Revitalize Your Back Office & Streamline AP Processes

Unpacking a new kind of construction risk

by Chuck Schwartz

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Contractors know all about risk — jobsite security, health and safety, workers' compensation, bonding, subcontractor compliance and more. For many construction business owners, it seems like the list can go on forever. Unfortunately for some, it does.

Is your back office a risk? How can you know?

If you are like many construction contractors, your back office could include accounting staff close to retirement, disconnected systems for critical functions like project management, server hosting and operating legacy software and old undocumented processes. The latter has been coined the "if someone gets hit by a bus" risk, meaning that if someone becomes unavailable to you for a period of time (or worse, for good), the risk associated with what is mostly in their head and not written down is tremendous.

So, knowing what's at stake, how can we forge best practices for minimizing and mitigating risk?

Documenting Processes

Documenting accounting processes like purchasing and accounts payable (AP), billing and accounts receivable (AR), and payroll accomplishes a few important things. First, it creates a clear path for how you want things to occur. Second, it provides a platform for training future staff. Step-by-step processes and workflows should be well documented so that almost anyone can keep the lights on in a pinch. Even better is when approvals or "checks" are inserted into the process. This allows leadership to maintain an eye on purchases, such as purchases over a certain dollar amount or payroll and payments, ensuring that paychecks and payments are only being made to valid employees and vendors. Failure to instate proper processes is one of the most common causes of construction fraud.

For best practice guidance on assessing and documenting your AP, AR and payroll processes, consider bringing in your certified public accountant (CPA) — especially if your CPA firm specializes in construction — and specifically someone from their advisory, consulting, or financial accounting and advisory services (FAAS) practice. Experts in these areas are often highly skilled in performing AP, AR and payroll processing and creating and documenting the proper process and workflow.

Improving Processes

Skilled advisory and accounting professionals often find many processes that can benefit from improvement while documenting them. One of the most common areas in construction is the AP process.

This extends from inconsistent use of purchase orders to paper-intensive and manual expense and invoice approval processes (including email and text messages that are not easily tracked) to outdated payment methods.

While accounting systems and even modern enterprise resource planning (ERP) systems help to make a difference, there are several AP automation systems and tools that can help you improve and streamline your AP and payment processes while at the same time reducing the need to throw additional employees at the problem.

Adding an AP automation tool allows you to replace manual data entry with advanced capture tools featuring optical character recognition (OCR) technology, creating custom workflows with real-time access to a payment's status and associated approvals. AP automation also allows for sending faster and more secure vendor payments, fully automating the accounts payable process and reducing fraud risks.

A few of the standard AP automation tools for contractors are AvidXchange, Concur and Corpay. A contractor using AvidXchange recently said:

"We automated our invoice routing and approval process and knew that our next step in seeking more efficiency was to move away from manual check printing. By adding AvidPay, we were able to reduce our check processing time internally, as well as offer other payment options to our vendors, such as AvidPay Direct (enhanced direct deposit method), all within the integration of AvidPay working together with AvidXchange. AvidXchange even handled the coordination with our vendors."

Integrating Systems

Another common cause of manual and duplicative effort, weakness and risk is that standalone software systems are not integrated — meaning that information doesn't flow from one system to another without manual intervention. One of the most common "non-integrated" weaknesses is found with accounting and project management software.

It begins at the award of a project. Suppose your accounting software and project management (PM) system are not integrated. In that case, project managers often — because they don't have access to the accounting software — must go to someone in accounting to get the next available job number and then create a new job in the PM system (without any knowledge of this being made inside the accounting system). Then, again without access to the accounting system, material purchases and subcontract orders are created by PMs (either inside or outside the PM system using Microsoft Excel or Word). Thus, financial commitments are made outside of accounting and company leadership knowledge.

Then, after the job is created in the PM system, the job must be replicated (duplicating effort and work) in the accounting system. Imagine if one of the pieces of information didn't make it or slipped through the cracks. Worse is when change orders are handled similarly and fail to be noticed, potentially reducing the chance of being billed and increasing the chance of your company not getting paid. At worst, a common cause of construction fraud is when something falls to the wayside intentionally.

Integrated construction management software (ERP software) reduces or removes many of these risks. Even better is when these systems have been configured with processes and workflow that match how you want to run your business.

A few common software vendors for modern, integrated ERP software are CMiC, NetSuite and Trimble (formerly Viewpoint Software). A construction contractor who uses Trimble's Construction One (TC1) system shared the following:

"If you want to stay on track and reduce unnecessary costs and change orders, it's crucial to integrate your processes and do it in real-time — a task that is next to impossible with manual systems. TC1 plays a crucial role in supporting our need for process change and improvement. All of our data is in one spot. TC1 tracks our original estimated margin, our current estimated margin with approved change orders, our projected margin and the project team's opinion. One of the biggest causes of low margins is unnecessary rework. In fact, we think our past rework accounted for as much as 20% of our project costs, often due to someone not having the right information

when they needed it on the job. It helps us manage our projects, our processes and our people by utilizing gathered data to mitigate risks and improve profit margins. TC1's integration of operations across our financial and HR systems, our project management tools, and our field staff enables us to run more efficiently and effectively."

The construction industry is ripe with risk opportunities, even right in your back office. The good news is that it doesn't have to be this way; for many, it isn't, at least for those who choose to use professional services and tools like the ones described here. What kind of contractor are you, and what kind do you want to be?

Chuck Schwartz is a director at Marcum LLP, a top 15 accounting and advisory firm with one of the largest construction contractor practices in the country. Schwartz helps contractors select the right software, systems and tools to run their back offices and overall businesses better. This also includes helping improve the processes connected to the business areas in which the software and system are designed to help and assist contractors reduce risk. Schwartz has presented "Stamping our Construction Fraud" at national software user conferences and for construction industry membership organizations. Schwartz has also been a guest panelist at many software and system conferences on the best use of construction software and technology, as well as on similar topics discussed during national webinars. Visit marcumllp.com/industries/construction.

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