks can outweigh the opportunities.

To ensure a project's success, it's critical for CFMs to take the time to investigate all potential issues that could affect the decision to work away from home.

Since each state not only has different laws, but also ways in which those laws are interpreted and enforced, this article is intended to help contractors evaluate several aspects of performing work that can significantly vary when opportunities are sought in new areas.

Before You Contract

If your company is considering bidding on work outside of its home state, here are some preliminary areas where prior knowledge (and discussions with third-party advisors) can be beneficial.

State Corporation Laws

All states require an out-of-state company to register as a foreign corporation. The process typically involves paying a fee and appointing a person or firm as the company's registered agent in the state (to whom official notices and lawsuits can be sent on your behalf), and can usually be done online. While registration doesn't have to be filed until you are "doing business," what qualifies as "doing business" can vary from state to state.

For instance, a corporation that is not in good standing with the Secretary of State generally cannot file a lawsuit in that state. A failure to register or to maintain current registration can be cured retroactively by paying fees and filing paperwork, but it can take time. If the statute of limitations has already run out, then it may not be enough to revive the claim.[1]

Sample Scenario: A contractor takes on a project in another state, files as a foreign corporation, but never re-files. Years later, the contractor is sued by its



customer, but it can't complete the paperwork in time to get back in good standing and assert a counterclaim.

Licensure

In many states, the penalty for not having appropriate licenses is significant: Often, the contractor must *forfeit* all funds for work done and may even have to repay funds already received. And, the requirements for corporate licensure will differ from those for an individual (e.g., licensing for an electrical contractor vs. an individual holding an electrician's license). The corporate license may require submission of financial statements, as is the case in Nevada.[2]

These licensing exams may only occur a few times a year and may not coincide with when a bid needs to be submitted or a contract signed. In some states (such as Arkansas),[3] it is against the law to practice certain construction trades without a license, and in others, a contractor that fails to maintain its license for a dissolved entity during a phased reorganization could be liable to refund all fees received.[4]

Sample Scenario: A contractor signs a design-build contract using its in-house engineer to prepare drawings without getting licensed in-state, and a local retired and uninsured engineer stamps them. The work later fails, and when the facts emerge in the lawsuit, the in-house engineer faces criminal charges for knowingly designing work without a license.

State Taxes

All states have varying sales and use taxes, real property and personal property taxes, excise taxes, and other assessments. A failure to keep them current can not only lead to tax liens against property or payments, but can also prevent the corporation from being in good standing (which can take time and money to correct).

Sample Scenario: A contractor takes on a project in another state, files as a foreign corporation, but doesn't keep its filings current. When work done by a subcontractor fails and the contractor wants to sue after some time has passed, the contractor discovers that the cost of getting current on all filing fees and back taxes is more than the amount that the subcontractor owes. The contractor decides to absorb the cost of the subcontractor's failure rather than reopen its history with the state agencies.

Lien Laws

Nothing could vary more among states than lien laws. Some states require that notice be given by filing of public record at the time the work is commenced – some by subcontractors only, others by GCs only. Still other states require no notice at all until it's time to actually assert a claim. Regulations in Texas, which allow lien rights to expire if not asserted within a few months of interim invoices,[5] are vastly different from California's program.[6]

What can be liened, the time to file a lien, and the time to file suit to enforce a lien will all be different. Advance blanket agreements to waive all lien rights are enforceable in some states like Nevada.[7] However, they are nullities in other states like New York.[8] In most states, liens can be "bonded off" by filing or furnishing a satisfactory surety bond, but in a few (such as Missouri) this is not effective.[9]

Sample Scenario: A supplier delivers steel to a project in Utah, doesn't get paid on time, and wants to file a lien. The supplier discovers too late that it had to file a Preliminary Notice and loses the leverage of a lien.

Labor Laws

Some state legislatures are frequently in conflict over right-to-work vs. open-shop operations, and a contractor that does not understand the local labor environment could be at risk. Work that may be considered to belong to a specific trade in one locale may belong to another trade in a different locale. Some state officials become actively involved in labor issues, while others take a *laissez-faire* approach.

Sample Scenario: A contractor is involved in a jurisdictional dispute between two unions in a city where the division of work is handled opposite of how it is handled in its hometown. The contractor ends up spending legal fees to protect its interests, but the job is delayed and the contractor must also pay overtime to catch up.

Author's Note: While beyond the scope of this article, it's critical to understand the practice of local unions when traveling out of state; since the number of workers your company is allowed to send is typically limited, productivity and the bottom line are greatly at risk.

Public Contract Issues

As public work is heavily regulated, contractors must understand how local prevailing wage laws work – including whether the current administration enforces them.

Does the location have a local preference law? Does it have a law restricting states from which onsite workers can be hired during periods of "excessive unemployment," and is that law

BEFORE PURSUING WORK IN OTHER MARKETS, **contractors must consider the numerous factors that differ from state to state and how they can impact a project and company's profitability.**

enforceable? For example, Missouri's law is still on the books, but is unenforceable by court order.[10] Does the public agency permit construction management at-risk or design-build? What are the processes for correcting bid mistakes or protesting improper awards, and what are the time limitations on them?

Sample Scenario: A Utah contractor wishes to protest award of a public contract in Missouri to another firm, only to learn that a lawsuit must be filed and can only be done by a Missouri taxpayer. The contractor can't find a qualified plaintiff before the contract is awarded to another firm.

Minority Business Enterprise, Woman Business Enterprise, or Serving Disabled Veteran Participation

Many public owners include requirements for participation by subcontractors or vendors that are minority-owned, woman-owned, veteran-owned, or small contractors. However, the definitions for these categories can vary from state to state. The organization may have to be certified by a third party (such as the Small Business Association) or a local government agency. Proof of efforts to meet goals or a request for a waiver may have to be submitted with bids or within a few days of bid opening. Contractors that aren't aware of how the local owner manages these programs could be excluded from the process altogether.

Sample Scenario: A low-bidding contractor does not meet minority requirements, and is not aware that it can only get an exemption if it submits all documentation of its good faith efforts within 48 hours of bid opening. The contractor's failure to meet that deadline costs it the job.

Analyze Standard Form Contracts

Even though form contracts are intended to standardize the contracting process, interpretation and enforcement vary among states. Take the time to review all contracts in detail with an attorney familiar with the project location, and pay particular attention to the differences in these common provisions.

Prompt Pay/Retainage

Some states have prompt pay laws that only apply to public work, while others have laws that apply to both (although their terms might be different). Some states only cover payments on public work (such as in Colorado),[11] while others (like Georgia)[12] offer similar protection on private projects. Some states only cover payments from the owner to the GC (such as Indiana),[13] although most also include payments from the GC to subcontractors (such as Kentucky).[14] If a lawsuit has to be filed, then penalties (such as interest upwards of 18% per year) and attorney's fees can be incurred. It can be problematic if an out-of-state contractor does not know to alter its standard payment terms for its subcontractors and vendors when working in a new state.

In addition, laws can either restrict the amount of retainage that an owner or contractor can hold (e.g., 2% for public work in New Jersey;[15] no legal limitation at all in New Hampshire) or direct the timing of its release – all of which might vary significantly depending on whether the contract is public or private. Some states like Texas[16] have "trust fund" statutes, which make both misappropriation of trust funds and failure to pay for labor and materials illegal.

Sample Scenario: A contractor coming into Texas is not aware of the ***Trust Fund Act***. It falls behind on paying subcontractors and faces criminal charges. It not only pays fines to the state, but it also has to pay subcontractors' legal fees in order to reach a settlement.

Indemnification

Most states will not enforce indemnification clauses that ask a party to be responsible for lawsuits and claims asserting that someone else caused damage, though a few still remain.[17] The bigger issue is shifting 100% of the responsibility onto a party that might only be 1% responsible, which is still allowed in many states (such as Idaho).[18] And, if the contractor doesn't have the correct language in its contract, then the entire indemnification clause could be unenforceable.

Sample Scenario: A store is sued when a patron falls on icy steps. The store then sues the contractor that constructed the building. The contractor brings in the subcontractor that installed outdoor lighting that blinks instead of glowing steadily. Even though the subcontractor was not responsible for the ice build-up or lack of a handrail, its insurer has to pay to defend and settle the entire case.



Pay-If-Paid vs. Pay-When-Paid

Many GCs try to protect their assets by inserting clauses in subcontracts and purchase orders to pass the risk of nonpayment from the customer onto the subcontractors and vendors. Most states will enforce a pay-if-paid clause if it is properly written (according to the courts of that state), as long as the unpaid party still has lien rights. A GC coming into a new state must be sure that its language will be enforced, or it may end up financing a bankrupt owner's entire project.

Sample Scenario: A contractor uses a standard AIA form subcontract in Louisiana. Even though the owner declares bankruptcy and never pays the contractor, the contractor must pay its subcontractors because the subcontract did not expressly state that payment from the owner was a "condition precedent" to the contractor's obligation to pay its subcontractors.[19]

Choice of Laws & Venue for Disputes

Many large owners and contractors insert language into their contracts, subcontracts, and purchase orders stating that the law of their home state will govern all disputes and that their home city is where disputes will be resolved. This can burden small subcontractors that can't afford to invest the necessary time and money to collect a bill. More states are passing laws making these clauses unenforceable – although some states address one issue but not the other.[20]

Sample Scenario: A contractor uses its own form subcontract that states that the laws of its home state of Missouri will control all disputes and all lawsuits will be brought in Missouri. The job is in Kansas, where neither provision is enforceable.[21] Some provisions, such as time to make payments and interest on late payments, are now in conflict with prevailing laws and the contractor is subject to a lawsuit that could impose attorney's fees.[22]

Practical Issues

As all contractors know, there are just as many "intangibles"– factors that only people who know your specific business and your employees recognize – that can jeopardize a job. Be diligent when assessing jobsite staff for an out-of-town project.

Reliable Onsite Staff

Out of town projects are *not* the place to try out new talent. If a jobsite is 1,000 miles away, company owners won't be able to regularly check for such issues as unproductive crews or insufficient materials and instead must rely on phone calls and daily reports. Before hiring out-of-state staff, be sure they are fully qualified for the job.

