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Successful Projects Require Collaboration Between the Field and Office

By William A. Clark Jr. and Robert Mercado | Wednesday, March 4, 2020
Communication , Collaboration , Project Delivery , Project Management

For a job to be deemed a success from a completion and a profit standpoint, collaboration must occur between field personnel (project managers) and office personnel (financial officers).

Project managers (PM) walk sites and visually gauge project progress; however, this measurement may not align with the actual progression of a project from a cost perspective. PMs who focus on delivering jobs to the specifications of the contract also need to be cognizant of time and budget. They need continual feedback from the accounting team to monitor the progress of each specific project on all key metrics. The two departments cannot be successful and remain independent of one another.

PMs are accountable to the budget to show a profit. Accounting is reportable to management on the profitability of individual projects and the company as a whole. Both departments must be mindful of each other's roles when making decisions in order to avoid potentially negative consequences.

Accounting teams should be in the practice of providing to PMs, on a set schedule, the following reports:

- Detailed costs incurred, by cost codes;
- Committed cost to actual cost;
- Work-in-process schedule; and
- Cash flow status.

DETAILED COSTS INCURRED, BY COST CODES

This report provides all activity incurred to date on a project. The PM should review the report for accuracy. The importance of this is to track actual costs incurred versus costs estimated to occur for that stage of the project. This information assists the PM to evaluate remaining costs yet to be incurred as well as costs-to-budget.

In addition, the PM reviews the activity to ensure that costs are being charged correctly. Costs charged to the wrong cost accounts or projects will jeopardize the profitability of the job and accountability of all parties involved.

COMMITTED COST TO ACTUAL COST

Once a contractor enters into a contract with its customer, the contractor will then enter into contracts with the necessary subcontractors needed to complete the project, locking in all relative materials prices. The contract with the subcontractor and the associated costs for materials are considered committed cost in the contractor's accounting system. The committed cost can now be tracked to ensure that the actual cost incurred by a subcontractor or material supplier does not exceed the amount to which the contractor has committed. This practice ensures that the contractor is not billed by the subcontractor in excess of the agreed amount. PMs rely on this cost system when preparing an estimate of cost–to-complete for the project.

WORK-IN-PROCESS SCHEDULE

The work-in-process schedule (WIP) is a report that provides data related to how a project is performing, based solely on information obtained from the contractor's accounting system. The schedule is also used to calculate the percentage of completion on a project, based on the ratio of cost incurred to total estimated cost expected. This percent complete should be consistent with a PM's estimated percent complete, based on the PM's expertise and experience. If the two measures seem inconsistent, this indicates an issue that needs investigating.

The calculated revenue earned on the WIP is based on the percent complete multiplied by the contract value. The revenue earned is then compared to the amount billed to the customer. If the contractor billed less than the revenue earned, also known as underbilling, this could indicate a troubled situation. Underbillings could mean two things: either the contractor has incurred cost that it is not billable now but will be billable in the future, or the estimated total cost expected on the project is understated, making the project appear at a greater percent complete then in actuality. This suggests the project is not as profitable as anticipated and should be analyzed to determine the cause of the underbilling.

CASH FLOW STATUS

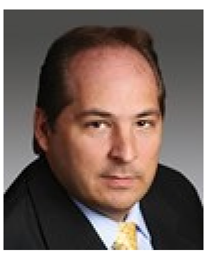
An analysis should be performed for every project to determine the current status of each project's cash flow. The cash flow is calculated by subtracting the outstanding receivable, including retainage, on each individual project from the amount billed, including retainage, on each project. This will provide the total amount that has been collected on the project. The next step is to subtract the total account's and subcontractor's payable, including retainage, on each project from the total cost incurred on each project, to find the total amount of cash used on the project. This amount is then subtracted from the total amount received on all projects to show which projects are using the contractor's money and which projects are providing the contractor's money.

For example:

Project	Amount Billed to Date	Outstanding Receivable	Amount Collected	Total Cost Incurred to Date	Outstanding Payable	Cash Used	Net CashFlow
Contract A	7,510,500	2,500,100	5,010,400	6,750,300	1,100,500	5,649,800	(639,400)
Contract B	6,100,100	1,750,000	4,350,100	5,100,800	1,400,100	3,700,700	649,400

A project that is using the contractor's cash (Contract A in the above example) could be a problem project and should be analyzed to determine if cash flow can be improved for the contractor.

It is imperative that the relationship between project managers and the financial team is based on collaboration and understanding of each other's roles. This practice will promote the consistent communication that is crucial for project tracking and cost monitoring. Creating this system of checks and balances between those in the field and those in the office allows for continuing growth, profitability and success.



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