

Considerations for Managing and Controlling Change Order Costs

- *General Contracting*
- *Construction Management*
- *Remediation Contracting*
- *Construction Oversight*
- *Architectural Services*
- *Engineering Services*
- *Environmental Consulting*
- *Program Management*

EFFECTIVE STRATEGIES FOR SUCCESS

Owners face many challenges with respect to controlling costs on a construction project, perhaps none more important than mitigating the costs associated with Change Orders. The occurrence of Change Orders, despite the desires and efforts of many stakeholders, are often inevitable (for a variety of reasons). Success in managing the risk associated with increased costs due to Change Orders can be enhanced by implementing two simple strategies:

1. Minimize the occurrence of Change Orders
2. Minimize the cost of Change Orders that do occur

Preventing the occurrence of Change Orders is nearly impossible. However, strategies can be implemented to reduce the likelihood that Changes will occur. These strategies include an emphasis on being more thorough during the planning phase, developing more complete construction documents (with better defined scope) and maintaining more discipline in adhering to plans and specifications during the construction phase (to avoid unnecessary scope additions). In addition, Owners should avoid setting unrealistic construction schedules and not embark on fast-track delivery methods unnecessarily.

In terms of minimizing the cost of Changes that do occur, the most important step is to develop and implement appropriate language in the contract that provides specific guidance relating to the *pricing* of Change Orders (at both the prime and subcontract levels). Next, effective review and approval strategies should be developed to fully evaluate proposed change order prices. Particular attention should be given to the appropriateness of markups and the “Big 4” pricing variables (Labor Units/Hours; Labor Rates; Material Quantities; Material Prices). In addition, attention should be given to the pricing method (Lump Sum, T&M, Cost Plus, Unit Price). Last, but not least, consideration should be given to the timing of the review (and approval) and whether execution of a Change Order eliminates any rights or claims that an owner may have for inaccurate or inappropriate pricing.

10 questions that should be asked before approving a Change Order

1. Does the work truly represent a change in scope? Are any credits due for work already included within the base contract?
2. Does sufficient backup exist to support the proposed Change Order price? Is it sufficiently detailed in order to make an evaluation as to the appropriateness of the pricing?
3. Have the contractual markups for OH&P been applied correctly (at all levels)?
4. Do **labor rates**, material prices or unit prices for extra work exist in the contract(s)?
5. If rates for extra work are stipulated in the contract, are they being adhered to?
6. If rates for extra work are not stipulated, have they been effectively vetted, evaluated or audited?
7. Has the GC or CM reviewed or evaluated subcontractor change order pricing to provide assurance with respect to reasonableness and adherence to contract terms?
8. Is the methodology for determining **labor units/hours** and **material quantities** known? Have the quantities been evaluated or verified?
9. Have the **material unit prices** been evaluated or verified?
10. Are indirect costs (that should be covered by the markup) included as a direct cost?



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