Sample Scenario: A Texas contractor hires a new PM in Iowa to run a school project without realizing that the PM did not have experience with walk-in freezers or gymnasiums. The owner and architect are not happy with quality of work and demand that some of it be rebuilt.

Accountability of Key People

Even if the right people are in the right jobs, the project will only succeed if they are actually onsite when needed. A project schedule might start out as 8 a.m. to 5 p.m. Monday through Friday, but can easily slip to "arrive midday Monday, depart noon Friday," and can be further reduced by appointments or obligations. Numerous major problems that require your lead people to be onsite could occur: the owner/architect/OSHA shows up unannounced; a pipe bursts, flooding a finished space; shoring fails; a subcontractor walks off the job; etc.

In addition, it can be difficult for people to live away from their families for extended periods of time. Do you have a means of assuring that you will have the coverage you need?

Sample Scenario: An out-of-town steel contractor "deputizes" a local subcontractor to be its representative at jobsite meetings, not knowing that the subcontractor would make binding agreements at the meetings that cost the contractor a lot of money.

Importance of Prequalification

Looking for subcontractors outside of your state can carry risk and uncertainty. Due diligence and prequalification measures are critical to ensure the local subcontractor is the right fit.

Sample Scenario: An out-of-town contractor uses local subcontractors that submitted low bids. The contractor cannot get the subcontractors back to the jobsite to complete items, putting the contractor into a liquidated damages situation. The contractor can't bring another company in to finish the subcontractor's work without risking loss of warranty coverage.

Permits & Inspections

The process of obtaining construction permits and inspections can be unpredictable with regard to the response time. When you negotiate an out-of-town contract, how will you know if local inspectors are accommodating? The trade-off in working with your own subcontractors and crews in an unknown market is that they are not as likely to have the working relationships that can help expedite these processes and inspections.

Sample Scenario: Local plumbers tend to know how a city's plumbing inspector wants things done, which may differ from how they are done in other cities. Failure to meet the local inspector's expectations can lead to failed inspections, lost time, and more expense. Also, a contractor that assumes a quick turnaround on permits may not include enough time in its schedule or may not have wording in its contract to protect itself in the event of delays.

Summary

Before pursuing work in other markets, contractors must consider the numerous factors that differ from state to state and how they can impact a project and company's profitability.

While the many differences among state laws cannot be summarized in one article, talking to other contractors that work in the new area is a good starting point, since they can recommend third-party advisors (CPAs, attorneys, insurance agents) who know the rules in the localities in question and who can all serve as valuable resources throughout the process. ■

Endnotes

1. *Dual, Inc. v. Lockheed Martin*, 383 Md. 151, 857 A.2d 1095 (2004).
2. *www.nvcontractorsboard.com/contractor_license_requirements.html.*
3. Ark. Code §17-25-103(a).
4. *Judicial Council of California v. Jacobs Facilities Inc.*, 239 Cal. App. 4th 882, 191 Cal Rptr.3d 714 (Cal. App. 1st Dis 2015).
5. Texas Property Code, Chapter 41 (residential) Chapter 53 (non-residential).
6. California Civil Code §§ 8410-8424.
7. Nevada, see *Dayside Inc. v. Dist. Ct.*, 75 P.3d 384 (Nev. 2003).
8. New York Lien Law §34.
9. See, for example, §713.23, Florida Statutes. There is no statutory authority for bonding off liens in Missouri.
10. *Lakeside Roofing Co. v Nixon*, 4:10-cv-01761 (E.D. Mo 2012).
11. Colo. Rev. Stat. §§ 24-91-101 to 24-91-103.
12. Ga. Code §§ 13-11-1 to 13-11-11.
13. Ind. Code Ann. § 5-17-5-1.
14. KRS 371.400 to 371.425: (the "Kentucky Fairness in Construction Act"; cf. §§ 45.451-45.458 (prompt payment by government in general).
15. Generally 2% - but with some exceptions. See N.J. Stat. Ann. § 18A:18A-40.3; § 27:7-34; § 40A:11-16.3.
16. Tex. Prop. Code Ann. § 162.001 et seq. (Vernon 2002 Supp).
17. As of this writing, Alabama, District of Columbia, Maine, Vermont, Wisconsin and Wyoming. North Dakota and Pennsylvania address only shifting of risk for design. N.D. Cent. Code 9-08-02.1; Pa. Stat., Title 68, § 491.
18. Idaho Rev. Stat. § 29-114.
19. *Imagine Constr., Inc. v. Centex Landis Constr. Co., Inc.*, 707 So. 2d 500 (La. App. 1998).
20. Colorado law shall apply to disputes concerning property in Colorado (C.R.S. § 13-21-111.5); Connecticut requires that disputes over construction in that state must be resolved in Connecticut (Conn. Gen. Stat. Ann. § 42-158m (West 2013).
21. K.S.A. §16-121(E).
22. K.S.A. §16-1803 and 1806.

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Additional **Resources**

1. ***CFM's Guide to State Tax Laws,*** *cfma.org/statetaxlaws*
2. **"Is Everything You Know About Lien Waivers Wrong?" by Scott G. Wolfe, March/April 2015 *CFMA Building Profits***
3. **"Pay If Paid Clauses: How You Can Protect Your Company" by Susan L. McGreevy, May/June 2013 *CFMA Building Profits***
4. **"Indemnification: One Leg of Contract Risk Management" by Jeffrey S. Ammon, May/June 2013 *CFMA Building Profits***
5. **"Get Paid for Project Risks: Project Risk Assessment & Prequalification" by Ryan Howsam, March/April 2015 *CFMA Building Profits***

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BY ROGER SWANGER & ROBERT P. BUTTS

LEVERAGE THE BENEFITS OF TEAMWORK *Between Your CPA & Attorney*



Despite the need for collaboration and teamwork among construction industry professionals, the partnership between a contractor's CPA and attorney is usually considered more of an afterthought than part of a planned service delivery.

Consider this scenario involving a contractor and its CPA and attorney: A contractor needs to create a new entity. The CFM/owner calls his attorney to discuss the matter, who then e-mails the contractor's CPA to request his opinion on the tax elections. The CPA calls the attorney to request background information and raises financial questions the attorney didn't discuss with the CFM/owner.

After a dozen phone calls and e-mails, an agreement is finally reached on the entity selection. Sound familiar?

Unfortunately, this inefficient communication and "problem-solving" occurs too often. If the CPA and attorney were already working together, then the CFM/owner could schedule a telephone conference so that all three could determine the best entity option and quickly work out the details.

The CPA's decision-making is generally based on financial and income tax considerations, while the attorney's is based on legal and defense ramifications. By gaining awareness and understanding of how the CPA and attorney approach different aspects of the same problem, the CFM/owner can better leverage the professional team by having them work together.

This article will illustrate the importance of getting the CPA and attorney to collaborate for the contractor's benefit and how to achieve collaboration among the team.

When Should CPAs & Attorneys Work Together?

Let's review some situations that require legal and financial perspectives to derive the best solution.

Determining Entity Type & Structure

As shown in the opening scenario, collaboration between the CPA and attorney is essential when determining entity type and structure. The CPA is concerned



with income tax ramifications while the attorney is concerned with shielding personal assets from business risk and liability. In addition, the type of owners and plans for future ownership and capital may impact the final decision.

Drafting Shareholder, Partnership & Operating Agreements

Here, the CPA is generally most concerned with financial and income tax matters (such as capital allocations, options for future capital or ownership, taxable income and loss allocations, timing and amount of distributions, dissolution allocations, and valuation of interests for buy/sell provisions). The attorney is primarily focused on the specific effects of triggered events.

Consequently, these professionals should collaborate on drafting a shareholder (for corporations), operating (for LLCs), or partnership agreement that addresses such questions as:

- What if one of the shareholders or members die? Is the estate of the deceased shareholder or member required to sell the deceased's interest in the company? Do the remaining owners have to purchase the interest, or do they merely have a first right of refusal?
- What if a shareholder or member becomes disabled? What is the definition of disabled? Is there a compelled sale and purchase or a first right of refusal?
- What if a shareholder or member leaves the company (e.g., by retiring, resigning, or being fired)?

Should any of these scenarios occur, the attorney can handle valuation and financing provisions in the operating or shareholders' agreement. Furthermore, the attorney can also address owner concerns regarding buy/sell provisions. Both the CPA and attorney can outline the rewards and risks of each of these items and determine the best solution to holistically meet the contractor's needs.

Succession Planning

While the attorney will address the questions previously outlined in the shareholder/operating agreement as well as voting control matters, the CPA will ensure that language is included to properly allocate net income and losses for income tax purposes as well as value the interests, amount, and timing of distributions.

Disputes Among Owners

Disagreements among owners are often rooted in financial matters. The CPA often has intimate knowledge of company financials and both the CPA and attorney are familiar with owner personalities and operating styles. This familiarity allows them to more easily assist with mediation before a dispute becomes more serious. This can range from getting the owners to discuss the issues to acting as an arbitrator to find a fair resolution for all parties.

Mergers & Acquisitions

Joining two business entities is an intricate process that involves numerous financial, legal, and strategic considerations – including financing, management of risk transfer, change in ownership, due diligence, and negotiations. Further, how future decisions will be made is best addressed prior to the transaction.

The CPA and attorney must collaborate and take a disciplined approach to help the contractor effectively carry out a successful M&A.

Joint Ventures & Partnerships

A joint venture has a limited duration and exists only until the particular project or endeavor is completed. Partners do not typically favor the limited liability protections that are associated with corporations and LLCs.

However, joint ventures and partnerships enjoy significant flexibility in terms of how company decisions are made, how profit is distributed, and the percentage of each partner's ownership interest.

Forming a partnership, corporation, or LLC to work on a specific project involves numerous financial and legal considerations including: control, financing, management of risk transfer, and establishing allocations of profit and loss, as well as amount and timing of distributions. A CPA and attorney can work with each partner to provide alternative solutions or assist with resolving partner disputes.

Banking Credit Agreements

Obtaining, increasing, or maintaining banking credit involves both financial and legal implications. A bank relies on financial and legal information in its decision to provide credit to a contractor.

