



Building the Need for Construction Policies and Procedures

By Ron Risner

Over the years most organizations undergo some form of capital expansion either on a periodic or one-time basis while others have long-term plans or strategies to build facilities throughout their community, the U.S., or the even the world. Those organizations who build throughout the U.S. or the world are typically retail stores that are meeting their strategic or marketing initiatives to expand market share. These organizations may have large decentralized construction, engineering or facility departments whose responsibility it is to oversee these projects on a daily basis. Many are organized on a regional or international basis to help control the construction process. These offices then report to corporate headquarters. In some cases these retail stores, on average, open a new store every day of the year (i.e. 365 stores per year and sometimes more). There are also organizations such as healthcare facilities which have master facility plans that encompass a five, ten, thirty, or even fifty-year horizon.

How do any of these organizations control their construction projects? Do they have construction policies and procedures? Should they? If you are performing a construction review should you reasonably expect your organization to have policies and procedures? Are there construction standards by which you can audit? Or, is the auditor left to recommend implementation of construction policies and procedures based on their knowledge of the construction industry, what they can learn through research/networking or from attending a construction audit seminar.

The Case for Policies and Procedures

Let's look at the need for construction policies and procedures on a more in-depth basis. Since the construction industry is unique in and of itself only

a few of the operating policies and procedures that have been adopted for your organization will be applicable to your construction projects. And, whether your organization has adopted unique construction policies and procedures probably depends on whether your organization has a long-term expansion strategy or series of many projects planned over the next few years. I would suggest that the longer the expansion horizon and the more facilities that are planned, the more likely it is that your organization could benefit from having construction policies and procedures in place.

If you are a one-time or periodic construction organization, then the need to develop a construction policy and procedure manual is de minimis. Why? It's too costly. Putting together a comprehensive construction policy and procedure manual is both time consuming and costly. By the time your organization completes the manual or has an outside vendor develop one the project may be complete or so near completion that it becomes meaningless to implement it. However, there are a few basic policies and procedures which can coincide with your general operating policies and procedures plus a few others that can be added solely for your organization's construction endeavors if you are a one-time or periodic basis owner. We'll come back to this scenario later in the column, but first let's address those with long-term commitments or a multitude of projects on the horizon.

Components of a Policy Manual

Assuming your organization is one of those that have a long-term ongoing commitment or large campus build-out, what would a construction policy and procedure manual include? What might some of the chapters be? The answer is manifold and here are some examples of chapters that might be included:

1. A chapter for approval of all expansion projects. Who is authorized to approve capital projects such as the Board of Trustees; a Construction Committee; perhaps the CEO; and what their dollar-level of authority might be?
2. A chapter which includes the various types of construction agreements that have been approved by your construction attorney (i.e. lump sum, design build, guaranteed maximum, unit price, cost plus or time and material).

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3. A construction department organizational chart, including a list of all personnel and their job descriptions.
4. A chapter for bidding and awarding of construction agreements (i.e. the need for three competitive bids).
5. A chapter about approval of a contractor's monthly payment application and/or other construction invoices including a dollar matrix of who is authorized to approve same.
6. A chapter on monthly budgets and financial reporting.
7. A chapter on approval and processing of change orders.
8. A chapter on the various construction disciplines such as estimating, scheduling, and field reports and logs.

9. A chapter on architecture and/or engineering.
10. A chapter on the general condition costs that will or will not be reimbursed by the owner, including a possible inclusion of the owner's Travel and Relocation Policy.
11. A copy of all the forms to be used on each construction project such as change orders forms, field directive forms, requests for information (RFI) forms, lien waivers (both partial and final), submittals, contingency usage forms, and back charge forms.

Why the need for such a manual? The answer is simple. Without some uniformity throughout the organization you can expect each architect, contractor, and/or subcontractor to bring to each project their own way of doing things. Sometimes the way they do things will be sufficient, but in most cases they will not represent the best interest of the owner in spite of what they may say otherwise. Or, in some cases an owner may allow each of their own project or construction managers to build their own policy and procedure infrastructure.

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Over the long-run this may become unwieldy for upper management if a number of ways to manage a project is allowed to develop. This scenario may become cumbersome particularly if project managers develop their own monthly budget/financial reporting mechanism. Keep in mind that most construction personnel do not have a financial or accounting background and are not aware that they should tie their reports to the owner's project ledger.

Smaller Projects Still Require Basic Policies

So, if your organization is of such a size that it does develop a manual I suggest it be included by reference in the architect and/or construction agreement. Voila! Development of the manual allows you to have uniform policies and procedures throughout your organization and across the years as contractors change from project to project. There is now something to audit against and which institutes controls that all of the contractors, subcontractors and architect must follow. But now let's assume your organization is not one of those that have ongoing

expansion plans. Let's assume you have a one-time or only a periodic project. I recommend that six policies at a minimum be adopted. The first two may exist within your organization to some extent or another and may require only slight modification to include construction endeavors.

1. You should have a policy about who can approve a capital expansion budget or subsequent budget additions, such as the Board.
2. You should have a policy on how many bids should be solicited to hire a contractor or subcontractor. Three is typical.
3. A policy on who can approve the contractor's payment application, architect invoices, or other monthly construction invoices along with their level of authority. This policy should be in accord with the authority level for non-construction expenses although I have found the threshold to be too low in most construction projects because contractor payment applications and architect invoices can be routinely quite large.

4. Who can approve a change order or contingency usage along with a monetary threshold? Why this policy? Change order and the use of contingency represent two of the largest financial risks in a construction project. It is imperative that the 'right' level of management have the opportunity to review the changes particularly if they did not initiate them (i.e. the contractor or a subcontractor did).
5. That change orders be approved within a reasonable number of business days, such as 10 working days. Why this policy? By adopting this policy management can assure that change orders are being approved in a timely fashion and that they don't appear as a surprise at the end of the project.
6. That Requests for Information (RFI's) be answered and submittals be approved within a reasonable number of business days. I believe, as do many architects, that 48 hours would be a best practice, although 3-5 days would also be acceptable. Why this policy?

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Requiring architects to respond to RFI's and submittals within a few days assures administration that the architect is performing their responsibility in a timely manner. Simply put, if construction personnel have questions about the drawings or items are submitted for approval, then architects should respond promptly so as not to delay the construction's progress. Adopting a policy of 3-5 days forces the architect to keep current. Keep in mind that time is on the side of the problem in a construction project and the issues will wait until the project is over to be resolved. In some cases delays may result in a claim at the end of the project and/or a cost overrun.

How can these policies and procedures be implemented? We previously mentioned that they can be referenced as an attachment to the architect and/or contractor's agreement for larger, ongoing projects. However, for smaller projects they can also be included within the body of the agreements by rewording the various provisions of the contract before being signed.

Conclusion

In closing, the adoption of a construction policy and procedure manual makes a lot of sense for organizations who have long-term construction commitments and not so much for those organizations with one-time or only a periodic project. However, even for smaller capital expansion plans there are minimal policies and procedures that can be adopted to lessen the risk of your project not being managed properly. **NP**

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