

Project Cost Control

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You are the project manager nearing the end of a relatively large, complicated, and long term project. You are reasonably satisfied with the result—to the best of your knowledge, the project is achieving what it was intended to do, within planned schedule and cost goals. You have diligently kept track of your requisitions, and your project cost spreadsheet is updated and current. However, at this point, you receive a call from the Accounting group saying that you are radically over budget. The Accountant is in a state of panic, thinking that some of the blame will fall his or her way. The invoices are piling up, and the targeted cost is already a distant memory. The only approach available to you now is to dig through all of the invoices and determine what happened. This proves to be a difficult undertaking, the invoices may not always be tied to a purchase order, or there may be multiple invoices against a single purchase order. You will see charges that you do not recognize, which you must chase down. You may even see charges coming from within the organization, including some that involve labor charges associated with startup. Now you have weeks of work ahead of you, and the project is in startup. Time is something that you do not have.

In all probability, you are working in a “non-projecticized” environment. In this type of environment, the systems and culture often do not adequately support project cost control. People are measured, and rewards are based upon, the daily, weekly, monthly and annual performance of the enterprise. The personnel have to deal with your project over and above their daily work requirements, and will probably do so as quickly as they can. It may be that account numbers specific to your project were not established because, historically, all projects are captured in a universal account. Purchase orders may not be automatically linked to requisitions. If physical goods are involved, your Receiving personnel may not recognize that the

item is a part of a project. Electronic items, and the associated software, will be even more confusing. For instance, the receipt of downloaded software does not have a physical tag to hang documentation on, and one controller looks much like any other controller.

You now have many weeks of detailed investigation, at the end of which may well be some difficult actions. Even if extraneous charges have been found, those charges have to go somewhere. In the event that you are in fact over budget, appropriate management approval must be obtained. Your credibility will not be particularly high. This is not a good result for a project manager.

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This result could have been avoided. The actions necessary to avoid such a scenario must take place much earlier in the project, preferably at chartering, or soon after you are assigned as Project Manager. The first action necessary is to meet with your Accounting, Purchasing, and Receiving

personnel. These folks may think that you are poaching in their areas of authority, and may be resistant to change. You can deal with this by making it clear that you are not seeking operating authority over their function, but must have some control over your project. Thought must be given to the mechanisms of cost control and communication, and what control means.

First—Officially, the commitment for expenditures is the purchase order; however, the control of cost needs to occur at the time that the requisition is issued. This is where your spreadsheet starts. This spreadsheet contains the requisition number, supplier, amount, whatever supplier contacts you feel are necessary, running total, amount remaining, and cost index, and it will be updated with the purchase order number, issue date, and delivery date. This will take some time to create and keep updated, but it will be a timesaver over the long term. Requisitions have their own approval process, and management

will appreciate your ability to show the project cost status at approval. By the way, this spreadsheet can be expanded to include item serial numbers, warranty information, and service contacts. This will be a time saver for your operating personnel. A copy of the project spreadsheet should be openly available to all project stakeholders. This is easy to do if you have a LAN or are internet enabled, with the location of the spreadsheet communicated as part of project reporting. The use of more advanced project management software is certainly appropriate; however, these software packages are often not universally available to all stakeholders. Also, all stakeholders may not be fully capable in the use of such software. Most of the more advanced software has the capability to export specific data to a spreadsheet. However, the administration of data export, file maintenance, and information timeliness may become factors.

Second—You need to define levels of control, and how you are going to operate. The four levels of control are:

1. Knowledge of some of the requisitions. You see those requisitions that you generate, or those from areas that have agreed to allow you to see requisitions.
2. Knowledge of all requisitions impacting the project. Requisitions that impact the project are communicated to you. These requisitions may be coming to your attention after the fact; Purchase Orders may already be released.
3. Control of all requisitions. All requisitions must be cleared through you. You might have the authority to veto, but not to approve.
4. Authority over all requisitions. You decide what is committed, and for how much. You have approval authority.

In order to have reasonable confidence that you have the ability to proactively control expenditures, you need to be at the third level—control of all requisitions. It is obvious that the first option will not provide control, and you could easily end up in the scenario just described. The second option, knowledge of all requisitions, does not provide true control either. However, it will provide the project cost status that can be communicated appropriately, and other stakeholders can be asked to act as necessary. The last option, authority over all requisitions, will also provide control. However, this authority level can be dangerous. While most of us are very honest, not all Project Managers are. If you do have this level of authority, you must practice extreme caution concerning your decision making and documentation. The only real reason to have this authority is to be able to act very quickly in situations requiring immediate action. Instead of having full authority, you can structure the planned expenditures with a pre-approved amount for emergency situations.

Third—If your project is large enough, ask Accounting to establish an account number specific to the project. This account number is required on the requisition, and should carry over to the purchase order. It will not consistently carry over to supplier invoices, but can be linked via the purchase order. In some cases, sub account numbers will be useful to divide the charges by type—for instance, hardware, controls, software, and so on. Generally, no more than a half dozen sub account numbers are necessary. The more sub account numbers there are, the greater the administrative decision making and tracking.

Fourth—Purchasing must act as a check on requisitions. Any requisition that arrives that has not gone through your control point must be flagged. Whether or not a purchase order is issued in this event really depends on the situation. For instance, you, or those you designate to be the checkpoint, may be unavailable. A prior understanding with the Purchasing Agent is invaluable, and will save confusion down the road.

Fifth—Receiving personnel will be handling all sorts of receivables that they do not normally handle. Some of these items will inevitably end up where they should not be. One of the signs of this situation is having to search through the business to find something that has been delivered. For a Project Manager, this is wasted time. At a minimum, an early meeting with Receiving will give them a “heads up” concerning the project. They will get an idea of what will be coming in, and have a reasonable idea of when. If possible, a physical receiving location may be designated.

With these control mechanisms in place, you have a good chance of staying apprised of the project cost performance due to commitments. In a situation where the budget is going to be exceeded, you have sufficient data to determine what the problem is, and why. It is better to face this as soon as it is known. A project may go over budget because the original estimate was flawed, or because additional expenditures may be necessary to achieve the project intent. Present this information to management and project stakeholders, and appropriate decisions can be made at the right level. After all, as a Project Manager, if you have to take some lumps, you do not want it to be because you failed to track costs and manage the project budget.

About the Author

Sam Anderson has 35 years of experience in manufacturing, industrial operations, facility and construction management, teaching and consulting. He has a bachelors degree in general engineering from the University of Illinois and a masters degree in industrial operations from Bradley University. In addition to certification as a Project Management Professional (PMP), he has American Society of Quality certification as a Six Sigma Black Belt.