Credit lines, mortgages, letters of credit, and other credit instruments are often essential parts of contractors' financing needs. The CPA can assist with determining the company's financing needs, while an attorney can help negotiate and clarify loan documents and loan closings.

Surety Credit Agreements

In addition, obtaining, maintaining, and increasing surety credit is a must for many contractors. Contractors are concerned about maintaining their bonding capacity as well as increasing their single job and total line bonding limits. Since it's critical for sureties to have accurate and clearly presented financial information, the CPA should assist with the financial reporting. The attorney can review the significance of the documents that the contractor must sign.

Getting the Team Together

In order to assemble the contractor's team, make sure you have the right players. Do you need a compliance-oriented CPA who primarily performs audits and prepares income tax returns? Or, do you need a CPA for such matters as bonding capacity or succession planning?

(For what to look for in a CPA, read "More Than a CPA: Selecting a Partner for your Company's Financial Well-Being" by Sam G. Clark in the January/February 2016 issue.)

The same holds true for an attorney. Do you require basic consultations and contract reviews? Or, do you need assistance creating complex contracts, negotiating settlements, and litigating amounts due?

See below for tips on selecting a construction attorney.

Tips for Choosing a **Construction Attorney**

Construction attorneys can assist with transactional matters (e.g., drafting and reviewing documents), help avoid disputes, and resolve disputes in the contractor's best interest when they arise. Here are some skill sets to consider when selecting this important partner.

The Work

A construction attorney's work primarily focuses contracts. Construction attorneys draft, review, and (when disputes arise) litigate contracts. Construction attorneys should be comfortable operating in many business-related environments, including:

- Performing real estate and loan closings;
- Drafting, reviewing, and negotiating owner-GC contracts, subcontract agreements, and insurance contracts;
- Developing subdivisions and drafting related association documents;
- Forming business entities such as corporations, LLCs, partnerships, limited partnerships, and joint ventures; and
- Drafting operating agreements for LLCs, partnership agreements for partnerships and joint ventures, and shareholders agreements for corporations.

In the event of a dispute, a construction attorney should also be comfortable handling adversarial situations (e.g., contracts, lien claims, bond claims, local governments, development rights, codes enforcement, and bid protests). The attorney should be willing to try these cases both in court and through the arbitration process. Construction attorneys should also be experienced negotiators, as approximately 85% of all cases settle before they go to trial.

Qualifications

The construction attorney should understand how businesses operate. The CFM/owner may want to look for a construction attorney who has previously worked for a contractor. At a minimum, the attorney should specialize or be board certified in construction law, understand the construction process, and have a broad knowledge of applicable statutes and cases.

The attorney must be able to try cases. An understanding of the dispute resolution process is imperative in helping to reach a favorable settlement; if a settlement is not reached, then a willingness and ability to try a case is imperative.

The construction attorney must have the ability to analyze the strengths and weaknesses of the contractor's case based on the facts and existing legal precedence (i.e., how courts have treated similar disputes in the past). This information and analysis is used to negotiate a resolution based on the anticipated result at trial (or in arbitration if the case does not settle).

A construction attorney is a critical partner in a contractor's success. Keep experience and qualifications in mind when searching for the best fit for your team.



A contractor that needs more than a tax return preparer and contract reviewer may want to consider a CPA and attorney with a supporting firm that offers a variety of services under one roof.

Create a Plan

To maximize your relationship with the CPA and attorney, first create a structured plan that promotes collaboration, following through to ensure its successful execution. Here's how to accomplish this:

1) Assign a leader – whether it's the CFM/owner or one of the advisors. Assigning the leadership position is imperative to the team's success. The leader must proactively direct the team and help ensure projects are completed. (More on selecting the team leader is discussed in the next section.)
2) Set firm expectations for working and communicating together. This can be done on a project-by-project basis or across the board.
3) Define preferred methods of communication (such as e-mail correspondence, telephone conferences, or face-to-face meeting) as well as frequency. Determine which partners should be included in the correspondence.
4) Outline important decision points and assign responsibility.
5) Establish a timeline and deadlines for larger projects or milestones.
6) Include both the CPA and attorney in strategic meetings and important business milestones.
7) Create an environment where ideas are openly expressed and exchanged. Encourage the team to remain objective (even if contrary advice is warranted). If the team does not work well together, then reconsider and reevaluate the team members.

Designate the Leader

When it comes to assigning the leadership role to the CFM/owner, CPA, or attorney, it's best to either determine the most qualified professional or designate the person with whom the CFM/owner interacts most frequently as the leader.

On the one hand, the CPA is generally familiar with the company's financial components because he or she interacts with the CFM/owner on a regular basis to handle the company's income taxes, assist with periodic financial statements for surety and bank credit, and answer general business questions

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throughout the year. Through this involvement with the business, the CPA likely has a more complete understanding of the company and consequently may be in the best position to share this knowledge with the team.

On the other hand, if the CFM/owner's work involves frequent transactions (such as contract negotiations, real estate transactions and closings, owner-contractor agreements, and subcontract agreements), then the attorney may be better suited for the role.

Regardless of who is selected, the team leader creates and tracks each project's road map – the step-by-step process for completing a particular endeavor. The leader assists in moving projects forward and keeping them on schedule by holding the team accountable for tasks and due dates assigned during team meetings.

Benefits of Working as a Team

Disseminating the same information at the same time to all team members reduces misunderstandings and provides an open forum for discussion and debate.

Without collaboration, key information can easily be lost, misunderstood, or altered between team members. Harnessing the "power of many" maximizes creative problem-solving, opportunity development, and strategic thinking. It also enhances the team's understanding and commitment to the resulting solution.

A team approach allows both the CPA and attorney to spend more time talking to the CFM/owner instead of to each other, which enhances their knowledge and understanding of the business.

The CFM/owner, the CPA, and the attorney bring unique insight and distinct specialties to the table. Each professional should articulate the finer points of the legal agreements, income tax, financial situations, and operational impact to the group to ensure everyone has a complete understanding of the business.

Sharing information not only improves strategic thinking, but also helps the CFM/owner in the case of an emergency. The CPA and attorney are valuable resources for those who may need to maintain the business affairs in the event that the CFM/owner isn't available. In the end, the process provides the most efficient use of everyone's time by streamlining communication and reducing misinformation.

Conclusion

CPAs and attorneys play a pivotal role in helping contractors navigate the financial and legal challenges that define the construction industry.

The team will increase the chances of success and lower the overall costs by ensuring these professionals are not only the right fit for the company, but also work together to find solutions. This is best accomplished by engaging professionals who value working with other professionals as a team.

A collaborative approach results in better decision-making processes and improved solutions, often with less of a negative impact to the company's bottom line. ■

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BY TIMOTHY T. WILSON & CONNIE L. SPINELLI

Lease Accounting Is Final – Time to Prepare for Implementation

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued the long-awaited standard requiring lessees to recognize substantially all leases on their balance sheets as lease liabilities with a corresponding right-of-use asset. Accounting Standards Update (ASU) 2016-02, ***Leases (Topic 842)***, maintains the dual model for lease accounting with lease classification determined substantially in accordance with the guidance in existing lease requirements.

For public business entities, the new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar-year entity). Nonpublic business entities, including not-for-profit entities, should apply the new guidance for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar-year entity) and interim periods within fiscal years beginning after December 15, 2020. All entities may adopt early.

The basic principle of the update is that leases of all types convey the right to direct the use and obtain substantially all the economic benefit of an identified asset, creating an asset and liability for lessees. (Note that ASU 2016-02 does not apply to leases of intangible assets; leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources; or to leases of biological assets, including timber, leases of inventory, or leases of assets under construction.)

Under the new standard, lessees will classify leases as either finance leases (comparable to current capital leases) or operating leases (comparable to current operating leases), with the related costs reported substantially as they are today.

Finance leases have front-loading of costs split between amortization and interest costs, while operating leases continue to list a single-level rental expense in the income statement. If the contract duration is equal to or less than 12 months (a short-term lease), then a lessee may make an accounting policy election by class of underlying asset to maintain the off-balance-sheet approach currently used for operating leases.

To help mitigate debt covenant concerns, the operating lease liability will not be classified as debt, but rather as an operating obligation (or "other" liability) and generally will not trigger a technical default under a lessee's debt limit covenants. Lessor accounting essentially will follow today's accounting model for sales-type, direct financing, and operating leases, while new guidance will align to the new revenue recognition standard.

This article will identify the scope of the final regulations and present considerations for lessees (e.g., contractors) and lessors (e.g., equipment leasing companies) to prepare for the new standard. See Exhibit 1 on page 56 for a comparison on legacy and new lease accounting.

Lessee Accounting

The new rules may significantly affect an individual lessee's statement of financial position by increasing lease-related assets and liabilities. The dual model, however, limits the changes' impact on the income statement and statement of cash flows compared to today's standards.

As noted, lessees will maintain substantially the same expense recognition patterns for operating leases and finance leases (existing capital leases) as under existing standards. Changes come in terms of the balance sheet and ongoing lease administration.

Lessees will classify leases in accordance with the principal in existing lease requirements by determining whether the lease is effectively an installment purchase. Today's capital leases will be classified as finance leases, while today's operating leases will retain their classification.

For leases entered into subsequent to transition, the amounts initially recorded on the balance sheet will be the same regardless of whether the lessee classifies the lease as a financing or an operating lease. The accounting difference between operating and finance leases occurs in the subsequent recognition of lease-related expense and measurement of the lease asset.

