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Owed Money? Be Proactive.

A recent study by Sageworks highlights the need for design professionals and contractors to act aggressively in collecting their bills. In the study, Sageworks looked at the accounts receivables of architects, foundation contractors, and certain contractors who perform work close to substantial completion. The study showed that both architects and contractors are taking longer to collect their accounts receivable.

In 2006, architects waited an average of just under 55 days to get paid. In 2011, they waited around 73 days to get paid. Finishing contractors had to wait longer in both years. In 2006, they waited around 61 days on average to be paid and 80 days in 2011.

Obviously, design professionals and contractors must be proactive in collecting their receivables. Merely having your accounts receivable clerk sending out reminders about past due invoices will not work. Senior management must make phone calls and visits to their counterparts to have their invoices moved to the top of the list for payment. At the A/E firm, the project director should be making the calls. At the contractor, a principal or the project manager should be making the calls. Do not rely on one call. Repeated calls may be necessary to get your client to act.

Granted, your senior people may not like making such calls. However, they must realize that cash is what makes their firm go and what puts food on their table.

Further, many firms now have interest or late payment penalty provisions in their contracts to encourage prompt payment by their clients. They should enforce those provisions. If they do, their clients will see the need for prompt payment of their invoices.

More importantly, because payment is now delayed for some designers and contractors on average more than 70 or 80 days, they must be aware of the time deadlines of the relevant construction lien statute. In Illinois, subcontractors should send a notice to the owner and lender no later than 90 days after completion of their work if they have not been paid. Both the general contractor and subcontractors should file their mechanics lien claims with the recorder of deeds within four months of completion of their work in order to get the best possible priority over other creditors who may have liens against the property.

Because of the time it takes for a designer or contractor to collect its receivables, they must keep a close eye on accounts receivable aging. When an account has not been paid and 60 days has passed since completion of the work of the designer or contractor, they should seriously consider starting the mechanics lien process. They also should consult with their attorney to be sure of what they must do to create a valid mechanics lien claim. They should not wait any longer because gathering the information to prepare a 90-day notice and a mechanics lien claim takes time. Sometimes, it can take weeks to collect the necessary information.

Remember, don't be afraid to take bold steps to collect what you are owed.

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