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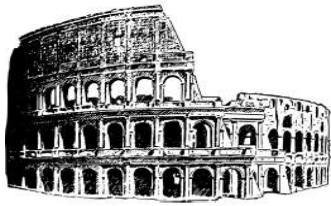
Change Order Review, Education & Innovation

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10 Tips for Change Order Review

1. Know your contract- do not be afraid to ask for/enforce what you have already agreed to. The items below should be supplemental to or a rehash of the terms noted in the changes in work or equitable adjustments portion of your contract.
2. Confirm labor rates- Best practice is to agree to an audited rate with the contractor prior to awarding the project. This is not always practical. In either case you should always make sure you request a labor rate breakdown stating how the contractor arrives at their hourly rate. This is typically comprised of base rate, benefits, multiple-taxes & insurances. Be sure the percentages are justified and nothing is being billed for that isn't actually part of the labor rate (an example of this is small tools, dumpsters etc.). If rates seem high ask for additional documentation. As a final check I will recalculate the labor rate in excel to confirm that math and that percentages incorporated properly.
3. Document material prices- Even though construction material costs have skyrocketed over the past decade- that still does not mean your contractor can charge you whatever they want for the additional hydration station you requested. There should be back-up from the supplier or distributor stating exactly how much your contractor paid. You should only be charged that price rate plus mark-up as per the contract. A solidly compiled change order should have documentation for all material costs associated (within reason- this can become counterproductive for smaller/more common items).
4. Check mark-ups (Overhead and Profit). Now that we have fair labor & material prices it is time check your contractor's mark-up. This should be clearly spelled out in your contract- but that doesn't mean your contractor has provided such. Things to look out for here are the contractor charging more mark-up than is allowed per contract (billing 15% when only 10% is allowed is common) and the contractor double dipping on their 10% OHP (if this is already included in their labor rate it should not be billed again on the total change order). Finally subcontractors often mark up their second tier subcontractors too much typically I see this allowed at 5% lower than mark-up on self-performed work- but I almost always see this come through at the same rate.
5. Challenge 2nd tier subcontractors the same as you would the prime- speaking of sub-sub (or 2nd tier) subcontractors- all too often I see proposals from 2nd tier subcontractors (like the duct insulator working for your HVAC subcontractor) slide through the system unchallenged or missing half of the documentation that would be required of the prime subcontractor as described above.



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6. Review the scope of the change for deleted work- Contractors often are all too quick to send you a bill for your requested upgrade without also providing you a credit for what was originally supposed to be provided. Often times your architect can help you with this one and clearly call out what was deleted or replaced within their directive.
7. Inspect sundry items- Just like at the car dealership the real money can be made on upselling items that aren't needed. Line items such as supervisory time, engineering, submittals, inflated bond rate, extraneous equipment & tools are often where subcontractor can try to pad their change orders as these are all items that are typically already included as part of overhead and profit and should not be billed for without specific cause/justification.
8. Check math- Yes 19 out of 20 times this may only add up to a few dollars- but I've consistently hit the jackpot about 5% of the time by finding major math errors worth \$1,000+ (Full disclosure- sometimes these math errors do benefit the contractor...)
9. Communicate!-Don't be afraid to open up lines of communication, pick up the phone and talk about the change order! I cannot stress this enough (to be honest if your project is at the point where lines of communication have already been dissolved you may need a lawyer not an upstart change order review/training company). Most subcontractors (in my experience) aren't (too) evil- they are just trying to make a fair profit and keep you the client (you) happy. Walk through the change line item by line item with the vendor, ask the right question and odds are if you are open and honest about your concerns they will offer a logical explanation...or they will start talking in circles...if that happens you are on the right track- keep drilling down into the change.
10. Understand that change orders will happen! It is a necessary evil in construction (I intentionally saved this one for last). Things will change and someone, somewhere along the lines will want to get paid for their efforts- no matter how long the issue ignored or how far the can is kicked down the road. It is very important to have a procedure in place with your contractor to ensure that these are dealt with in a timely and proper manner.
 - a. Review protocol for notification of tracking provided within the contract.
 - b. Review an open potential change order log on a regular basis.
 - c. Ensure your design team is following proper document control measures i.e. is a discussion between the architect and the foreman official authorization to perform added work- my suggestion here while this may be okay in certain situations it is a dangerous precedent to set.

For what it's worth I did have to distill out quite a bit of information- so if you are interested in more please do not hesitate to reach out!

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