Exhibit 1: **Legacy vs. New Lease Accounting Comparisons**

Financing Leases

		Legacy GAAP (Capital Leases)	ASU 2016-02 (Finance Leases)
Balance Sheet			
Recognition	Lease assets and liabilities on balance sheet	Yes	Yes
	Exemption for short-term leases	No	Yes
Measurement	Lease liabilities measured on a discounted basis	Yes	Yes*
	Initial lease asset = lease liability	Yes	Yes
	Amortization of lease asset	Generally on a straight-line basis	Generally on a straight-line basis
Presentation	Lease assets	Presented separately from owned assets, or presented together with the corresponding underlying assets as if they were owned, with disclosure of the line items that contain the capital lease assets and their amounts	Presented separately from owned assets, or presented together with the corresponding underlying assets as if they were owned, with disclosure of the line items that contain the finance lease right-of-use assets and their amounts
	Lease liabilities	Presented separately from other liabilities, or together with other liabilities with disclosure of the balance sheet line items that include the capital lease liabilities and their amounts	Presented separately from other liabilities, or together with other liabilities with disclosure of the balance sheet line items that include the finance lease liabilities and their amounts
Income Statement			
	Lease-related costs	Amortization of lease assets and lease-related interest expense presented separately	Amortization of finance lease right-of-use assets and lease-related interest expense presented separately
Cash Flow Statement			
	Operating activities	Cash payment for the interest portion of the lease liability	
	Financing activities	Cash payments for the principal portion of the lease liability	

Operating Leases

		Legacy GAAP	ASU 2016-02
Balance Sheet			
Recognition	Lease asset and liabilities on the balance sheet	No	Yes
	Exemption for short-term leases	N/A	Yes
Measurement	Lease liabilities measured on a discounted basis*	N/A	Yes*
	Initial lease asset = lease liability	N/A	Yes
	Amortization of lease assets	N/A	Periodic amortization expense typically increases with time**
Presentation	Operating right-of-use assets	N/A	Presented separately from finance lease right-of-use assets with disclosure of related balance sheet line items that include operating lease assets
	Lease liabilities		Presented separately from finance lease liabilities
Income Statement			
	Lease-related costs	Single lease or rent expense, generally straight-line	
Cash Flow Statement			
	Operating activities	Cash payments for lease payments	

** Lease liabilities initially are recognized at the present value of lease payments.*
*** On a periodic basis, lessees measure lease assets at an amount that achieves the recognition of a single lease expense typically on a straight-line basis.*



For operating leases, lessees will recognize a single lease expense, generally on a straight-line basis over the lease term. Interest on the lease obligation will be added to the lease asset balance (as opposed to being presented on the income statement) to avoid presenting the transaction as a financing transaction. The lease asset balance is reduced each period by the difference between the straight-line lease expense and interest cost on the lease liability. Finance leases are accounted for in a manner similar to today's capital leases.

At commencement of a lease, lessees will measure the lease asset at the same amount as the lease liability (the total discounted rent obligation under the lease), adjusted for initial direct costs related to entering into the lease, accrued or prepaid rent, and lease incentives. Only variable lease payments dependent on an index or a rate should be included in the initial measurement of lease assets and liabilities; these should be measured using the index or rate at lease commencement.

Unless the rate implicit in the lease is reasonably determinable, lessees will use their incremental borrowing rate as the discount rate. Lessees that are not public business entities may make an accounting policy election to use a risk-free rate for initial and subsequent measurement of lease liabilities.

When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise the renewal option or not exercise the termination option, or in cases where the exercise of those options is controlled by the lessor. This is an important consideration for leases with a term of 12 months or less and a history of ongoing renewal.

Lessees will present finance and operating leases as separate line items on the balance sheet or disclose in the notes which line items in the balance sheet include finance and operating lease assets. Finance and operating leases cannot be presented in the same line item; lease liabilities have the same separation requirements.

Transition

ASU 2016-02 allows companies to apply the leases guidance at a portfolio level and elect transition reliefs, termed "practical expedients," and provides guidance to help entities comply with implementation.

Transition reliefs include forgoing the requirement to review existing contracts for lease arrangements and evaluate classification for existing leases, as well as the requirement to identify initial direct costs for leases that commence before the effective date, as well as the ability to use hindsight in evaluating lessee options to extend or terminate a lease or purchase the underlying asset. Lessees and lessors are required to use a modified retrospective transition method for existing leases, which correlates lease classification under ASC Topic 840 to the new classifications under ASC Topic 842. Entities would apply the new standard to the earliest period presented.

An organization electing to apply the practical expedients essentially will continue to account for leases that commence before the effective date in accordance with current GAAP, unless the lease is modified. This means, if elected, capital leases will maintain their existing value at transition. For operating leases, lessees will measure and recognize lease assets and liabilities at each reporting date based on the present value of the remaining minimum rental payments over the life of the lease as tracked and disclosed under current GAAP.

If comparative statements of financial position are presented at transition, then entities would measure and recognize leases at the beginning of the earliest period presented – 2018 for public companies and 2019 for all other entities. Three years of comparative statements of comprehensive income (required in some circumstances) would require recording under the new standard as early as 2017 for public companies and 2018 for all other entities.

ASU 2016-02 includes specific transition guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases.

Definition & Scope of a Lease

The definition of a lease has changed, and both parties to a contract may need more resources to identify existing leases and structure new leases. Based on the new definition, a lease is present only when a contract or part of a contract conveys the *right to control the use* of an identified asset for a period of time in exchange for consideration. A period of time may be described in terms of the amount of use of an identified asset; the example used in the standard is "the number of production units that an item of equipment will be used to produce."

Under the lessee accounting model in previous GAAP, the critical determination was whether a lease was a capital or an operating lease, as lease assets and liabilities were recognized only for capital leases. Under Topic 842, the critical determination is whether a contract is or contains a lease, as lessees are required to recognize lease assets and liabilities for all

leases – finance and operating – other than short-term leases (i.e., if the entity elects the short-term lease recognition and measurement exemption).

Right to Control the Use of an Identified Asset

The right for the lessee to control the use of an identified asset is determined by assessing whether, throughout the period of use, the lessee has both:

- The right to direct the use of an identified asset; and
- The right to obtain substantially all the economic benefits from directing its use.

Entities must consider all relevant facts and circumstances; they may conclude the customer has the right to control the use of an identified asset only for a portion of the contract term, meaning the contract would contain a lease for that portion of the term.

An identified asset may be explicitly identified in the contract or implicitly specified at the time the asset is made available for use by the customer.

Right to Direct the Use of an Identified Asset

Based on the new guidance, a customer has the right to direct the use of the identified asset throughout the period of use in either of the following situations:

a) The customer has the right to direct how and for what purpose the asset is used throughout the period of use.

b) The relevant decisions about how and for what purpose the asset is used are predetermined and at least one of the following circumstances exists:

- The customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use without the supplier having the right to change those operating instructions, or
- The customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

A customer has met criteria **a)** if, within the scope of its right of use as defined in the contract, it can decide to change how and for what purpose the asset is used throughout that period. The decision-making rights that affect the economic benefits to be derived from use are the most relevant.

Protective rights represent terms and conditions designed to protect the supplier/lessor's interest in the asset, to protect its personnel, or to ensure the supplier's compliance with laws or regulations. Although protective rights typically define the scope of the customer's right of use, they do not, in isolation, prevent the customer/lessee from having the right to direct the use of an asset.

Substantive Substitution Rights

Even if an asset is specified, a customer/lessee may not meet the criteria for having the right to use the identified asset. This occurs when the supplier/lessor has the substantive right to substitute an asset throughout the period of use.

A substantive right occurs when the supplier has the practical ability to substitute alternative assets throughout the period of use and would benefit economically from the exercise of its right to do so. An entity should evaluate whether a supplier/lessor's substitution right is substantive based on facts and circumstances at inception of the contract, excluding consideration of future events that, at inception, the entity did not consider likely to occur.

An asset that is a portion of a larger asset is an identified asset if it is physically distinct (e.g., a floor of a building or a segment of a pipeline connecting a single customer to the larger pipeline).

Right to Obtain Substantially all Economic Benefits from Use of the Identified Asset

To meet the definition of a lease, a customer also is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout the period).

Lessor **Considerations**

Although lease accounting will not significantly change for most lessors, lessors may experience revenue recognition changes. Lessors will need to understand the impact of both the lease and revenue recognition guidance, as well as the standard's impact on lessees.

A customer's focus on the structure, terms, and value of the lease may change, and certain lessees may want to negotiate shorter lease terms or discuss variable lease payments; this could in turn cause greater uncertainty in lease revenue.



A customer can obtain economic benefits from use of an asset directly or indirectly, such as by using, holding, or subleasing the asset, and includes the asset's primary output and byproducts, including potential cash flows derived from these items and other economic benefits from using the asset that could be realized from a commercial transaction with a third party.

Separate Nonlease Components

An entity is required to separate lease and nonlease components of a contract. Lessees will allocate the consideration on a relative standalone price basis – unless they make an accounting policy election – by class of underlying asset, in order to avoid separating lease components from nonlease components.

If the election is made, then a lessee should account for lease and nonlease components together as a single lease component. If the election is not made, then consideration attributable to nonlease components is not included in the measurement of lease assets or lease liabilities, and the entities would account for the nonlease payments in accordance with other guidance.

Implementation & Planning Considerations

Although the effective dates seem years away, entities impacted by the leases standard should start preparing for this transition now.

Leases executed prior to the effective date will be subject to the new standard; therefore, current leasing arrangements that have lease terms extending at least 12 months beyond the effective date will be accounted for under the new standard. In addition, if your company prepares comparative statements, then the new standard will be applied to the earliest comparative period presented.

Lessee Considerations

Capturing the Population & Ongoing Monitoring

Companies should begin by taking an inventory of all arrangements within the scope of the new leases standard and gathering the required information. The definition of a lease determines that population; as shown in the example on page 61, entities will need adequate time to evaluate agreements against the multipart definition of a lease.



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Accounting for operating leases may not have required significant effort up to now, since only footnote disclosures were required. To comply with the new leases standard, however, significant manual effort may be required to gather additional lease information and determine completeness of the lease portfolio.

For example, although the data requirements for measuring operating leases are similar to those required for disclosures of today's operating leases, with the exception of discount rates, lessees may not have separated lease and nonlease components of a contract and allocated consideration paid. Lessees may be accounting for leases embedded in a service agreement as a single contract since their accounting treatment is often the same, and these agreements may not be included in existing lease disclosures.

In addition to defining the population, entities will want to understand their current state of leasing activities, including system capabilities. Existing lease administration applications (often spreadsheets) may include some lease information, but they may not have the information necessary for asset and liability measurement and compliance with the comprehensive qualitative and quantitative disclosure requirements.

