



National Association of Construction Auditors



# 2019 NACA CONFERENCE

Park MGM ~ Las Vegas

September 9 - 11, 2019

## Speaker Background

- Paul Pettit, VP Performance Improvement
- Revenew International LLC
- Over 25 years of progressive roles within industry and professional services
- Project Management Professional (PMP), Construction Controls Professional (CCP), Certified Construction Auditor (CCA), Certified Internal Auditor (CIA), Certified in Risk Management Assurance (CRMA) and Certified Professional EH&S Auditor (CPEA)

# Learning Objectives

- Learn about different types of rental equipment
- Hear about different ways equipment can be priced and rented
- Better understand the rent vs. buy decision and potential benefits
- Listen and see actual rental equipment findings from past construction audits
- Share your equipment rental audit findings with your fellow colleagues

# Construction Rental Equipment Topics

- Types of Rental Equipment
  - Contractor Owned Equipment
  - Third Party Owned Equipment
- Pricing of Rental Equipment
  - Contractor Owned Equipment
  - Third Party Owned Equipment
- Rent vs. Buy Decision
- Auditing Rental Equipment

# CONTRACTOR OWNED EQUIPMENT

# Contractor Owned Equipment

- Contractor Owned Equipment
  - Owned by the Contractor or setup up as a separate company by the Contractor?
  - Billed as if new, at fair market prices, or cost plus a markup?
  - Rented hourly, daily, weekly or monthly?
- Rent vs. Buy Decision
  - Will renting the equipment from the contractor cost more than buying it for the project?

## Contractor Owned Equipment (continued)

- Benefits When You Buy vs. Rent
  - It's your equipment
  - You can keep it
  - You can sell it
  - You can donate it
- Risks When You Buy vs. Rent
  - You need to track it
  - You need to maintain it
  - You need to fix/repair it

# Contractor Owned Equipment (continued)

## ■ What to Audit



- If owned by the Contractor, ensure you're paying fair market rates or cost plus a reasonable markup
- If priced hourly, daily, weekly or monthly, ensure you're getting the most advantageous rate
- If the total rental cost over the duration of the project will exceed the purchase price of the equipment, assess whether the equipment should be purchased



## Contractor Owned Equipment (continued)

- Let's Take a Look at Some Example Findings

## Contractor Owned Equipment (continued)

- The Story of the 6' A Frame Ladder



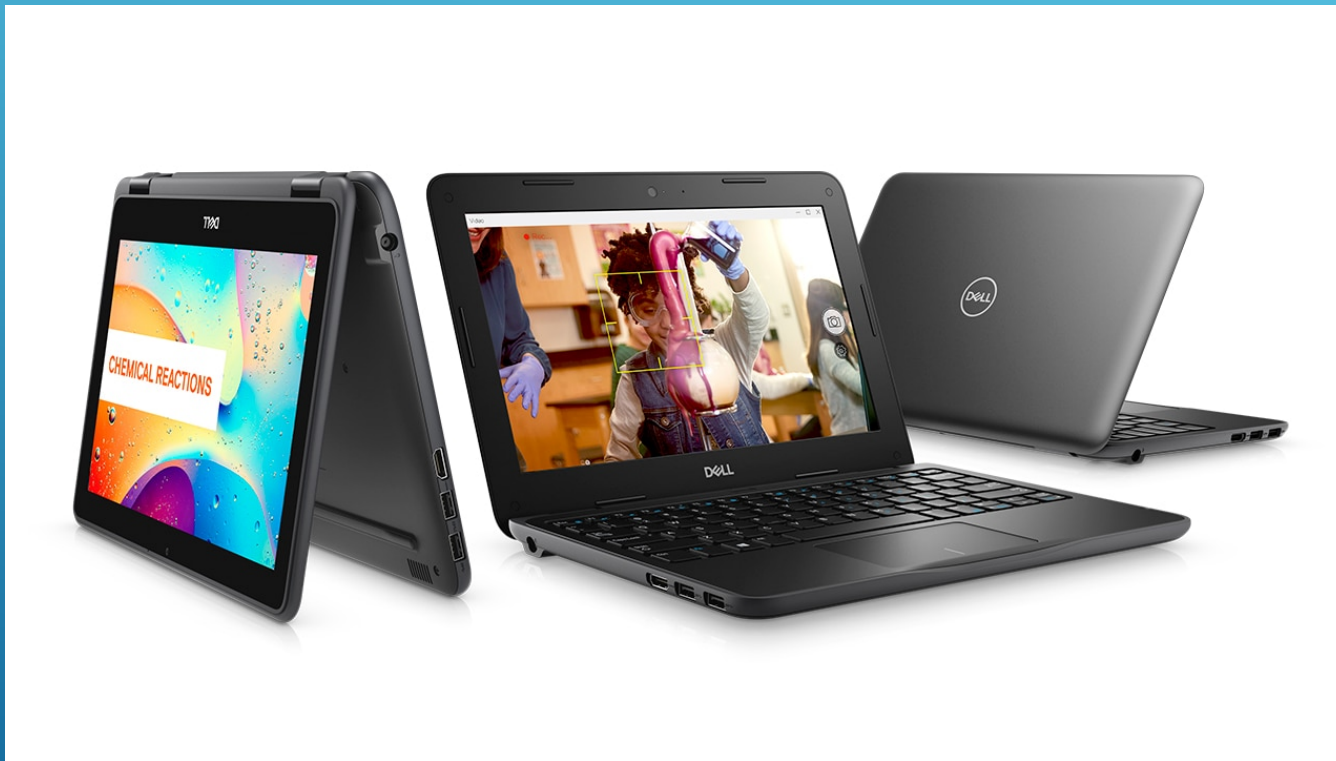
## Contractor Owned Equipment (continued)

