



## **Construction Management: Proper Payment Procedures**

By Bart Mendel, LEED AP

Your contractor submits an invoice for payment. Whether your project is a simple service-call, or a multi-year construction project, it is critical that you pay only invoices that are accurate, complete, and accompanied by the proper documentation.

**Contract Negotiation & Terms.** Before issuing any payment, verify that work invoiced is consistent with overall progress of the project and is in accordance with the contract. Options may include payment by established schedule such as bi-monthly or monthly or payments can be due on time and materials or according to percentage-complete. In all cases, be sure the contract specifies payment procedures, terms, lien releases, retention and all other matters prior to contract execution.

**Lump Sum Contracts.** Confirm the amount (you'd be surprised at how common simple arithmetic mistakes are), that the tasks have not been previously invoiced, and that the proper amount of retention is withheld.

**Time and Materials:** Verify hourly rates in accordance with contractually established rates, number of hours invoiced against field time tickets, confirm this work has been performed; confirm the arithmetic. Require back up documentation such as invoices/receipts for appropriateness, ensure amount invoiced matches that backup, and verify overhead/profit in accordance with the contract.

**Retention.** Retention is a percentage based on the project value, usually 10%, which is withheld from each payment. Think of it as a kind of insurance. For large projects, the Owner typically withholds retention from the General Contractor, who may then require similar retention from subcontractors. On the other hand, construction material suppliers typically refuse retention by their contractor customers and insist on payment in full within 30 days of invoice. The Contractor should be paid in full at the end of the project only when it is confirmed that all work has been properly performed to contractual terms, and that he has paid all his subcontractors in full. This is most normally formalized by receipt of an unconditional lien release.

These guidelines can help you be confident that you will not pay for work that has not been properly performed, will not double-pay or pre-pay, and will be protected from future liens against your property. For larger projects, consult your construction manager for professional advice.

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