For accounting purposes, lessees might be incorporating capital lease assets into fixed-asset software, while keeping existing operating lease assets off the books. Since lessees will amortize right-of-use assets for operating leases differently than finance leases, the most affected entities might consider investing in lease accounting software to capture the lease population and meet the accounting requirements.

Entities will want to identify new lease information requirements, including additional qualitative and quantitative disclosures, and compare this to existing processes, policies, controls, and system information-gathering capabilities.

A lessee needs the same information to apply both lease accounting models. This will require developing consistent processes around judgments and estimates necessary to evaluate whether an arrangement contains a lease; separate lease and nonlease components of a contract; and determine lease payments to be capitalized, lease term, and discount rate. Processes and systems will need to capture events that require reassessments or consider when entities should reallocate the consideration in a contract upon a contract modification not accounted for as a new, separate contract.

Entities can then develop a plan to fill any gaps and implement new processes, policies, controls, and systems to capture pertinent lease data and comply with the new requirements.

Financial Ratios

For lessees with current material off-balance-sheet leases, the most significant effect of the new leases standard will be a gross-up in the balance sheet by increased lease assets and financial liabilities. This would affect certain



GCs & Subcontracting Example: **Identifying a Lease**

Let's analyze the new standard in a typical construction scenario.

Suppose a GC is hired to build an office building and enlists a subcontractor to erect a tower crane on the jobsite and provide crane operators. The GC enters into a 24-month contract (commonly referred to as an "embedded lease") with Crane Operator, Inc., for a crane specified by the GC and crane operators.

The GC has exclusive use of the crane on the jobsite, including scheduling all contractors that need time to perform lifts (e.g., electrical, mechanical, and structural). The lease does not transfer ownership of the crane or grant the GC an option to purchase the crane.

Crane Operator, Inc., guarantees it will provide another crane identical to the one specified in the contract if it is not operational. The GC must approve any substitutions.

The GC, as the customer, and Crane Operator, Inc., as the vendor, will need to determine whether the contract is or contains a lease by assessing whether, throughout the period of use, the GC has the right to direct the use of an identified asset and obtains substantially all the economic benefits from directing its use. The parties will make this assessment considering all relevant facts and circumstances.

Analysis & Identification

The GC has the right to direct the use of a crane explicitly identified in the contract, in a manner that it determines. The supplier's obligation to substitute the asset upon the occurrence of a specified event (e.g., the identified asset is inoperable) does not give it the practical ability to substitute alternative assets throughout the period of use.

Likewise, the supplier's right or obligation to substitute an asset for repairs or maintenance if the asset is not operating properly does not preclude the customer from having the right to use the identified asset. The GC has the right to obtain substantially all of the economic benefits from use of the tower crane.

The agreement is a lease because the GC has the right to control the use of an identified asset throughout the period of use, in exchange for consideration.

The next step is to classify and measure the lease.

GC Classification & Recognition

As noted, the classification criteria for distinguishing between finance and operating leases are substantially similar to today's classification criteria for distinguishing between capital leases and operating leases.

Since none of the criteria for a finance lease are met, the lease in this example is an operating lease. The portion of payments attributable to the crane operator is a non-lease component of the contract. Since payments for the crane operator are variable and do not depend on an index or rate, the lessee will pay for those service costs as incurred and does not have the option to account for both components as a single lease component.

The GC initially will capitalize as a lease right-of-use asset and lease liability at the same amount as if the lease was instead classified as a finance lease, based on the total discounted non-cancellable rent obligation under the lease.

The lease right-of-use asset is recorded as the same amount as the lease liability, adjusted for initial direct costs. The rate implicit in the lease is not reasonably determinable, so the GC will use its incremental borrowing rate as the discount rate.

The income statement effect of entering into the lease essentially is the same as under current rules. The GC will recognize a single lease expense, generally on a straight-line basis over the lease term, and will perform the same job costing as prior years.

The right-of-use asset is reduced each period by the difference between the straight-line lease expense and interest cost on the lease liability, determined using the effective interest method.

Equipment Leasing Company Classification & Recognition

The new guidance aligns the lease classification criteria for finance leases for lessors and lessees. Therefore, since the lease is not a finance lease for the lessee, it is not a sales-type lease by the lessor. By default, Crane Operator, Inc. also will classify the lease as an operating lease, since the lease doesn't meet the criteria for a direct financing lease.

The accounting applied by a lessor is largely unchanged from that applied under previous GAAP, and the lessor will recognize the lease payments for the non-cancellable lease term as lease income.

leverage/debt ratios and performance ratios (e.g., interest coverage and return on assets ratios).

An entity should assess the potential impact on its financial statements and metrics and evaluate how this may affect the way stakeholders view its financial position and performance. Lessees should discuss the new standard with their auditors and creditors with covenants to understand the implications.

Lease Considerations

From a balance sheet perspective, lessees will experience similar effects as if they were buying the asset. Lessees may focus more on getting the best deal for their company as opposed to ensuring the lease qualifies for operating lease classification, and expect to work more with lessors for favorable terms and cost savings.

In addition, lessees may need assistance in allocating consideration between the lease and non-lease components (which are not capitalized), with a desire to minimize the financial statement impact.

Determining whether a new contract is or contains a lease is the same regardless of the lease classification outcome. From an operational perspective, lessees still face lease vs. buy decisions, and most of the benefits of leasing remain intact (e.g., equipment upgrades or add-ons, service, matching payments to cash flow needs, potential low-cost financing compared to a loan, and residual risk transfer to avoid ownership of obsolete equipment).

From a financial statement perspective, the amount a lessee is required to capitalize under an operating lease (present value of minimum lease payments) is usually lower than the capitalized cost of purchasing an asset, and the lease liability is non-debt.

Parties to sale and leaseback transactions will work closely together to ensure a sale occurs considering revenue recognition guidance and the new leases guidance.

(For more on the topic of leasing vs. owning equipment, check out "Construction Equipment Leasing: Today & in the Future" by Todd A. Feuerman & Jared A. Rosen in the September/October 2015 issue.)

Conclusion

While this article covered the intricacies of identifying a lease as well as planning considerations, companies that are preparing to implement the new leasing standard should also evaluate lease recognition, measurement, presentation, and financial statement disclosure requirements, and other topics (i.e., subleases, sale and leaseback transactions, contracts with multiple components, contract combinations, and implementation considerations) before proceeding. ■

Authors' Note: This article is for general information purposes only and is not to be considered as legal advice. Applying this information to your particular situation requires careful consideration of your specific facts and circumstances. Consult your advisor or legal counsel before acting on any matter covered in this article.

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BY RICH SHAVELL

Temporary Assignments & Per Diem Reimbursements

When an employee is sent to temporarily work at a location away from the home office, the contractor must pay for various travel, lodging, and incidental costs. In this type of situation, a contractor must determine what amounts are deductible to the company and what amounts (if any) may be taxable to the employee.

This article will review the complex tax impacts of temporary work assignments to maximize the benefits to employers and employees.

Basic Guidance

What types of expenses are deductible as ordinary, necessary, and reasonable business travel expenses while traveling away from home? The IRS supplies the following list as basic guidance:[1]

- Travel by airplane, train, bus, or car between the employee's home and business destination.
- Fares for taxis or other types of transportation between the airport or train station and hotel, the hotel and the work location, and from one customer to another or from one place of business to another.
- Shipping of baggage and certain other materials between the regular and temporary work locations.
- Vehicle usage while at the business destination; actual expenses or the standard mileage rate can be deducted, as well as business-related tolls and parking fees. If the vehicle is rented, then only the business-use portion can be deducted.
- Meals and lodging.
- Dry cleaning and laundry.
- Business calls while on the trip, including other business communications (e.g., fax).
- Tips paid for services related to any of these expenses.
- Other similar ordinary and necessary expenses related to business travel (e.g., transportation to and from a business meal).

Temporary vs. Permanent Assignments

Reimbursement of these types of travel expenses can be deductible to a contractor for an employee who works away from home on a *temporary assignment*, which the IRS defines as less than one year.[2] When employment away from the employee's tax home commences, the contractor must determine whether a job is realistically expected to last less than one year based on current facts and circumstances.[3]

However, once that realistic expectation changes to more than one year, the assignment is no longer temporary.[4] When the assignment becomes permanent, any expenses for travel away from home are no longer deductible as travel expenses by the employer. Instead, these expenses must be included in the employee's compensation. The employer still receives the deduction, but it is characterized as compensation. Moreover, the employer may have to consider grossing-up the amounts so that the employee is "made whole" after income and FICA taxes.

Naturally, contractors want to ensure that assignments, when feasible, are less than one year in order to qualify as temporary.

Consider the following example: Employee Yellow is assigned to provide assistance on a large-scale project that is expected to last for 18 months. Employee Yellow plans to spend two months at his regular office doing preliminary research and preparation, followed by 10 months at one "on site" work location and then four months at a second "on site" work location.

Although the project is expected to last for 18 months, and although Employee Yellow's "on site" visits are expected to last for 16 months, the "clock" on the one-year limitation does not start ticking until he commences employment at a particular location. Because the employment at the each of the "on site" work locations is expected to last (and does in fact last) for one year or less, the employment at each of the sites is temporary.[5]

In another situation where the employee returns to the *same* location instead of traveling to different ones, there

is limited guidance as to the duration of a break in service before an employee can return to work in another location for temporary status to restart.

According to the IRS, "Because of the highly individual nature of the factual inquiry involved, the IRS has not issued general guidance in this area. The determination whether a break is so significant that it warrants treating two periods of employment as separate periods or constitutes a hiatus in one continuous period of employment is made by taking into account all facts and circumstances."[6]

The IRS does not provide a bright line or safe harbor rule; it only offers two timeframes: three weeks and seven months. In an internal document for its auditors, the IRS states that a break of less than three weeks would not "stop the clock" running toward the one-year threshold.