- On sale at Home Depot for \$75
- Rented to the Project at \$10/week
- Project duration 12 months
- Project had 10 ladders
- Let's do the math:
  - $\$10/\text{week} \times 52 \text{ weeks} \times 10 \text{ ladders}$
- Total Project rental costs = \$5,200
- Total Home Depot Price \$750\*



# Contractor Owned Equipment (continued)

- The Story of the Dell Laptop



## Contractor Owned Equipment (continued)

- On sale at Dell.com for \$400
- Rented to the Project at \$100/month
- Project duration 24 months
- Project had 12 laptops
- Let's do the math:
  - $\$100/\text{month} \times 24 \text{ months} \times 12 \text{ laptops}$
- Total Project rental costs = \$28,800
- Total Dell.com Price \$4,800\*\*



## Contractor Owned Equipment (continued)

- The Story of the Backhoe Loader (Part 1)



## Contractor Owned Equipment (continued)

- Per EquipmentWatch, market price for that year, model & condition is \$800/month
- Rented to the Project at \$2,000/month
- Project duration 12 months
- Project had 4 backhoe loaders
- Let's do the math:
  - \$2,000/month x 12 months x 4 backhoes
- Total Project rental costs = \$96,000
- Total EquipmentWatch Price \$38,400\*\*\*



## Contractor Owned Equipment (continued)

- The Story of the Backhoe Loader (Part 2)





## Contractor Owned Equipment (continued)

- Rented to the Project
  - Monthly rate was \$2,000/month
  - Weekly rate was \$750/week
  - Daily rate was \$250/day
  - Hourly rate was \$50/hour
- Project duration 12 months
- Project had 4 backhoe loaders
- Operator Log showed 10 hours/day
- Project worked 6 days/week



## Contractor Owned Equipment (continued)

- Contractor charged the hourly rate due to requested OT
- Let's do the math:
  - $\$50/\text{hour} \times 10 \text{ hours/day} \times 6 \text{ days/week} \times 52 \text{ weeks} \times 4 \text{ backhoes}$
- Total project rental costs = \$624,000
- Using Owner's most advantageous rate:
  - $\$2,000/\text{month} \times 12 \text{ months} \times 4 \text{ backhoes}$
  - Total costs \$96,000
  - Contractor profit \$528,000



# THIRD PARTY OWNED EQUIPMENT

# Third Party Owned Equipment

- Third Party Owned Equipment
  - Owned by a Third Party (like United Rentals, Hertz Equipment Rentals, etc.)?
  - Billed at established or discounted rental rates?
  - Rented hourly, daily, weekly or monthly?
- Rent vs. Buy Decision
  - Will renting the equipment from the third party cost more than buying it for the project?



## Third Party Owned Equipment (continued)

- Benefits When You Buy vs. Rent
  - It's your equipment
  - You can keep it
  - You can sell it
  - You can donate it
- Risks When You Buy vs. Rent
  - You need to track it
  - You need to maintain it
  - You need to fix/repair it

## Third Party Owned Equipment (continued)

- What to Audit
  - If owned by a third party, ensure you're paying the established or discounted rate plus a reasonable markup by the contractor
  - If priced hourly, daily, weekly or monthly, ensure you're getting the most advantageous rate
  - If the total rental cost over the duration of the project will exceed the purchase price of the equipment, assess whether the equipment should be purchased

## Third Party Owned Equipment (continued)

- Let's Take a Look at Some Example Findings

## Third Party Owned Equipment (continued)





## Third Party Owned Equipment (continued)

- Rented to the Project
  - Monthly rate was \$2,000/month
  - Weekly rate was \$750/week
  - Daily rate was \$250/day
  - Hourly rate was \$50/hour
- Project duration 24 months
- Project had 5 manlifts
- Contractor markup at 20%



## Third Party Owned Equipment (continued)

- Let's do the math:
  - $\$2,000/\text{month} \times 24 \text{ months} \times 5 \text{ manlifts} \times 1.2$
  - Total Project rental costs = \$288,000
- Using actual equipment rental rate (straight boom, smooth surface, used, scheduled), reasonable markup rate and discount for multiple rentals
  - $\$1,500/\text{month} \times 24 \text{ months} \times 5 \text{ manlifts} \times 0.85 \times 1.1$
  - Total Project rental costs = \$168,300

## Third Party Owned Equipment (continued)

- Other items to consider with equipment:
  - Operator Logs
  - Fuel Logs
  - Maintenance Logs
  - Delivery and Pickup Tickets
- Other examples to share (time permitting)

# Conclusion and Takeaways

- Contractor Owned Equipment
  - Pay fair market rates or cost plus markup
  - Get the most advantageous rate
  - Make an informed Rent vs. Buy decision
- Third Party Owned Equipment
  - Pay established or discounted rates plus reasonable markup
  - Get the most advantageous rate
  - Make an informed Rent vs. Buy decision

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**Thank you! – Questions**

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