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SIX BEST PRACTICES

for Construction Software Selection

BY SHELDON NEEDLE & DAVID BROWN

One or two accounting functions shouldn't be your primary focus when evaluating the effectiveness of IT solutions.

As a CFM, new technology initiatives affect your department's work processes. That's why it benefits you to get involved in the software selection process.

To remain profitable in today's competitive climate, construction companies need to monitor job costs in "real time," systematically track change orders, and reduce risks. As a result, the role of today's CFM extends well beyond such traditional accounting procedures as A/P, A/R, payroll, and financial reporting.

Here's the good news: Industry-specific software programs can integrate construction financial management with traditional accounting functions, making it easier for you to profitably manage information.

Although each company has unique accounting and financial management requirements, there are IT needs that apply to all contractors, regardless of specialty. In this article, we focus on several best practices that will help you select software more successfully.

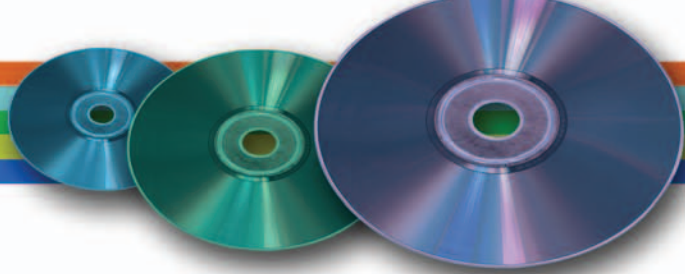
Process Mapping

Whether you're generating a certified payroll, combining several change requests into a single change order, or running a job cost report, you need construction software that enhances your workflow.

That's why it's a good idea to map your current construction management and accounting processes before you evaluate IT solutions. This will help you to fully understand how your company earns profit – and uncover areas for improvement.

Process mapping can be simple or elaborate. Exhibit 1 in this article, shows a detailed process map of a billing process. At a minimum, you and your team should:

- List your "mission-critical" company processes.
- Get new ideas for improving processes from key staff, including owners, PMs, estimators, and accounting personnel.



related financial information because their company's PMs still use spreadsheets and paper-packed binders to manage jobs. Sometimes, the information is even stored on individual laptops.

This poor visibility into project details creates equally poor control of profitability. Searching for information also diverts your attention from financial management because your time is spent chasing numbers.

Here's an example of a typical problem created when accounting and project management are disconnected: The CFM of XYZ Construction realizes that Job A is underbilled by \$80,000 and worries all weekend about how the underbilling will affect the financial statement. On Monday morning, the PM announces that he has \$100,000 in change orders for Job A that haven't been processed yet!

And, the more PMs in the company, the messier the situation. This kind of scenario can be eliminated by replacing spreadsheets and localized filing systems with project management software. A centralized project management system, whether stand-alone or integrated with accounting, is a phenomenal step forward because it brings standardization to the table.

Such a system also provides visibility across all jobs – a huge benefit for CFMs. PMs can be pretty protective of their job data, sometimes to the detriment of the company as a whole. Gaining insight into outstanding issues, such as unanswered RFIs or unapproved change order requests, allows you to establish a cohesive P&L picture.

Look at it this way: PMs don't keep individual A/R ledgers or personally pay invoices associated with their jobs, so why should they keep their own RFI log or change order records? From a financial management standpoint, it makes more sense to keep this information in a central location.

Best Practice 3: *If you want to see where your company's money is and need to identify problems early, then centralize your PM system.*

Forensic Accounting

Disputes, litigation, and audits are realities in construction. Typically, the burden of supporting a claim will fall on you as the CFM – whether that claim is against your company or on its behalf. A detailed and indisputable transaction trail can make the difference between winning and losing a case.

Leading industry software providers understand construction risks and have built safeguards and audit trails into their products. However, the way software is set up and subsequently used can create problems unrelated to the actual software. For example, if your company goes into dispute over one particular job and doesn't have a *solid, traceable method of allocating that job's indirect costs*, then your company has a problem.

Indirect costs (such as small tools, cellular phones, drug testing expenses, service vehicles, and safety costs) can get buried in the accounting system, and can translate to as much as \$4-\$8 per labor hour. These expenses are often kept in a "pool" that gets spread across all jobs at the end of the year.

However, in a dispute situation, you might need to provide documentation that shows how the company arrived at its indirect costs figure. Spreading a pool of indirect costs across all jobs without a rational explanation is not validation. Boom! There goes a large line item from the claim.

The best accounting systems provide the flexibility to apply indirect costs in many different ways. These costs are driven by a variety of factors, including gross pay, man-hours, and equipment usage – and may even vary by project phase.

Best Practice 4: *Your company's software should have a proven methodology to ensure that your data is accurate, documented, and easily accessible – and that your job cost management process supports your company's position in a claim.*

Reporting & Analysis

Construction accounting software is an important tool for creating financial statements and tax returns. But the P&L statement, while necessary, is one of the least vital reports generated from your accounting software. Why? Because it's really just a summary of the many decisions made by each PM and job foreman every day.

Financial reports that accurately reflect these daily decisions will provide a clearer picture of profit or loss. Your reports should provide KPIs by answering questions like:

- Are daily production goals being met?
- Is equipment being used efficiently and charged to jobs accurately?
- Are phases of work being completed per schedule?



precise and you can avoid complicated secondary processes like spreadsheets.

Best Practice 5: *When evaluating IT reporting capabilities, look for reports that will help you make profitable business decisions. Find the technology that will generate financials that support the hundreds of decisions being made on a daily basis.*

Changing Old Mindsets

A construction company implemented new software but the accounting staff applied their old views to the new program. The CFO understood how the new software worked, but didn't have a firm grasp on what KPIs the owner and field staff needed to make better decisions.

Subsequently, use of the new technology remained focused on functionality (entering data, paying invoices, processing payroll, etc.). The company didn't take full advantage of the new software capabilities because the operators hadn't changed their thinking. The moral of the story? To leverage construction accounting software, *you need to be willing to shift from a linear accounting mindset to one that encompasses broader construction management practices.*

Here's another example: Many people use Microsoft Excel as if it were a yellow tablet that lives on their computer. When people take an old mindset (the yellow tablet approach) and apply it to newer technology (computerized spreadsheets), they tend to use just a small percentage of the application's functionality. Instead of improving their processes and increasing productivity through the technology, they apply the new tool in the same old way.

So, how do you break free from the old mindset? Focus on your company's processes rather than software features, and remember to avoid the car-buying mentality. And, ask yourself if you can eliminate all, or at least most, of your spreadsheets.

Best Practice 6: *When embarking on a new construction IT initiative, make up your mind to use the software to its fullest capacity. (It will work better than you think!)*

Conclusion

When selected wisely, construction IT has the potential to be a 10-year (or longer) investment. Yet, a minor functionality issue, like the need to create better certified payroll reports, often drives the desire for change. This approach can prevent

you and your company from achieving the full benefits of a new system.

But, if you analyze your company's internal processes before you begin to review construction accounting software, not only will you understand your needs as a financial manager in more detail, but you will also understand how to improve profitability across all departments.

With this approach, you can use IT to create financials that lead to better project management, streamlined workflows, and improved interdepartmental communications so that your company can increase its revenues and add value to its bottom line. **BP**

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Dave frequently presents on topics including construction technology, infrastructure security, and cash flow before groups such as CFMA's Sacramento Chapter, the International Security Conference, the Engineering & Utility Contractors Association (EUCA), and the Western Electrical Contractors Association (WECA).

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