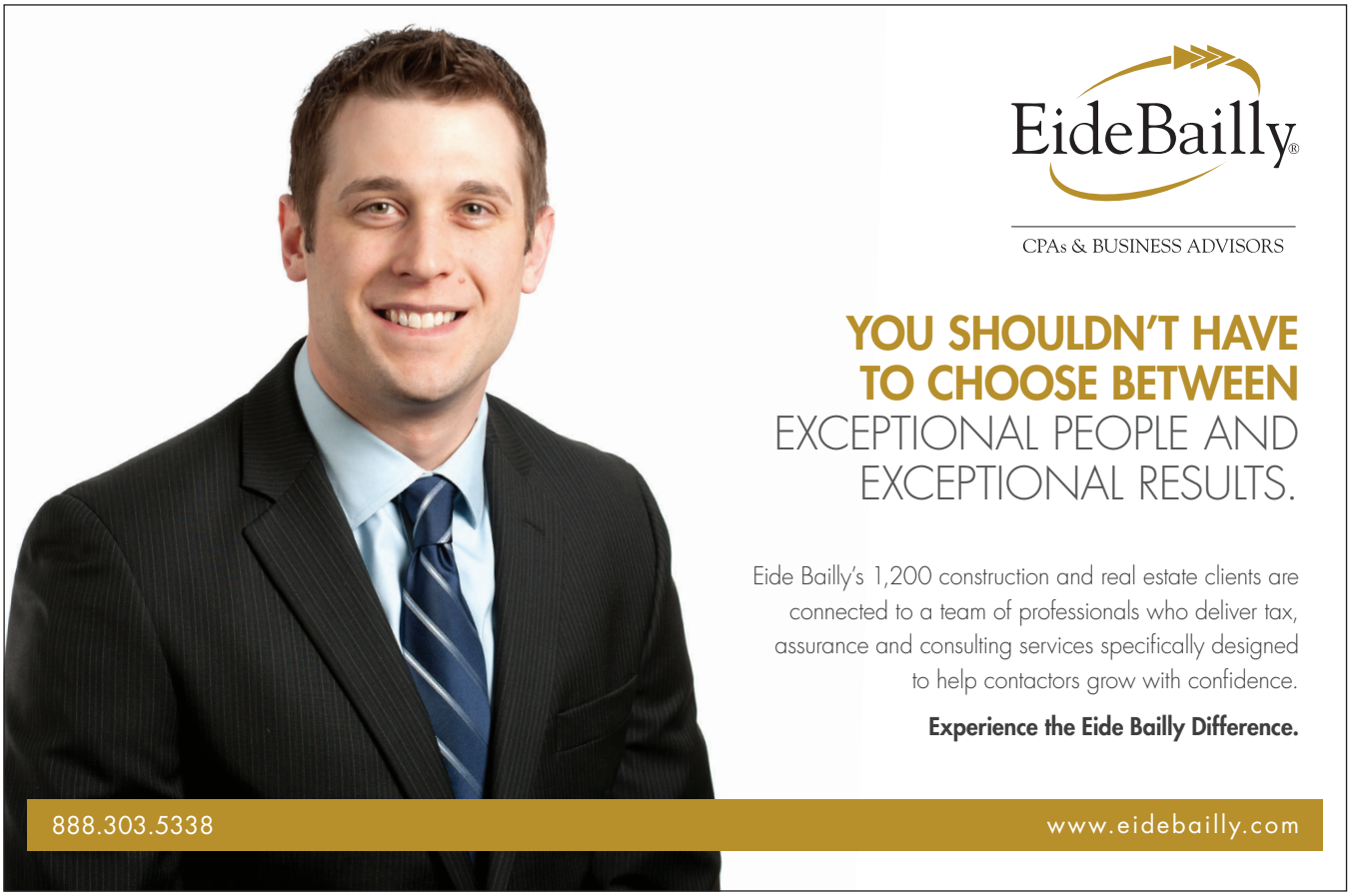
However, a break of seven continuous months – during which time the employee was not at the location in question – would be treated as a significant break (i.e., the clock can restart toward a new one-year threshold).[7]

Proper Documentation

Generally, employees need to supply adequate documentation to support the deductions. While documentation requirements can be mitigated through the use of *per diems* (discussed later), the main substantiation areas are: the amount of the expense; the time and place of the expenses; and the business purpose of the expense.

As part of these requirements, additional elements must also be substantiated for travel expenses, including:[8]

- Amount of each away-from-home traveling expenditure (e.g., daily cost of transportation or lodging). Daily totals may be shown for taxpayer's incidental expenditures if separated into reasonable categories (e.g., meals, gasoline and oil, taxi fares);
- Date of departure and return for each trip away from home;
- Number of days away from home spent on business;
- City, town, etc., of destination or locality of travel; and
- Business purpose – business reason for, or business benefit derived or expected from, the trip.



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So, how can the employer and employee ensure that reimbursements for travel away from home are not subject to FICA taxes?

Accountable & Non-Accountable Plans

The IRS characterizes reimbursement plans as either Accountable Plans or Non-Accountable Plans.[9] Under an accountable plan, if the employee supplies adequate substantiation for the company's reimbursement of travel expenses, then the employee's reimbursement is not taxable and not subject to FICA taxes.[10]

If the reimbursements are not supported by adequate documentation, then the plan is characterized as non-accountable and the reimbursements are subject to taxation as additional compensation to the employee; both the employer and employee are subject to FICA taxes on the amounts.

To be an accountable plan, the employer's reimbursement or allowance arrangement must include all of the following rules:[11]

1) Expenses must have a business connection: expenses are paid or incurred while performing services as an employee.[12]
2) The employee must adequately account to its employer for these expenses within a reasonable period of time (generally 60 days).[13]
3) The employee must return any excess reimbursement or allowance within a reasonable period of time (generally within 120 days).[14]

If all three rules are not followed consistently, then specific expenses (or worse, the entire plan) could be treated as paid under a non-accountable plan, resulting in taxable compensation to the employee as well as FICA tax to the employee and employer for those specific expenditures. Moreover, if a plan is later determined to be non-accountable, then the employer could be held liable for payroll taxes related to the previously untaxed reimbursements.

Per Diem Rates

As previously mentioned, employers can choose to simplify their reimbursement policies by paying a *per diem* rate for meals and lodging.

Instead of reimbursing actual expenditures for travel away from home for lodging and meals and incidental expenses (M&IE), an employer may pay a *per diem*. Incidental expenses only include fees and tips given to porters, baggage, carriers, hotel staff, and staff on ships.[15]



An employee receiving a *per diem* is considered to have substantiated the amount of expense up to the *per diem* amount. This eliminates the need for the employee to submit receipts to the employer. But only the amount of the expense is considered substantiated.[16] The employee and employer must still substantiate the other required elements – namely time, place, and business purpose.

Regular Method

If the reimbursed amounts to the employee do not exceed IRS-approved reimbursed maximum rates for the locality, then the reimbursement is treated as if it were an accountable plan with the employee supplying simplified substantiation (time, place, and business purpose). These reimbursements are not subjected to payroll tax withholding and not included in W-2 income.

Under this regular method, the IRS approved *per diem* maximum is the same as the U.S. General Services Administration's (GSA) *per diem* rate paid to its workers on travel status. This rate differs by locale, and the GSA supplies several *per diem* rates that the contractor can look up.[17]

High-Low Method

Under the high-low substantiation method, there is one rate for all high-cost areas within the continental U.S. (CONUS) and another rate for all other areas in the CONUS.[18] Under this optional method (effective 10/1/15)[19] the high-cost area *per diem* is $275 per day ($207 for lodging and $68 for M&IE). For all other areas, the rate is $185 ($128 for lodging and $57 for M&IE). Periodically, the IRS will publish changes to high-cost areas in the CONUS. For example, Hershey, PA was added and New Orleans, LA was removed as of October 2015.[20]

The *per diem* portion for meals is subject to 50% add-back similar to other deductions for meals and entertainment. Thus, the employer must treat M&IE allowances as food and beverage subject to the 50% deduction limit on meal expenses.[21]

Other rules mitigate the impact of the 50% reduction by allowing for a portion of incidental expenses to be broken out.[22] Note that if the *per diem* is based on an amount other than the federal stated *per diem*, 40% of the *per diem* is considered to be meals for the IRC § 274 limitation (50%).[23]

Summary

When a contractor is confronted with work away from home for its employees, it is paramount to document whether or not assignments are in fact temporary as defined by the IRS. CFMs must focus on documentation requirements to ensure that temporary travel expenses are deductible and ancillary taxes are mitigated for both the company and its employees. Further, such decisions as the type of reimbursement plan (accountable vs. non-accountable), the nature of reimbursements (actual or *per diem*), and potentially the choice of *per diem* method (regular or high-low) also affect the tax implications when employees work away from home. ■

Endnotes

1. *www.irs.gov/taxtopics/tc511.html.*
2. Rev. Rul. 99-7.
3. Ibid.
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5. IRS Chief Counsel Advice 200027047.
6. IRS Chief Counsel Advice 200026025.
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8. Treas. Reg. 1.274-5T(b)(2).
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10. Rev. Rul. 90-23.
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15. Rev. Proc. 2011-47 Sec. 4.05.
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17. *www.gsa.gov.*
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20. Ibid.
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22. Rev. Proc. 2011-47, Sec. 6.05(5).
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BY ART THOMPSON

Leveraging Facilities to Generate Operational Savings

Many businesses are often challenged with how to deal with their aging facilities and infrastructure. Simultaneously, reducing overall operating costs often conflicts with a facility's maintenance needs. As a facility matures and equipment begins to falter, the need for repair or replacement can increase overall maintenance costs.

When faced with lack of funds, companies often address only the most pressing needs within an existing or reduced budget. On the surface, this short-term approach seems to make financial sense. Maximizing revenue is paramount for most companies, and their facilities are typically viewed as a cost of doing business. Spending that drives revenue will typically carry more weight than facility improvements.

However, a company's facility can have a significant effect on many aspects of a business that can impact the bottom line. For example, failing equipment can disrupt production processes, decrease product quality, and increase operating costs. Further, the state of a facility can impact employee safety, health, and overall satisfaction, leading to higher turnover and increased employee acquisition, training, and retention costs.

