

Effective Review of Construction Payment Applications Key Risks, Controls, and Tips



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Learning Objectives

- This course provides a practical overview of reviewing monthly construction payment applications, focusing on key procedures, common risks, and best practices.
- Participants will learn what to look for in pay apps, how to identify errors and inconsistencies, and strategies to enhance accuracy, control costs, and mitigate financial and project risk.
- Real-world insights and actionable tips will help strengthen review processes and improve overall project outcomes

Agenda

General Introductions & Overview

Common Risks and Key Controls

Understanding the Pay Application

Reviewing the Pay Application

Key Terms - Cost + Fee with a GMP

What does the guaranteed maximum price represent?

Components of the guaranteed maximum price

- Cost of the work:
 - General conditions
 - General requirements
 - Subcontract/Owner direct purchases



Key Terms - Cost + Fee with a GMP

Components of the guaranteed maximum price (cont.)



Insurances:

- Payment and performance bond
- General liability, Builders Risk, etc.
- Subguard

Fee – lumpsum, percentage

Contingency:

- Contractor
- Owner contingency

Common Risks



- Converting GMPs/Reimbursables to lump sum amounts
- Small tools
- Pricing of materials
- Subcontractor bonds/subguard
- Self-Insurance
- Labor/Labor Burden
- Fixed/Lump sum costs, rates

Common Risks



- Late charges
- Legal fees
- Prohibited food/beverage
- Mathematical errors
- Overhead vs. Cost of Work
- Overtime vs. Regular Time
- Unsupported / Unapproved
- Overbillings
- Stale Invoices - Duplicates
- Disallowable

Key Controls

- Contract development/review
- Guaranteed Maximum Price review
- Periodic pay application review
- Interim date – cost verification
- Close out – cost verification

Key Controls - Contract Development/Review

- Preventative
- Clarifies contract terms
- Industry best practices
- Residual value
- Accomplished prior to the contract being signed
- Should commence as soon as contract is drafted



Key Controls - GMP Review

- Identify and test problem areas on the front end
- Review of key rates (insurances, subguard, labor, burden, etc.)
- Verification of key rates
- Similar benefits to contract review
- Commences at the time Guaranteed Maximum Price is submitted to the Owner by the Contractor



Key Controls – Monthly Pay Application Review



- Examine billing of key items
- Can be tailored to review high risk items the Owner identifies
- Ensures that the Construction Manager is properly documenting cost items
- Tests for advance billing
- Verify policies and procedures are in place and being followed
- Commenced upon receipt of monthly pay application from Contractor

Key Controls - Interim Cost Verification

- Identify cost savings early
- Early resolution of disputed items
- Speeds up the Project close out
- Examples of procedures
 - Sample subcontractor files
 - Sample labor and labor burden costs
 - Examine billing of insurances, subguard
- Commences when certain milestones are achieved, usually when most of the major subcontractors have started their billing process – Job Cost



Key Controls - Close Out Cost Verification

- Establishes the final project costs – Job Cost
- Verifies financial compliance to contractual terms
- Incorporates all previous findings and verifies compliance
- Provides assurance and third party independence to total project costs



Key Controls - Close Out Cost Verification

Commenced upon:

- Substantial completion achieved
- Final change order and pay application is received (may be a draft)
- When Owner still owes money to the Contractor to ensure prompt cooperation



Key Controls – General Conditions Compensation

- Lump sum
 - Must negotiate and verify!
 - Discount to change to lump sum
- Cost of the work
 - Not preferred, why?
- Not-to-exceed
 - Preferred method; it has a ceiling and savings come back to the Owner.



Key Controls – General Conditions/Requirements

- Labor costs
 - Verify at time of submission
 - Discussions regarding escalation through project period
- Vehicles
 - Monthly rates
 - Number of vehicles
 - Time period of project
- General requirements
 - Trailer, office supplies, cell phones, etc.
 - Temporary facilities and utilities, clean up
 - Computer costs and software
- Labor burden



Key Controls - Labor Burden

- Advantages/disadvantages of:
 - Fixed rate
 - Negotiate and verify!
 - Not-to-exceed
 - Sets a ceiling
 - Cost of work
 - Risk remains for high percentages (retirement, health, paid time off, etc.)
 - Only if the contract strictly defines components
- Proper components
 - What should be included in labor burden?



Key Controls - Subguard / Subcontractor Bonds



- Protection
 - Who is protected?
- Rate
 - What is an average subcontractor bond rate?
- Floor
- Retentions/Losses
 - Difficult to audit; better to set a reasonable rate in the contract.

