

ACEC Responds To Rhode Island Controversy On State Contractor Markup

Editors Note: *The following Op-Ed by ACEC President Dave Raymond and Patrick Quinlan executive director of Rhode Island Consulting Engineers appeared in the June 21 edition of the Providence Journal.*

Raymond, Quinlan: Here's how those subcontracts work

There has been quite a stir recently about Rhode Island's paying a private contracting firm a markup of nearly 146 percent for the firm's services. Obviously, any firm that would bilk the government — that is, us taxpayers — by nearly a 150 percent profit ought to be run out of town!

Only that's not what happened.

There's a lot of misinformation swirling around — a sad disservice not only to the majority of consulting firms that do excellent and highly technical work for the government, but also the hard-working state employees who oversee those projects.

Engineering firms partner with the government on projects that help us all to drink clean water, breathe cleaner air, and drive on safer roads and bridges. They're also your neighbors, a part of the community, and they work every day on projects that enhance our quality of life. For this reason, it's important for us to correct some of the misconceptions that have been circulated in recent weeks.

To clarify, let's start with the term “markup,” which is at the center of the controversy here in Rhode Island. For most people, the term markup means profit — pure and simple. For the government, though, it means something else entirely. When government audits show a company making 150 percent markup, they're not referring to profit.

Markup includes a reasonable profit margin, but it also includes any and all costs a company incurs to do the job the government has requested it to do. As with any business, actual “profit margins” vary based on the complexity of the project. They can range from as little as 3 percent to as much as 15 percent, but they average about 10 percent.

So where does the rest of that 140 percent of the money go? Back into the local economy.

It goes to paying for computers. It goes to paying for electricity. It goes to paying for rent, the phone bill, office furniture, gas. It goes to paying for state and federal payroll and income taxes, workers' compensation, and worker training. It also goes to pay for things that we expect good companies to provide for their employees, such as health insurance, retirement pensions, and 401k plans.

The list goes on. As any small-business owner knows, running a business is a costly venture. By the time you've paid for all of your expenses, you're lucky to make much of a profit at all.

It's no different for business owners who do work for the government.

And it's no different if the service is handled by government workers. Let's be clear: The Rhode Island government must pay somebody to do the important work of the people. Whether it's a local private firm or full-time in-house government workers, the markup or overhead is the cost of paying for the resources to do the job.

For example, while a government employee's salary may only show up on the books as, say, \$45,000, that is not the true cost of that employee. The government must still pay for health insurance, retirement packages, utility bills, computers, recruiting, training — the whole range of costs associated with keeping a full-time, in-house workforce, just like any other business.

Indeed, the government usually charges more for similar services. We recently asked auditors for the Department of Defense — who often provide their services to other government agencies — what they charge. The answer was \$103 per hour for an auditor making \$60,000 a year. Can you guess what the “markup” on that contract is? It's about 200 percent!

It's also important to note that any contract involving federal dollars has multiple levels of oversight to ensure that the government is getting the best possible price from consultants.

Federal regulations require a firm's costs to be fair and reasonable, compliant with public-accounting regulations, and a host of other rules. State governments require additional regulations and oversight. And federal auditors, state auditors and public accountants all provide oversight to ensure that the rules are being followed.

In other words, it is nearly impossible for a contractor to reap anywhere near a 150-percent profit margin.

Government contracts can be complex, and we've all heard stories about those who try to game the system for short-term financial gain. Those players don't often stay in business very long, particularly in the engineering industry, where so much of the competition for work is based on a firm's past track record of delivering good service to their government clients.

The rules we have in place today are all focused on the goal of ensuring that we pay contractors an honest day's pay for an honest day's work, and that taxpayers receive real value for their investment. We should demand no less.