



# Top Ten Reasons for Construction Project Budget Disasters

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Ronald L. Hausmann, P.E., Walbridge  
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Moderated by Carol Esselink, Grant Thornton LLP

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### In general

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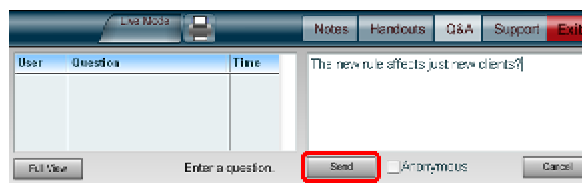
## Addressing your questions through Q&A

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### Step 1



### Step 2

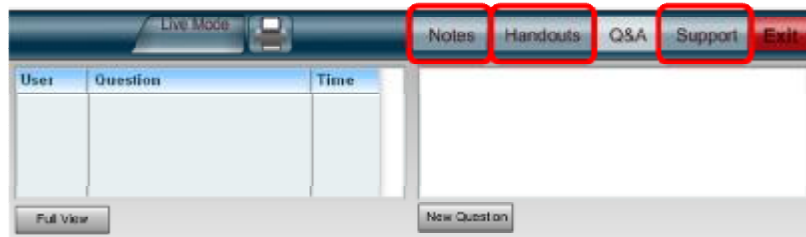


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## Grant Thornton LLP Construction Advisory Practice

Grant Thornton LLP's Construction Advisory Services professionals have years of experience in providing economic and damage analysis and litigation support for construction claims. Additionally we help construction project owners to deter, detect and investigate the fraud, waste and abuse that can ruin a company and cause undue personal risk.

Our construction advisory team uses state of the art forensic tools, objectivity, procedural thoroughness and complete confidentiality when dealing with the issues that affect your business.

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## Walbridge

Walbridge is a privately-owned construction company offering diverse delivery options including construction management, program management, general contracting, design-build and turn-key solutions. Their services include pre-construction, engineering management and decommissioning. They self-perform structural concrete and flatwork, millwright and rigging, equipment installation and facilities management.

Since their founding in 1916, their success results from their ability to leverage the strengths of a large enterprise and provide the personal service of a smaller company. This strategic use of size combined with a hands-on approach has made Walbridge a construction industry leader.

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**Honigman Miller Schwartz and Cohn LLP**

Honigman is a leading business law firm, based in Michigan with an international practice. Headquartered in Detroit, they have offices in Lansing, Oakland County, Ann Arbor and Kalamazoo, Michigan. With more than 230 attorneys working in 40 different areas of concentration, Honigman provides timely and cost-effective counsel to clients in numerous industries. They accomplish this by recruiting attorneys and staff members with outstanding credentials.

Their approach is built on relationships. That means a comprehensive and sustained focus on service at the highest levels throughout the firm to meet and anticipate their clients' evolving needs.

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**Today's speakers****James T. Schmid**

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## Introduction

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- § Background of speakers
- § Scope of discussion



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## Industry trends

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- § The economy
- § Contracting approach
- § Management approach
- § Fiduciary responsibility to safeguard assets
- § Foreign or remote construction



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## What is a construction project budget disaster?

- § Cost to complete far exceeds planned cost
- § Cost per unit received
  - Cost per unit capacity
  - Cost per quality



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## Riskiest contracts

- § Cost plus
- § Fast track



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## Three perspectives of construction project budget disasters

- § Construction management
- § Legal
- § Financial / accounting



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## Construction management perspective on construction budget disasters

- § Selection of wrong project delivery system
  - General contracting vs. construction management vs. design build
  - Owner involvement is critical
  - Construction is result of design
- § Incomplete owner design
  - Owner is responsible for completeness of design
  - Designer selection is very important
  - Designer selection must be professional
  - Bad designer selection = change orders and claims

Reason #1

Reason #2

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## Construction management perspective on construction budget disasters (continued)

### § Insufficient construction administration

- Insurances
- Site selection
- Proper legal protections from liens
- Requires knowledgeable owner staff

Reason #3

### § Insufficient owner oversight

- Construction does not just happen
- Either you lead or you are reacting to the process

Reason #4

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## Legal perspective on construction budget disasters: During, After and Before

### § During

#### A. Unanticipated site conditions

- Environmental
- Endangered species
- Mold and Asbestos
- Archaeological
- Underground conditions
- Force majeure

Reason #5



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## Legal perspective on construction budget disasters: During, After and Before (continued)

### B. Financing and title issues

- Lender concerns
- Real estate concerns

Reason #6

### C. Labor issues

- Unions / strikes
- Contractor bankruptcies

Reason #7

## Legal perspective on construction budget disasters: During, After and Before (continued)

### § After

- Claims and litigation



## Legal perspective on construction budget disasters: During, After and Before (continued)

### § Before

- An ounce of prevention



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## Accounting / Finance perspective on construction budget disasters

### § Poorly written contract financial controls

- Field monitoring
- Pay application cycle
- Change order control
- Contingency definition and tracking
- Maintenance of the Schedule of Values



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## Accounting / Finance perspective on construction budget disasters (continued)

### § Fraud, waste and abuse

- Excess labor costs
  - Hours
  - Rate
- Excess material costs
  - Diversion
  - Shell companies



### § Inadequate owner financial oversight



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## How can you avoid construction project budget disasters?