Key Controls - Insurances

- Rates
 - CM allocates the corporate policy across all projects
- Limits
 - Contract sets limits; CM often exceeds the coverages
- Self-insured vs. third party insurance
 - Difficult allocation: estimated losses, deductibles, policy for large losses



Key Controls - Subcontractor Change Orders

- Limits
- Tiered



Key Controls - Subcontractor Change Orders



- Limits
 - Establish a percentage - original CM fee % or flat rate for change orders
- Addition/Deductive change orders

Key Controls - Self-Performed Work

- Approval/bidding
 - Owner should pre-approve prior to bids being issued.
 - Risk is in getting responses from 3rd party bidders
- Cost plus
 - Self-performed can be done as a mini guaranteed maximum price, with a pre-determined fee for overhead and profit



Key Controls – CM Internal Charges



- Limits
 - Determine acceptable limits
- Software
- Overhead vs. Project costs
 - Purchased vs. rental equipment



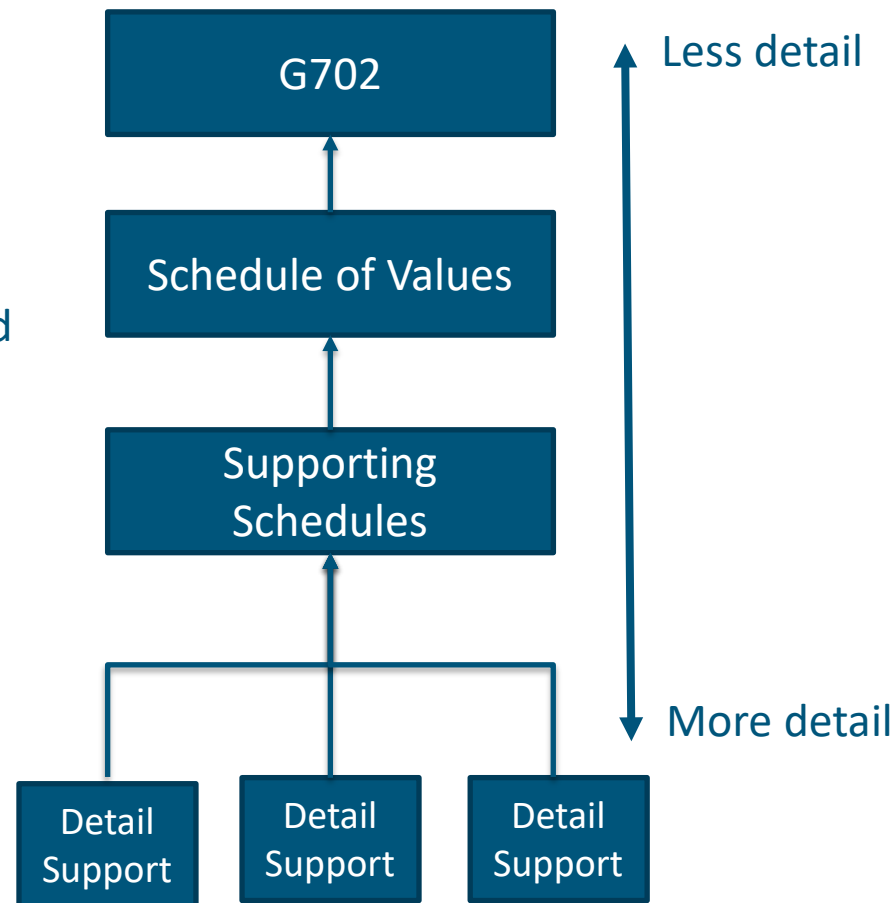
Questions?

Pay Application Review

- Understanding the Pay Application
- Reviewing the Pay Application

Understanding the Payment Application

Everything should reconcile and detail should support G702 and Schedule of Values.



Understanding the Payment Application– G702

Matthew Roger Howard Page 1 of 1

APPLICATION AND CERTIFICATION FOR PAYMENT AIA DOCUMENT G702

TO OWNER: Monroe County, Florida Project Manager/Ray Sanders 1100 Simonton Street, Rm 2-216 Key West, Florida 33040	PROJECT: Plantation Key Judicial Courthouse & Detention Center	APPLICATION NO: 986-26 B BCC Project #: 1-0986	Distribution to: <input type="checkbox"/> OWNER <input type="checkbox"/> ARCHITECT <input type="checkbox"/> CONTRACTOR
FROM CONTRACTOR: Biltmore Construction Co., Inc. 1055 Ponce de Leon Blvd. Belleair, Florida 33756 CONTRACT FOR:	VIA ARCHITECT: Currie Sowards Aguila Architects 185 Northeast 4th Avenue, Suite 101 Delray Beach, Florida 33483 Construction Management	PERIOD TO: 01/31/21 PROJECT NOS: ST113313 Contract Date: December 13, 2017 Amendment 2: October 17, 2018	

CONTRACTOR'S APPLICATION FOR PAYMENT

Application is made for payment, as shown below, in connection with the Contract. Continuation Sheet, AIA Document G703, is attached.

