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Website Update

We decided to finally bring our web presence up to date. You can access all of our past newsletters, complete with index, from the last ten years at www.ccmcg.biz. There is also a list of services we offer in case you might think we can be of service.

Contractor Controlled Insurance Program Cost

Recently we have had the opportunity to audit three large national contractors that are offering very similar CCIP programs to project owners. These programs essentially are sold as an insurance cost pass through. The contractor indicates that the cost of the insurance program will be the same as the cost that subcontractors would have charged. While the cost would be the same either way, the contractor contends that the coverage will be more complete and there will be only one insurer to deal with if a claim was to arise.

Determining that the credits received from subcontractors are tabulated properly and that the total of these credits are the same as the contractors charge for

the CCIP program is not as easy as it sounds. We are paid to be skeptical of contractor claims and worry that the apparent credits from subs may be manipulated. After recently visiting a subcontractor that has been involved in several of these CCIP programs with several different contractors it appears as if some of our skepticism may be well founded. This subcontractor indicated that recently they had turned in a bid with insurance of approximately \$1,000,000. The insurance credit offered was \$50,000, making the net subcontract bid of \$950,000. When the subcontract was issued to this subcontractor, they were confused by the fact that the gross subcontract was \$1,050,000 and the CCIP credit was now \$100,000. While the net subcontract amount was still the same amount of \$950,000, the changed items did not make sense to the subcontractor.

Unfortunately the scenario does make sense to us. It appears as if the contractor is trying to justify a higher cost of insurance to bill the owner. Assuming all things being equal, the contractor can make more money on the CCIP program by increasing the apparent cost of the subcontractor insurance. Unless the

owner inspects the original sub bids, this sort of deception, is hard to detect.

Sub Bids are not Accounting Records

We thought it would be appropriate to segue to an owner's right to see the subcontractor bids. In our previous article, the ability to see the sub bids is vital to determining if the sub insurance cost is calculated properly. In a recent audit of a contract using an AIA contract, we had requested to see a certain sub bid to determine if the sub had included overhead doors in their bid that was used in developing the GMP. The contractor told us that they would not make these records available because they were not "accounting records".

What do "accounting records" have to do with an owner's right to audit? This is where the contractor was trying to get creative. The paragraph in the AIA contract giving the owner the right to audit the contractor's records is titled "Accounting Records". The contractor we were auditing indicated that the only records subject to audit, therefore, were accounting records and sub bids did not qualify. While we had never run into that particular argument before, it does give an owner one more thing to consider clarifying when using the off the shelf AIA forms.

Affiliates of Contractors Working for Subcontractors

When auditing a recent project in the Northeast, we encountered a situation that we had not noticed previously. The contractor had an affiliate company that

performed concrete and general trades type work. This affiliate had some billings directly to the contractor. As you might expect, these billings included OH &P. Now, we see this situation quite frequently but what makes this case unique was not the billings we could see but the billings we did not see.

It seems as if the contractor had made a deal with the various subcontractors, during the bid and negotiation phase of buying out the job, to have the contractor's affiliate perform cleanup for the subcontractor. We suspect that this agreement increased the cost of the bought out subcontract. The affiliate then billed the cleanup cost directly to the subcontractors and since the subcontracts were lump sum, we would never see the cost of this related party transaction. We can readily assume that such a scheme resulted in additional profits for the contractor's parent company at an increase of cost to the Owner. The lesson: a timely review of the subs bids may turn out to be a good idea.

Are you paying for Subguard and Sub Bonds?

It is hard to go at least one newsletter and not put in something about Subguard. This time we are cautioning you on the possibility that while you may have agreed to pay for Subguard, the contractor may have also bonded some subcontractors anyway and charged you double. This is what we first found on a project a few months ago and then at least twice since then on different projects in Denver and Boston.