- § Planning
- § Trusted partners
- § Experienced team



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## Summary

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### § Questions?



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## James T. Schmid, Grant Thornton LLP

CPA, CFE, ABV

### Partner and National Construction Advisory Practice Leader

Jim Schmid is a Partner, National Construction Advisory Practice Leader and Grant Thornton's practice leader in the Detroit area for Forensic Accounting and Investigative Services.

### Construction Industry Experience

Jim provides economic and damage analysis as an expert witness and litigation support consultant for construction claims. He is a licensed CPA, a Certified Fraud Examiner and is certified by the AICPA in Advanced Business Valuation.

Jim's background includes both industrial engineering and accounting/finance. Recently, he authored the following sections for the Construction Financial Management Association's ("CFMA") [Accounting Manual](#):

- Construction Compliance and Ethics
  - Monitoring and Investigating Construction Fraud
- Jim has acted as technical reviewer for the popular college accounting textbook, [Accounting Principles](#) and has authored chapters for four books on construction:
- "Pricing the Loss"
  - "Project Management Forms"
  - "Post Failure Accounting Systems and Methods of Pricing Damages"
  - "Payment Delay Claims"

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Jim began his career as an industrial engineer with a large tier-one automotive industry supplier. As an industrial engineer Jim performed product line and part cost studies, conducted time and motion studies, and optimization of production routing. Since then he has been a director with Coopers & Lybrand in San Francisco, owner of a California based construction management firm, and vice president of a large Michigan based automobile supplier of interior trim, seating and airbags.

### Professional Qualifications and Memberships

Certified Public Accountant (CPA) and member of the AICPA and the MACPA  
 Certified Fraud Examiner (CFE) and member of the ACFE  
 Certified in Advanced Bus. Val. (CPA/ABV)  
 Advisory Board Member for the Construction Financial Management Association (CFMA)

### Education

BS, Engineering, Oakland University  
 MBA, University of Michigan

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## Ronald L. Hausmann, Walbridge

General Manager, Heavy Construction

### General Manager, Heavy Construction

Ronald L. Hausmann started his career with Walbridge in 1971 as an Estimator. Ron quickly moved through the ranks at Walbridge and was named Chief Estimator within just a few years. Since then, Ron's leadership and passion have become hallmarks of his 38 year tenure with Walbridge. Currently, Ron serves as the General Manager of the Heavy Civil Group. Ron has been involved in projects ranging from \$20 million to \$350 million.

### Education

Bachelor of Science, Civil Engineering, Summa Cum Laude,  
 Marquette University, Milwaukee, WI  
 (Highest ranked Civil Engineer to Graduate in 36 years)

### Active Registration / Licenses (Number, State & Discipline):

Professional Engineer - Michigan #023184 (Active)

### Professional Affiliations

- Member & Presenter – National Airport Consultants & Constructors of America
- Appointed to Naval Facilities and Army Corp of Engineers Committees, National AGC (2009)
- Associated General Contractors of Michigan – Immediate Past President
- Appointed by Gov. Granholm to State Board of Professional Engineers and State Board of Architects (2003)
- Michigan Society of Professional Engineers (Life)
- National Society of Professional Engineers (Life)
- Industry Relations Committee ( Past Chairman)
- National Erectors Association (Past President)
- Board of Directors - Detroit Chapter AGC
- Member, Associated General Contractors of America

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# Stuart Teger, Honigman Miller Schwartz and Cohn LLP

Partner

## Partner

Stuart has a wide range of trial and appellate experience in federal and state courts throughout the nation. Areas of litigation experience include construction, real estate, employment and commercial matters.

## Construction Litigation Experience:

- Extensive experience in construction litigation on behalf of owners, general contractors and trade contractors and involving bonds, liens, Miller Act and "Little Miller Act" claims, delay and acceleration claims and claims relating to defective work.
- Represented several hospitals in connection with the construction of their facilities and against claims by contractors for additional compensation.
- Represented a general/civil contractor asserting claims against a municipality with respect to construction of a water treatment plant on a multi-prime project.
- Represented a road builder against its surveyor in a negligence/malpractice claim.
- Represented the owners of several mixed-use complexes against claims for millions of dollars of extras by general and trade contractors.
- Represented a general contractor against defective workmanship claims by an owner.

## Professional Involvement

State Bar of Michigan  
American Bar Association  
Detroit Metropolitan Bar Association  
American Arbitration Association – Panel of Arbitrators

## Education

University of Michigan Law School, JD  
University of Rochester, Ph.D. Political Science  
University of Rochester, M.A.P.Sc. Political Science  
Temple University, B.A. Political Science

## Admitted

Michigan  
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