Despite these quantifiable and intangible impacts, deferred maintenance remains the default approach when funds are limited. Although it is one of the largest assets on a company's balance sheet, most companies cannot quantify the impact their facilities have on financial health, other than on the cost side of the equation.

What if a company could improve its infrastructure needs and increase cash flow without requiring capital investment? One possible solution is Energy Savings Performance Contracts (ESPCs).

How ESPCs Work

Performance contracts have been leveraged in the public sector as a way to improve infrastructure without capital appropriations. Financed by third-party dollars and implemented by Energy Service Companies (ESCOs), these agreements utilize the energy, operations, and maintenance savings the project produces in order to offset both the cost of the infrastructure and the debt service. ESCOs can also guarantee savings, thereby further reducing risk for the business.

Although federal agencies typically refer to ESPCs as budget-neutral projects, ESPCs can achieve savings long after the equipment and debt service is paid off. In fact, these contracts can often be structured to deliver positive cash flow from the start of the project.

Two factors primarily influence the amount of positive cash flow: the volume of savings generated and the effective life of the equipment. For example, a project worth $8 million in equipment and services may generate a positive cash flow exceeding $3 million over the life of the equipment (typically 15-20 years).

Let's review the process of developing an ESPC.

Define the "Rules of the Game"

An ESPC starts with a preliminary audit to assess the facility's potential to generate enough savings to justify a project. The preliminary audit provides an initial list of energy conservation measures (ECMs), analysis of current utility usage, and initial energy savings calculations. Most ESCOs provide this high-level preliminary audit at no charge. This is a critical step for both the ESCO and the business because it develops an initial agreement that lays out the benefits to the customer.

This audit serves as the basis for developing the parameters or "rules of the game" that will influence the direction of the project, including acceptable finance terms for the customer, expected payback requirements, and prioritization of the ECM list.

For example, some companies might not be comfortable with a 20-year term for a facility improvement project. Other companies might have a strict seven-year payback requirement for all projects. Different companies may have different priorities for their ECMs, especially if they operate equipment nearing the end of life, for example.

Understanding and defining what success will look like for the business is crucial to the success of the project and must occur as early as possible.

For example, the term is an important consideration when assessing the potential of an ESPC project. If the business requires a 10-year term, yet the savings can only cover the equipment costs and debt service over 13 years, then the business would either need to revise this requirement or "buy down" the project by infusing some capital.

Both parties must understand the parameters at the outset as the next stage of the process requires heavy investment in resources.

Perform an Investment Grade Energy Audit

After the direction of the project is established, an investment grade energy audit (IGA) is performed; this is where the detailed analysis and design of the project takes place.

Depending on the size and scope of the project, IGA costs can reach six figures and can take anywhere from 1-2 months to complete. Due to this extensive investment, the ESCO will require the customer to sign a Letter of Intent (LOI), which contains the project parameters and commits the customer to moving forward if and when the parameters are met.

The LOI essentially protects the ESCO should unforeseen circumstances for the business deny the project from moving forward and protects the customer if the ESCO is unable to meet project parameters. This underscores the importance for both parties to agree on and be comfortable with the project parameters. Deliverables of this phase include:

- Establishing utility usage baselines for electricity, gas, and water;
- Producing a detailed cost savings analysis for energy and operating cost reductions as a result of each ECM;
- Developing a final project proposal of bundled ECMs that includes a financing plan; and
- Detailing implementation and verification plans to ensure construction goes smoothly and savings projections are met.



Establish the Utility Baseline

Establishing the utility baseline is a crucial first step in the IGA process. The ESCO analyzes all pertinent utility data of the facility (e.g., energy, gas, and water bills) to help establish the baseline against which future savings will be measured.

The ESCO's energy engineers then examine such factors as weather anomalies or unusual changes in facility usage. To establish an accurate and effective baseline, all factors that could potentially impact utility usage must be accounted for.

Determine Cost Savings

Detailed cost savings for each ECM are then developed. Part of this effort includes examining the relationship between the various ECMs to safeguard against "double dipping" on the savings.

For example, if a solar array was included as part of the project, that solar array would provide energy that might offset the savings for measures implemented in that building. In other words, if the energy is coming from the array rather than the grid, then that factor must be taken into account when calculating the savings from any of those measures.

Bundle ECMs & Develop Final Proposal

One of the greatest benefits to addressing deferred maintenance challenges in an ESPC is the "bundled" approach, which combines measures that deliver shorter payback periods (e.g., lighting) with measures that have longer payback periods (e.g., boiler and chiller replacements) under one contract. This allows long payback items that might not meet payback requirements as standalones to be included in the project.

ESPC Benefits Beyond **Operational Savings**

ESPCs deliver benefits beyond utility and operational savings. Enabling a company to improve infrastructure without the use of capital dollars helps keep funds accessible for other company investments. So, CFMs don't have to decide between replacing a large chiller or investing in research and development if the chiller has already been replaced through an ESPC.

By using new, efficient equipment, ESPCs can also deliver a safer and healthier environment for employees and customers.

Numerous studies have identified that optimal lighting, consistent comfortable temperatures, and improved air quality can increase employee productivity more than 25%. Increasing employee productivity and satisfaction has a direct impact on a company's bottom line through reduced turnover (and the subsequent costs).

The incorporation of renewable energy sources into an ESPC allows a company to gain energy independence while protecting itself against increasing energy costs.

For example, utilizing an unused roof or carport in the employee parking lot to install a solar solution is another way to leverage the facility in order to deliver a positive cash flow.

Implementing an ESPC can also decrease operating costs. Installing newer, more efficient equipment will decrease the amount of maintenance required, overtime for maintenance staff, and the need for emergency replacements and repairs.

Finally, an ESPC reduces strain on the facilities team since it is structured as a turnkey solution. In addition to the services it provides during the actual ESPC process (e.g., construct the project, provide ongoing service if necessary, and measure and verify that the savings are being achieved), the ESCO will:

- Conduct the audit, design the solution,
- Provide all energy and operating costs savings calculations, and
- Obtain outside financing for the project.

The role of the facilities team is to gather required data such as utility bills and operating budgets and provide input and direction on critical equipment needs and the challenges around current building performance. The team will also advise the ESCO on which savings measures are most relevant and appropriate for the project.

This type of collaborative, yet turnkey, approach allows for ownership among the facility team without creating an additional burden.



During this period, collaboration between the ESCO and the business is critical once again. Identifying the key long payback equipment and developing a project to include these items will help to make the project more impactful for the business.

These long payback equipment needs are typically the most difficult to gain funding, especially when positioned against more attractive investments. Pulling these types of capital replacement costs into an ESPC allows the business to maximize the impact of the savings from the other measures.

Note that ESPCs can pose a problem if the focus is applied only to the quicker payback items in an attempt to make the project look more traditionally "attractive."

This approach defeats the purpose of the ESPC; the true benefit results from bringing capital replacement items into the project since they are typically higher price tag items with lower direct energy savings.

Create & Launch Implementation & Verification Plan

The final major deliverable of the IGA is a detailed implementation and verification plan, sometimes referred to as the construction plan. The construction of the project is critical to ensuring all projected savings are realized. If equipment is not installed as designed, then savings can be directly impacted.

The plan will typically include maintenance schedules and requirements, staff training requirements, software upgrades, reporting frequency, and operating schedules. If the customer requires a guarantee, then the ESCO will typically conduct the operations and maintenance activities to ensure they do in fact meet the savings guarantees.

ESPC as a Business Strategy

With ESPCs, CFMs can proactively address the problem of deferred maintenance head on. Greater long-term planning can be achieved when simple measures (e.g., lighting or retro commissioning) are leveraged to address high-ticket capital replacement needs.

Further, companies can leverage the long-term cash flow benefits that continue after the equipment and debt service is paid off and create a future funding source to "feed" the facility budget.

Maximizing the value of a facility and its impact on customers, employees, and operations is a critical focus for any business, and the performance contracting process is a great tool for CFMs to have in their repertoire for addressing the realities of capital investment. ■

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Art has held various roles in the Energy Services industry for more than 10 years. He has extensive experience working with federal, municipal, and commercial clients in implementing energy projects under a variety of financial structures.

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Case Study: **Budget-Neutral Equipment Replacement**

A private K-12 school in Virginia recently leveraged an ESPC approach to address its failing major capital equipment, valued at more than $1 million. The equipment ranged from boilers and chillers to an antiquated HVAC system across multiple facilities on the campus.

Similar to most organizations, these capital equipment replacements were deferred in lieu of other initiatives focused on increasing the school's enrollment, such as updated and improved athletic facilities and a new library.

Through a partnership with Southland Energy, the school developed a holistic performance-based solution with various energy conservation measures, including improved building automation and controls, lighting upgrades, and retro-commissioning.

This low-cost, high-impact effort helped to maximize the efficiency of existing equipment and systems, and created a bundled project that met the board's financial requirements.

The project was deemed budget-neutral over the finance term as the savings cover the costs and debt service and will continue to deliver savings for years after the final loan payment.

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BY JASON KEEN & DAVID MIDDLETON

Five Keys to Successful IT Implementation & Collaboration

Consider the following familiar scenario: A management team evaluated how its company's daily processes are handled and realized that many tasks are completed manually, paperwork is shuffled back and forth, and no concrete protocol exists for document storage. As a result, the IT department has been asked to find an electronic content management system with the goal of going paperless.

Since A/P handles a tremendous amount of paperwork, that's where the project primarily focuses. The IT department searched for document management software to seamlessly integrate with the current enterprise resource planning (ERP) software. After months of research, the IT team selected a solution to best fit the company's needs and integrate with the current ERP system. Now it's time to install and test with the A/P team. This is where the collaboration for a successful implementation begins.

Collaboration among different teams and departments within a company is integral to the success of any business process – and to the success of the company as well. As all areas of a company become increasingly infused with technology, collaboration with IT becomes much more critical.

This article will explore keys to effective collaboration: a shared language among the teams, understanding the company's culture, leadership support, setting expectations, and establishing a service-oriented IT group.

Shared Language

Communication is a fundamental aspect of collaboration. The ability to successfully convey ideas across different teams is critical, especially when collaborating with the IT department. If IT is unable to demonstrate the benefits of a new software to end users in terms they understand, then the work could be all for nothing.