The undersigned Contractor certifies that to the best of the Contractor's knowledge, information and belief the Work covered by this Application for Payment has been completed in accordance with the Contract Documents, that all amounts have been paid by the Contractor for Work for which previous Certificates for Payment were issued and payments received from the Owner, and that current payment shown herein is now due.

1. ORIGINAL CONTRACT SUM	\$	32,818,441.14
2. Net change by Change Orders		(\$796,233.64)
3. CONTRACT SUM TO DATE (Line 1 ± 2)	\$	32,022,207.50
4. TOTAL COMPLETED & STORED TO DATE (Column G on G703)	\$	17,576,806.70
5. RETAINAGE:		
a. 10 % of Completed Work (Column D + E on G703)	\$	899,363.86
b. 10 % of Stored Material (Column F on G703)	\$	-
Total Retainage (Lines 5a + 5b or Total in Column I of G703)	\$	899,363.86
6. TOTAL EARNED LESS RETAINAGE (Line 4 Less Line 5 Total)	\$	16,677,442.84
7. LESS PREVIOUS CERTIFICATES FOR PAYMENT (Line 6 from prior Certificate)	\$	15,462,707.84
8. CURRENT PAYMENT DUE	1,214,735.00	\$ 1,214,735.00
9. BALANCE TO FINISH, INCLUDING RETAINAGE (Line 3 less Line 6)	\$	15,344,749.66

CONTRACTOR:

By: [Signature] Date: February 1, 2021
State of: FLORIDA County of: PINELLAS

Subscribed and sworn to before me this 1st day of February, 2021

Notary Public: [Signature]
My Commission expires:



ARCHITECT'S CERTIFICATE FOR PAYMENT

In accordance with the Contract Documents, based on on-site observations and the data comprising the application, the Architect certifies to the Owner that to the best of the Architect's knowledge, information and belief the Work has progressed as indicated, the quality of the Work is in accordance with the Contract Documents, and the Contractor is entitled to payment of the AMOUNT CERTIFIED.

AMOUNT CERTIFIED \$ 1,214,735.00

(Attach explanation if amount certified differs from the amount applied. Initial all figures on this Application and on the Continuation Sheet that are changed to conform with the amount certified.)
ARCHITECT:

By: [Signature] Date: 2/2/21

This Certificate is not negotiable. The AMOUNT CERTIFIED is payable only to the Contractor named herein. Issuance, payment and acceptance of payment are without prejudice to any rights of the Owner or Contractor under this Contract.

cc-Kevin G. Wilson, P.E.,
cc-Monroe County, FL the
Florida Keys, cc_email=kwilson@keysmonroecounty-fl.gov,
cc-ES
2021.02.16 14:11:34 -0500

CHANGE ORDER SUMMARY	ADDITIONS	DEDUCTIONS
Total changes approved in previous months by Owner	GMP \$2,385,902.43	(\$3,182,136.07)
Total approved this Month	\$0.00	\$0.00
TOTALS	\$2,385,902.43	(\$3,182,136.07)
NET CHANGES by Change Order		(\$796,233.64)

AIA DOCUMENT G702 - APPLICATION AND CERTIFICATION FOR PAYMENT - 1992 EDITION - AIA® © 1992
Users may obtain validation of this document by requesting a completed AIA Document D401 - Certification of Document's Authenticity from the Licensee.

