



Case Study EFG Construction Group

EFG is an MBE general contractor located in NJ that primarily works in the New York City marketplace

The Issues

- Structure of company and responsibilities not clearly defined.
- Improper Capitalization
- Lack of Bonding
- Troubled internal dynamics
- Internal accounting issues
- Lack of WIP Schedule
- Insurance
- Support team (accountant, attorney, insurance, banking relationship)

Basic Bookkeeping. EFG used QuickBooks, but still did not have a solid handle on their financials. After joining the bonding readiness programming with the MBDI team, and taking an initial set of QuickBooks classes, they acknowledged their issues and engaged a professional QuickBooks for construction accounting trainer. With this training, they were able to revise their Chart of Accounts, leading to better reports and management tools.

WIP Schedule. EFG did not operate using a Work In Progress (WIP) Schedule and did not understand its usefulness. They did not reconcile their books tying back to contracts completed. MBDI staff reviewed five versions of WIP schedules with them to help select a comprehensive WIP reconciliation report in Excel that is appropriate for their business. The firm now has a comprehensive look at the profitability of all projects, including work currently in progress, completed work, the firm's total cost to complete estimates, etc.

Financial Accounting. EFG did not have a proper construction accounting firm. Their financial presentation did not allow surety underwriters to understand the strength of the firm.

Internal Structure. During the course of the program, EFG management realized major turnover as the COO and bookkeeper left the firm. MBDI staff worked with the CEO to restructure responsibilities and staff, creating an organizational chart with a clear breakdown of responsibilities and establishing proper internal controls.



Lack of Firm Leadership. EFG did not have regular meetings with project managers, the field and estimators and office staff. They now have regularly scheduled meetings to assure that all projects are running smoothly and the CEO is abreast of all the dynamics within the firm.

Improper Capitalization. The owner had many expensive hobbies and was taking money out of the company without regard to building retained earnings. This practice has been curtailed as the CEO has a better understanding of the importance of retained earnings to growth and success.

Inadequate Insurance. Prior to the bonding program, EFG had a sub-standard General Liability policy and could not qualify for bonded projects. They now have a proper insurance program in place.

No Banking Relationship. The firm now has a private banker at Signature Bank and a line of credit.

Legal Problems. After joining the program, EFG was sued by a large prime contractor from a prior job for a large sum of money. MBDI helped the CEO sort out the legal issues and choose a top law firm experienced in construction law to represent them. We also worked closely with EFG's counsel and J.H. Cohn, their accounting firm, to assure that the legal issues were properly footnoted in the financials to allow EFG to get bonded and continue operating until they ultimately reached a settlement.

Bonding. EFG joined the DASNY Program with no bonding. MBDI staff immediately qualified them for a \$250,000 bond line short application program. Shortly thereafter, the lawsuit against EFG laid a major claim on their assets. This should have prevented them from obtaining bonding at all because they were technically bankrupt. We made a detailed presentation of the claim and its lack of merits, and explained that, even if the plaintiff were to win, the timeline of the litigation would not interfere with current jobs. EFG was able to secure a bond for a DASNY prime contract for approximately \$517,000 with HCC Surety. Without the assistance of the DASNY program, EFG would not have been able to bid for and win this project.

Future Prospects

With the changes in internal controls and infrastructure EFG has undergone, and with their lawsuit having been resolved, we foresee EFG being able to obtain a bond line of at least \$500,000 in the next 3-6 months.