Establishing a shared language among IT and other departments is critical to a successful process. According to Tim Muschoot, a Senior Enterprise Architecture Consultant, companies that have had success in collaboration "established a shared and commonly understood language [among] the different business domains..."[1] In other words, when all departments are speaking the same language, there are fewer road blocks and an increased chance of success.

Let's say the IT department found a document management application that will help the company go paperless and streamline administrative tasks. All parties must know who is responsible for certain A/P functions, how these tasks will be completed in the new system, and the documents that will become electronic.

For effective collaboration during the document management system implementation, the project team must define a common/shared language. Here are a few sample terms that might surface during the implementation process:

1) *Workflows* – the paths that documents take based on certain criteria. For example, the workflow for an invoice for new computers would go to the person in charge of IT purchasing.
2) *Permissions* – who has access to view, modify, or approve certain documents and software modules
3) *Document Types* – documents that need to be routed (e.g., invoices, work orders, or purchase orders). It is important that all project team members consistently use the same document types to avoid confusion.

Culture

A company's culture plays a significant role in IT collaboration. The ability to effectively interact with members of other departments allows IT to build trust and gain user acceptance.

Every company has its own unique culture that defines how tasks, projects, and meetings are handled. Some companies may have very little internal policy, protocol, and structure; others may have strict policy and protocol with highly defined structure. Culture also determines how decisions are made – e.g., whether or not project leaders feel empowered to make decisions, who the key decision-makers are, and the degree to which such decisions are enforced.

A company's culture may be inherently resistant or very open to change. IT must be able to recognize challenges and adapt to the company's philosophy.

Let's look at the possible challenges in the document management application scenario within two different company cultures.

Relaxed Culture

Although a relaxed culture may seem like an easy environment in which to work, the IT department still faces many collaboration challenges.

For instance, in a relaxed environment, workflows, permissions, and document types may not be well defined by the other departments. This ambiguity may lead to a quicker implementation because fewer details are being considered; however, the document management system may not actually streamline processes and instead require constant tweaking in the long-term. There may also be less urgency to meet deadlines, which can cause the project to go off task and more mistakes to be made during implementation.

Structured Culture

A structured culture usually has well-defined roles and procedures that improve accuracy on the project's front end. However, a tendency to focus on every detail can slow down implementation and possibly lead to project stagnation. Although the system is designed well, it may have trouble getting off the ground, which could impact its credibility.

Achieving the right balance among cultural variables is critical to the successful implementation and use of technology.

Leadership

Regardless of a company's culture, top-down support from the company should always be in place to ensure implementation and collaboration are in tune with each other. If the management team does not believe wholeheartedly in the project, then it will never reach its full potential.

Continuing with the previous document management example, the management team must help facilitate the collaborative spirit of the project. Let's say the A/P team needs to test the new system to ensure it has been built correctly. The test requires that the approver of the invoice to log into the new system and follow the new approval protocol; however, one team member insists on approving via e-mail like he has always done. Although this does not seem significant, the resistance to change can spread throughout the company.

In order to overcome resistance and minimize the defiance to new protocol, management must first adopt and learn the approval process. Management must also stay vigilant to ensure its team members are practicing the new protocols and relaying feedback to the project team. That feedback could help relieve any pain points that the users are experiencing and in turn create greater acceptance.

Expectations

During the implementation, users are expected to contribute to the project as well as adapt to the new process. At the same time, IT is expected to coordinate the process among departments to keep the implementation moving.





Set clear expectations between IT and the other departments. The project leader should meet with members of each department involved in the implementation to establish well-defined expectations.

Everyone involved in the collaboration must know what deliverables are expected from their group, when they are due, and the submission format. These joint expectations eliminate ambiguity, help all members stay on task, and provide an opportunity to fully strategize how to complete these tasks.

Continuing with the previous scenario, as the document management system setup is underway, expectations are set for both teams involved. Here are some examples of these expectations:

A/P:

1) Create a list of workflows for invoices.
- What department is responsible for approving certain invoices?
- Who in that department approves invoices?

2) Submit the list to IT in Excel by 12/5.

IT:

1) Create A/P group in the document management system.

2) Set up group by 12/5.

3) Load information into the group by 12/21.

This overview of responsibilities clearly states what, how, and when deliverables are due along with all deadlines to allow each group to plan accordingly. For example, since the IT team is loading the A/P group information by 12/21, there won't be any added pressure by A/P for IT to get the information loaded earlier.

Similarly, IT knows that A/P will have its documents turned in on 12/5 and will need to be prepared to start working on the digitization process soon after.

As milestones are met, new expectations are created to keep the project moving. All parties will have a clear path if there is strong management of the expectations.

Service

While IT is often viewed as the department that handles day-to-day computer and network support for all users, it's just as critical for IT to provide a high level of service and support during project implementation. Although the IT department may be leading the project, it takes the other business groups' involvement to help carry out the implementation to its full potential.

Because of the distribution of responsibilities, IT must be knowledgeable and available to provide support to the other groups. IT needs to know how the document management software works from both the system side and the user's perspective.

If A/P is struggling to create workflows because employees don't understand how the system works, then IT needs to be able to demonstrate a workflow; moreover, IT must be fully committed to learning the user interface in order to provide future support after implementation.

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During implementation, certain issues may arise that only the vendor can solve. To expedite assistance, IT should already have an established relationship with the vendor. Support of all teams involved in the project, including outside vendors, will help IT achieve its innovation goal while also cultivating confidence in members of the other departments.

Conclusion

In any company, a significant part of IT's job is to research and provide guidance on technology initiatives. Often the change that comes with innovation makes users uncomfortable. In order for IT projects to take off and remain successful, IT must work hard to cultivate a collaborative environment.

If IT utilizes the company's shared language, understands the business culture, creates an effective expectation management system, and achieves top-level and departmental support throughout implementation and beyond, then new technology will have a much better chance of thriving. ■

Endnote

1. *www.bpminstitute.org/resources/articles/business-it-collaboration-model-practical-approach.*

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First Regional Suicide Prevention Summit for the Construction Industry

On April 7, 2016, CFMA's Valley of the Sun Chapter presented the inaugural Suicide Prevention Summit, a collaboration between members of the construction industry and mental health professionals to **discuss suicide prevention for the construction industry.** Designed for construction industry CEOs, CFOs, HR professionals, and safety and risk managers, the event provided a wealth of knowledge and resources to more than 100 industry professionals."National data shows that men are four times more likely to die by suicide than women, and Arizona's numbers mirror this statistic," explained Sandra McNally of EMPACT-Suicide Prevention Center. "It is wonderful to see the **construction industry's concern** about the issue of suicide in their field."



SALLY SPENCER-THOMAS, Carson J Spencer Foundation and **CAL BEYER,** Lakeside Industries

Speaking Out About Suicide

Cal Beyer, Director of Risk Management at Lakeside Industries and Executive Committee member of the National Action Alliance for Suicide Prevention, lauded, "The overwhelming support from sponsors and the strong participation by contractors reinforces that the time has come for this topic. **Great strides** have been made in breaking the wall of silence around mental health and suicide prevention. Contractors want to learn how to build a caring culture to help their employees get the assistance they need to cope with life struggles. I've never been more proud to be a CFMA member."

Summit attendees heard personal stories of loss, participated in a panel discussion, **connected with community** mental health professionals, and took away resources to help promote mental health and suicide prevention as part of their companies' overall wellness initiatives.



JIM BRACY, Willis Towers Watson and **DAVID JAMES,** FNF Construction, Inc.

"The Valley of the Sun Chapter was **honored to accept the challenge** of organizing this inaugural Suicide Prevention Summit. The education and sharing by speakers and attendees provided a dramatic first step for our industry to move past the stigma associated with the mental health of our employees," noted former president of CFMA's Valley of the Sun Chapter David James. "CFMA has shown, once again, its tremendous value to our industry, our companies, and our employees."

Stuart Binstock, CFMA's President and CEO, added, "We applaud the efforts of Cal Beyer and our Valley of the Sun Chapter in putting together a transformational program for the construction industry. Our members are stewards of the financial health of their organizations. **Nothing is more important** to a construction company than protecting and supporting its most valuable asset: **human capital.** CFMA is proud to be at the forefront of this important initiative."

2016 CFMA Valley of the Sun Chapter suicide prevention summit

"The education and sharing by speakers and attendees provided a dramatic first step for our industry to move past the stigma associated with the mental health of our employees"

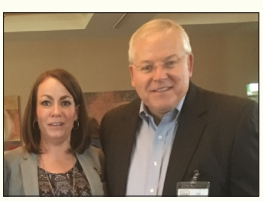
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Event Coverage

Visit *katch.me/carolhagen/c/2016-cfmasuicide-prevention-summit* or follow **#SuicidePreventionCFMA** on social media.



MICHELLE WALKER, Specialized Services Co. and **CAL BEYER,** Lakeside Industries



PANELISTS: **HEATHER BROWN,** Mercy Maricopa Integrated Care; **CAL BEYER,** Lakeside Industries; **SALLY SPENCER-THOMAS,** Carson J Spencer Foundation; **SANDRA McNALLY,** EMPACT-Suicide Prevention Center; and **JUSTIN CHASE,** Crisis Response Network.



MARJ WEBER, Irontree Construction, Inc. and **BRAD ROBINSON,** Lend Lease

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To get started, log in to *www.financialbenchmarker.com* and click on the Online Questionnaire button. The Financial Survey must be completed no later than June 7, 2016. For more information, contact *cfmasurvey@cfma.org.*

Thanks in advance for your participation – the more data we receive, the more valuable our results!

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CFMA's Webinars keep financial professionals informed on important topics in the construction industry. These monthly sessions cover the latest information on such topics as technology, the economy, or health care. Webinars are free to CFMA members and provide at least 1 CPE credit. Don't miss these upcoming sessions:

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Presented by Garrett Sullivan, Sullivan & Associates

July 13
Lease Accounting Changes in 2016
Presented by Tim Wilson, BKD, LLP

For more information and to register, visit *cfma.digitellinc.com/cfma.*

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