THE AMERICAN INSTITUTE OF ARCHITECTS, 1735 NEW YORK AVE., N.W., WASHINGTON, DC 20009-5202

Cary Knight
Digitally signed by Cary Knight
Date: 2021.02.16 13:59:39 -0500

Understanding the Pay App – Schedule of Values

Plantation Key Judicial Courthouse and Detention Facility Islamorada, FL - Monroe County						APPLICATION NO.: 986-26 B APPLICATION DATE: 02/01/21 PERIOD TO: 01/31/21 PROJECT NO: ST113313				
A	B	C	C1	D	E	F	G		H	I
ITEM NO.	DESCRIPTION OF WORK	GMP SCHEDULED VALUE	CURRENT SCHEDULED VALUE	FROM PREVIOUS APPLICATION	THIS PERIOD	MATERIALS PRESENTLY STORED (NOT IN)	TOTAL COMPLETED AND STORED TO DATE	% (G/G)	BALANCE TO FINISH (C-G)	RETAINAGE
18035	CO #04 Associated tax		\$ (59,243.11)	\$ (59,243.11)	\$ -	\$ -	\$ (59,243.11)	100%	\$ -	\$ (5,924.31)
18040	CO #05 PCA #09 - Overhead Lines		\$ 177,449.00	\$ 177,449.00	\$ -	\$ -	\$ 177,449.00	100%	\$ -	\$ 17,744.90
18045	CO #06 PCA #09A&9B IT Revisions		\$ 4,875.00	\$ 4,875.00	\$ -	\$ -	\$ 4,875.00	100%	\$ -	\$ 487.50
18050	CO #08 ASI#3 ICON Electrical		\$ 12,834.00	\$ 8,342.00	\$ -	\$ -	\$ 8,342.00	65%	\$ 4,492.00	\$ 834.20
18055	CO #10 CCD-1 Electrical Rev.		\$ 8,877.00	\$ -	\$ 2,219.00	\$ -	\$ 2,219.00	25%	\$ 6,658.00	\$ 221.90
18060	CO #09 Rev.4 Elec. Rev		\$ 2,147.00	\$ -	\$ 215.00	\$ -	\$ 215.00	10%	\$ 1,932.00	\$ 21.50
Electrical Subtotal		\$ 4,626,134.00	\$ 3,080,930.96	\$ 1,350,997.00	\$ 300,983.00	\$ -	\$ 1,651,980.00	54%	\$ 1,428,950.96	\$ 165,198.00
Communications / Cabling - MCS Of Tampa										
18100	Communication Cabling	\$ 148,920.00	\$ 134,660.70	\$ -	\$ -	\$ -	\$ -	0%	\$ 134,660.70	\$ -
18105	CO #01 Safety & Security Labor (MCS)		\$ 201,043.00	\$ -	\$ -	\$ -	\$ -	0%	\$ 201,043.00	\$ -
18110	CO #01 MCS CO#1 Bond For SOV 18105		\$ 2,714.08	\$ -	\$ -	\$ -	\$ -	0%	\$ 2,714.08	\$ -
Communications / Cabling Subtotal		\$ 148,920.00	\$ 338,417.78	\$ -	\$ -	\$ -	\$ -	0%	\$ 338,417.78	\$ -
Electronic Safety & Security DET - Duos Technologies										
18200	Electronic Safety & Security	\$ 946,000.00	\$ 1,016,274.44	\$ 769,478.69	\$ -	\$ -	\$ 769,478.69	76%	\$ 246,795.75	\$ 76,947.87
18205	CO #01 Contract Correction		\$ (8,800.08)	\$ (8,800.08)	\$ -	\$ -	\$ (8,800.08)	100%	\$ -	\$ (880.01)
18210	CO #02 ODP (Security Equip)		\$ (591,672.00)	\$ (591,672.00)	\$ -	\$ -	\$ (591,672.00)	100%	\$ -	\$ (59,167.20)
18215	CO #02 ODP Associated Tax		\$ (35,575.32)	\$ (35,575.32)	\$ -	\$ -	\$ (35,575.32)	100%	\$ -	\$ (3,557.53)
18220	CO #03 Deleted Equipment & labor		\$ (20,754.04)	\$ (20,754.04)	\$ -	\$ -	\$ (20,754.04)	100%	\$ -	\$ (2,075.40)
18225	CO #04 PA System		\$ 21,757.00	\$ 21,757.00	\$ -	\$ -	\$ 21,757.00	100%	\$ -	\$ 2,175.70
Electronic Safety & Security Subtotal		\$ 946,000.00	\$ 381,230.00	\$ 134,434.25	\$ -	\$ -	\$ 134,434.25	35%	\$ 246,795.75	\$ 13,443.43
Project Totals		\$ 32,818,441.14	\$ 32,022,207.51	\$ 16,476,055.20	\$ -1,100,766.50	\$ -	\$ -17,576,821.70	55%	\$ 14,435,872.23	\$ 899,363.86
					1,100,751.50					
							17,576,806.70			

