



# ON-SITE

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# Don't give up on going green

Sustainable building remains a viable force in construction

Over the past decade or so, green (or “sustainable”) building has had its moments in the spotlight. But the down economy and a slow, uncertain recovery have left many project owners and contractors focused more on costs than sustainability. Or so it would seem.

Although the practice has certainly been affected by the economy and slower construction markets in many areas, green building is still right here and doing just fine. So it's important to stay familiar with the topic and be cognizant of its benefits and risks.

## Complying with LEED

Generally, when we refer to a green project, we're talking about one certified under the U.S. Green Building Council's (USGBC's) Leadership in Energy and Environmental Design (LEED) Green Building Rating System. LEED brings to bear specific measurement standards that define a given project as sustainable. It's undergone various changes since its introduction in 1998.

The latest version for new construction and major renovation is LEED 2009. Like previous incarnations, LEED 2009 awards a project points that qualify the job for graduating levels of sustainability. Before getting any points, however, a project must meet eight minimum program requirements. Specifically, it must:

1. Comply with all local, state and federal environmental laws,
2. Involve a building under the USGBC's definition,
3. Use a reasonable site boundary as defined under the LEED program,



4. Comply with minimum full-time equivalent occupancy and floor area requirements,
5. Comply with minimum occupancy rates,
6. Be registered and certified in compliance with reasonable timetables and the program's sunset dates,
7. Grant the USGBC access to whole-building energy and water-usage data, and
8. Comply with a minimum building area to site area ratio.

Assuming all of these basic criteria are met, your project can then earn various points based on specific job tasks and elements. The more points you get, the higher level of sustainability you may claim. Basic certification calls for 40–49 points; Silver certification 50–59 points; Gold 60–79 points; and the highest certification, Platinum, 80 points or more.

## Building goodwill

If you're looking for a competitive edge in your market, LEED certification may just be it. Establishing yourself as a contractor capable of contributing to a green project — especially at the higher (Silver and Gold) levels — is a good way to differentiate your construction company from others. You'll also be able to build goodwill in your local community as a conscientious, responsible business.

The process of building under LEED may be more intensive than you're accustomed to. But, in the long term, compliance can streamline and perfect your building processes. For example, disposing of and recycling construction waste is a challenge on many projects. Tackle this task under LEED standards and you may very well find the ideal way to structure and execute it.

And, of course, there's the ethical dilemma many contractors face of unavoidably affecting the environment while trying to run a successful business. Again, LEED certification offers a formal structure under which you can minimize environmental harm in both the long and short terms. You'll reduce waste, conserve energy and water, and curtail ozone depletion.

## Lowering expenses

Naturally, a LEED project must make financial sense for your construction company. With maintaining a strong cash flow more imperative than ever, no amount of potential community goodwill will justify committing to a green project that will demand too many dollars before bringing back a return. So don't compromise your selection of a job or bidding process just because the project is sustainable.

On an optimistic note, many green jobs offer the opportunity to lower some operating expenses. If you're consuming less energy (fuel, electricity) and water, you may see cost savings that can

## Current events in green building

The economic concerns that continue to slow the construction industry in many areas have also affected green building — but not as much as you might expect.

The amount of project space certified under the U.S. Green Building Council's (USGBC's) Leadership in Energy and Environmental Design (LEED) Green Building Rating System (see main article) rose by 1 billion square feet in 2010, according to the third annual Green Building Market & Impact Report by GreenerBuildings.com. That's a 14% growth rate, according to the study.

In March 2011, the USGBC issued a press release revealing that more than 40,000 projects are operating under LEED's commercial and industrial rating systems. That means more than 7.9 billion square feet of construction space nationwide is working sustainably.

The housing market, hard hit by a variety of challenges in many areas, is sticking with green building as well. In an April 2011 press release, the USGBC reported that more than 10,000 homes nationwide have qualified for LEED certification.

help you meet or even beat your job budget. Getting a strong buy-in from your project managers and work crews may also drive productivity on a LEED project.

## Evolving with sustainability

If your construction company is already heavily involved in sustainable practices, kudos to you. But don't rest on your laurels — this is an evolving area. And if you're still tentative about incorporating green practices and materials, take a slow and steady approach. You don't need to jump in all at once. Just bear in mind that going green is quickly becoming an *expectation*, not an option. ☒

# Confronting the specter of an IRS audit

It's something every business owner worries about — including contractors. You file your taxes on time and believe they're accurate but, some months later, you get that fateful letter in the mail. Getting the news you're going to be audited is like seeing a ghost — shocking to the point where you may not even believe it at first.

But an IRS audit, though not entirely preventable, is more manageable than you might think. Construction companies are document-oriented businesses. So if you manage those documents properly, you'll likely be well on your way to defending whatever tax breaks you've claimed. Let's discuss some important points to keep in mind.

## Important records

For a variety of reasons — a tax audit certainly being one of them — it's important for contractors to keep good records. Examples of important records include:

- Detailed accounts of daily business/project transactions,
- Receipts for charitable donations,
- Documentation for any investment losses, and
- Copies of invoices and purchase orders.

Meticulous recordkeeping simplifies tax preparation and ensures that your returns will include all the deductions to which you're entitled. Should it be required, good documentation can also help explain your position to the IRS.

Tax experts advise companies to carefully document travel, entertainment, medical and other business-related expenses. Expenses that

are out of the ordinary, unexplained or excessive in the mind of a tax examiner can trigger further investigation.

## Independent contractors

IRS officials also warn contractors to be honest in how they classify their employees. It may be tempting to categorize salaried workers as independent contractors to avoid payroll taxes, but that practice carries significant risk. Not only could you end up paying those back taxes anyway, but also interest and other penalties to remedy potential violations of wage laws. Moreover, doing so could trigger an audit.