Understanding the Pay App – Supporting Schedules

- Personnel Costs
- General Requirements
- Travel and Living Expenses

Biltmore Construction Co., Inc.
 General Requirements Back-up

Pay Request: 986-26
 Period to: 01/31/21

SOV #	Vendor	Invoice No.	Invoice Date	Amount
SOV Item 1000 - Printing & Office Supplies: 1.2.30				
	WB Mason	216412367	12/16/20	\$ 23.64
				\$ -
				SOV Item 1000 - Subtotal: \$ 23.64 ✓
SOV Item 1005 - Office Equipment/data/computers: 1.2.31				
	Milner, Inc			\$ -
	Office Depot			\$ -
	DSC Solutions			\$ -
	Staples Advantage			\$ -
	Best Buy			\$ -
	Amazon Marketplace			\$ -
				SOV Item 1005 - Subtotal: \$ -
SOV Item 1010 - Jobsite & Aerial Photos: 1.2.32				
	AeriFocus	0176	12/15/2020	\$ 215.00
				\$ -
				SOV Item 1010 - Subtotal: \$ 215.00 ✓
SOV Item 1015 - Document Reproduction: 1.2.34				
	LDI Printing	0		\$ -
	LDI Printing			\$ -
				SOV Item 1015 - Subtotal: \$ -
SOV Item 1020 - As Builts /Close-out Vidio: 1.2.35				

Reviewing the Pay Application

Cost control/mitigating unwarranted charges

- Make sure the pay application is for allowable items at the contracted rate.
- The Owner isn't paying for anything it did not get.
- The Owner is not being overcharged or paying for things not specified in contract terms.

Reviewing the Pay Application

Gather and organize the information

- Develop contract summary - Cost of Work, Contingency, CO's, Fee, NTE rates, etc.
- Develop a Pay App Review Checklist based on the Contract
- OCR the Pay App PDF to make it easy to search text.
- Request excel versions of all schedules.
- Request updated Change Order, Contingency Use, and Owner Direct Purchase Logs.

Reviewing the Pay Application

- Is the pay app sequentially numbered?
- Does the pay cover the right period?
- Do the amounts in the pay app match the original contract?
- Do the amounts previously billed match the previous pay app?
- Does the Pay App match contingency use, change order, ODP logs?
- Is the math, right?
- Are all the amounts on the G702, Schedule of Values, and supporting schedules supported by detail expense documentation?
- Was the required retainage withheld?
- Did the Contractor provide a lien release(s)?



Reviewing the Pay Application

Are all the expenses allowable per the contract? Is the Owner being billed for the materials/services it contracted to buy at the agreed price?

- Staffing (positions, rates & key personnel)
- Late Fees
- Mileage, Vehicle/fuel costs
- Meals, Per Diem, Lodging
- Duplicate billings
- Stale invoices
- Significant changes in recurring charges

Reviewing the Pay Application

Any expenses that are not consistent with the contract terms or properly supported should be questioned and credits sought or payment withheld from the contractor, as applicable.



CRI Firm Facts



2,000+
PROFESSIONALS



TOP 25*
FIRM
*(as ranked by
Accounting Today)*



CRI FIRM
VALUES:

- CLIENT SERVICE.
- RESPECT.
- INTEGRITY.



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Tax

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Commercial Real Estate
Construction
Financial Institutions
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Hospitals & Health Systems
Insurance
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Nonprofits
Physician Groups
Post-Acute Care
Private Foundations
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Defining our brand by meeting or exceeding the highest expectations of our clients

RESPECT

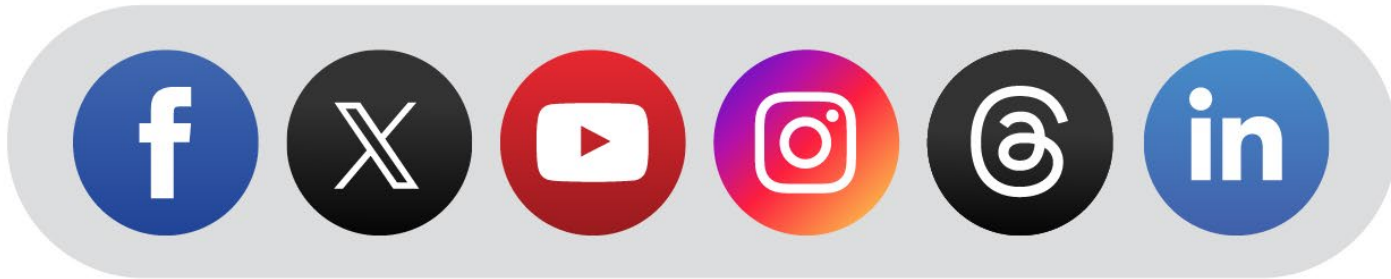
Building productive, long-term relationships with each other that are based on mutual respect, trust, and sharing

INTEGRITY

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Questions?

- Today's Presenter -

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Melbourne, Florida

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