The distinction between employee and independent contractor typically is determined by the amount of *control* a construction company has over the way in which the person works and by the *support* given to that individual. To steer





clear of IRS trouble, explain your desired results to the independent contractor and provide a deadline. But leave the how, when and where the work is done to him or her. And be sure that the independent contractor uses his or her own transportation, equipment and supplies.

### **Keys to survival**

Despite your best efforts, you may be subject to one of three types of audits. First, the IRS could send you a letter, which usually seeks documentation to support certain deductions you've taken. This is the easiest audit you'll face.

The next step up is an office audit, whereby the IRS asks you to take receipts and other documents to a local IRS office. The most severe version, though, is the field audit, which is conducted by the IRS at your office or home.

The keys to surviving an audit are knowing what areas the IRS will look at and being prepared to answer potential questions. To get ready, collect and organize all relevant income and expense records. If any records are missing, you should reconstruct the information as accurately as possible, based on other documentation.

Having an accountant or other tax professional respond to the auditor's inquiries and provide the necessary information is usually the best approach. The weaker your case, the more value a tax advisor can provide. In addition, IRS agents are often more comfortable dealing with professionals who understand tax law.

*Should it be required, good documentation can help explain your position to the IRS.*

### **Wrought with complexities**

For better or worse, the construction business is wrought with complexities that can trigger an IRS audit. The nature of your contracts, the status of your workers, the various tax breaks for which you may or may not qualify — these can all draw the attention of tax authorities. That's why staying on top of record keeping and continually looking for ways to make it more efficient and accurate are such important activities for a contractor. ☒

# Paperless projects harbor both perks and pitfalls

**T**he paperless office has long beckoned brick-and-mortar businesses. Although such an ideal has never fully materialized, current technology certainly makes it possible. Of course, most contractors would probably be more interested in a paperless job site than an all-digital office — because that's where they spend most of their time. Indeed, paperless projects are possible, but they harbor both perks and pitfalls.

## Efficiency and traceability

Every construction project involves documentation. Yet just because you turn that documentation from physical pages to virtual bits and bytes doesn't necessarily mean you're going to create less of it. No, one of the chief benefits of turning a project paperless is efficiency.

For example, a shipment of lumber arrives at the job site. The delivery ticket reflects the time/date of receipt and identification of the various items, while the daily log notes that a good portion of the lumber is damaged. Further, the accounting system indicates what the materials cost, and the job schedule shows how the faulty lumber will impact job progress.



In a paperless project, all of this documentation would be scanned and submitted to a Web-based project management system. So, rather than have to cobble together the delivery ticket, daily log entry, accounting entries and job schedule items from the various parties involved, you could simply log on to the website and trace the cause and effect of this problem. More important, you could submit a timely change order to the owner.

## Buy-in and contract issues

As with any technology solution, buy-in from the project owner to the architect to any subcontractors who'll have access to the system is essential. In other words, everyone must be committed to it and be clear about its procedures. This can be a tall order — especially if any of the parties involved are unfamiliar with the technology.

One way to get buy-in is to build clauses into the contract establishing the nature and use of the Web-based project management system. Points may include who owns the software license and/or project data, which parties have access to the system and how much access they have. Confidentiality issues may come into play as well.

All of these issues are important to execution of a paperless construction project. But they're also potential trip-ups in getting the job at hand underway.

## An exciting alternative

If you're tired of losing time and money because key pieces of paper keep getting lost or misleading you into making expensive mistakes, going paperless is a good alternative. Of course, making the transition involves time and expense as well. So careful consideration is warranted before taking the plunge. ☒

# The Contractor's Corner

## How can we tighten up our insurance claims process?

*My construction company has been fortunate enough to snag some long-term contracts over the last few years. In a couple of instances, our job sites were hit by natural disasters. Although our insurer partly covered us, I feel as if we lost money on soft costs that our adjuster successfully disputed. Do you have any suggestions on how to tighten up our claims process?*

Many policies cover soft costs (such as property taxes owed on the site or interest due on applicable construction loans) but, as you imply, insurers often look to shave a few dollars from their own obligations by disputing claims. Here are some ways to put yourself in a better position to recover as much as possible under your policy:

**Record everything.** At regular intervals during a project, photograph and videotape key areas of the job site. This way, after a damaging event occurs, you can take pictures and video that clearly show how a given area was affected.

Live action video of a job site can prove particularly difficult to dispute. In some rare cases, you may even be able to record a damaging event while it's happening. Naturally, you should never compromise safety precautions to do so.

**Write it down.** Keep up with your daily log. Failed insurance submittals are a good example of why contractors need to consistently document everything that happens on a job site in great detail. And it's easy to let your logging slip as you try to keep up with all the comings and goings of a project in progress.



Make sure that whoever is filling out your log describes what job progress has been made and what hasn't — and why. Also, every day, note who is on-site (subcontractors, consultants, and so forth) and what meetings take place. Should a damaging event occur, spend extra time describing in writing precisely what took place.

**Beware of chit-chat.** Undoubtedly, it's important to maintain a good working relationship with your insurance adjuster. But verbal communications can often mislead you into thinking your coverage is a slam-dunk or that you've clearly proven damages that later get disputed.

When you meet with an adjuster or speak with him or her over the phone, document in writing what occurred during the conversation. Then send the adjuster an e-mail or letter with your impressions of the call and ask for verification that you're both on the same page. For face-to-face meetings, bring with you all of the documentation mentioned above as well as pertinent charts, graphs and other supporting information, such as contracts and loan agreements. ☒



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