A Forged Notary Stamp and the Fake Bonding Company Just Skipped Town…Now What?

Christopher D. Strang and Brendan Carter

A fundamental piece of public construction projects is the requirement of contractors to provide payment and performance bonds to government contracting entities. This requirement has its roots in the Miller Act, a Federal statute enacted in 1935 to protect subcontractors from general contractor non-payment and default during the Great Depression. The function of the Miller Act was to act as de facto common law mechanic’s lien on government projects, which would be immune from lien protections through the doctrine of sovereign immunity. This concept of requiring payment and performance bonds spread across the country with numerous states enacting their own “Little Miller Acts” which individually tailored legislation to address each state’s specific concerns related to bond requirements. The Commonwealth of Massachusetts enacted such a public bidding requirement through its own “Little Miller Act” in M. G. L. c. 149, §29 (Massachusetts Bond Statute).

The Massachusetts Bond Statute requires that, “officers or agents contracting in behalf of the commonwealth” will be responsible for “[obtaining] security by bond” for payment and performance of contractors engaged in public projects. The Massachusetts Bond Statute also provides criteria for sureties that issue payment and performance bonds for construction projects. It requires that sureties be organized either under Massachusetts insurance regulations or, as a foreign surety company, be licensed to transact business in the state with the Massachusetts Division of Insurance, and then finally be approved by the U.S. Department of Treasury to provide bonds on federal projects. Much like the Miller Act, the Massachusetts Bond Statute is silent on the duties and protocol for government employees to authenticate sureties or the veracity of project-provided bonds, but a recent decision does provide some guidance.

The Federal Government’s duty, or lack thereof, in the Miller Act was established in United States v. Smith. In Smith, Plaintiff was a subcontractor on an Air Force project where the general contractor failed to pay Smith for labor and materials. The government had not secured a payment bond. Smith sued the government for negligence based upon the Federal Tort Claims Act (FTCA). The Fifth Circuit found that the FTCA was not applicable to the Miller Act because the FTCA requires an analogous private duty to exist in order for a claim of negligence to be successful and there is no private action for failure to secure a payment bond. In Hardaway Company v. United States Army Corp of Engineers, the Eleventh Circuit further found that the government has no
duty to investigate the financial status of a surety. Not all State courts follow the Federal Court’s Miller Act decisions though. Many states do establish a duty for state and local government entities as it relates to performance bonds and a Massachusetts Superior Court judge recently ruled that Massachusetts awarding authorities on public construction projects do in fact have a duty to confirm that the payment bonds submitted by general contractors are valid.

In Kapiloff’s Glass, Inc. et.al. v. University of Massachusetts (UMASS), four subcontractors who provided labor and materials on scopes of work for metal windows, interior glass, roofing materials, and custom laser curtains on a University of Massachusetts (UMass) construction project brought suit against the general contractor and payment bond surety named in the bond. Collectively, they each obtained favorable judgments in the amount of $500,000 and the general contractor promptly filed bankruptcy. Additionally, the payment bond proved to be fake with the notary stamp on it even being forged. The surety named in conjunction with bond was not an organization registered to do business in the Massachusetts Division of Insurance and an investigation revealed that an entity going by that surety name had been issuing fake bonds on construction projects across the country for years, with many uncollectable judgments entered against it.

The subcontractors brought suit against UMass under the Massachusetts Tort Claims act, alleging that UMass was negligent in not at least verifying that the bond was issued by a surety registered to do business with the Massachusetts Division of Insurance. UMass first argued, in a motion to dismiss, that it was not an officer or agent of the Commonwealth within the meaning of the statute. The court ruled that this defense was “neither logical nor in accord with common sense.”

The court decision explained in great detail the remedial nature of the statute, and how its express purpose is to protect subcontractors, and not the Commonwealth. It cited many prior court decisions opining that the statute should be construed liberally to accomplish its intended purpose of getting subcontractors and material suppliers paid for their work. The statutory language plainly states that the payment bond a general contractor provides must be from a surety registered to do business with the Commonwealth’s Division of Insurance. Without the Commonwealth having the modest duty of checking to verify such registration, the statutory language is meaningless. No subcontractor would have access to the general contractor’s payment bond prior to bid, as the general contractor is yet to be selected at that point. The Superior Court’s decision was not appealed.

The decision in Kapiloff aligns itself with court rulings in other jurisdictions that assigns the responsibility of verifying payment bonds to the governmental contracting agency. In Kammer Asphalt Paving Co. v. East Chia Twp., the plaintiff was a paving subcontractor on a school project with payment and performance bonds per Michigan statute. During construction, multiple subcontractors expressed concerns over late payments and the Township pointed to the payment bond to assuage any concerns. The Township later discovered that the bonds were fraudulent and terminated the general contractor for failure to furnish the required bonds. The plaintiff filed suit against the Township and summary judgment was granted on the negligence claim with the trial court finding no legal duty to ensure the validity of the bonds. The Supreme Court of Michigan found that the statute required a government entity to verify the validity of a bond when a subcontractor requested a certified copy, and the Township had not done so.

The California Fourth District Court of Appeals also found that the city had a mandatory duty under California code to investigate the validity of a bond after its initial rejection. In Walt Rankin & Associates, Inc. v. City of Murrieta, the plaintiff was subcontracted to furnish and install playground equipment for the city of Murrieta. Per California civil code, the general contractor furnished payment and performance bonds to the city. After an initial rejection of the bond, the city approved the bonds without any further investigation into their validity. The plaintiffs completed their contract work and the general contractor failed to make payment. The subsequent claim on the bond found that the surety was a Turks and Caicos based corporation with no assets and not authorized to do business in California. As a result of its lack of investigation, the city was negligent under the California Tort Claims Act.

In Atlanta Mechanical, Inc. v. Dekalb County, the Georgia Court of Appeals found an investigatory duty similar to Walt Rankin. Defendant contracted to construct a records facility and the general contractor submitted payment and performance bonds per Georgia law. The surety was not licensed to do business in Georgia and the statute required an affidavit stating that it held real estate in equal value to the bond. The statute imposes liability to the county for any losses realized by subcontractors for the county’s acceptance of a “bond not taken in the manner and form as required [.]” The county then prepared and accepted the affidavit from the surety with no further investigation. Subsequently it was found that the affidavit was false and the surety did not own the purported real estate. The Georgia Court of Appeals found that the county breached a duty to the plaintiff on account of the legally deficient real estate listed in the surety’s affidavit and the county’s failure to investigate it.

Finally, in Sloan Construction Company Inc. v. Southco Grassing, Inc., the South Carolina Supreme Court rejected the characterization of its statute as a “Little Miller Act,” but did find a duty for the state. Sloan entered into a subcontract to provide asphalt paving on a Department of Transportation project. The general contractor secured a payment bond but its surety became insolvent and the bond was canceled. A replacement bond was never
received and Sloan did not receive full payment. Sloan brought a negligence action against SCDOT under the South Carolina Tort Claims Act for not securing the statutorily required payment bond. The Court found that the state’s bond claim differed from the Miller Act because only a payment bond was required, not a performance bond and therefore was not a “Little Miller Act.” The court further found that South Carolina’s law required that a right of action was implied with the creation of a statute created for a specific benefit to a private party, i.e. the subcontractor, rather than the public at large, i.e. the protection the state through the bond. Furthermore, the Court found that an agency's failure to secure a statutory bond does give rise to a third-party beneficiary breach of contract claim by a subcontractor.

The Miller Act and its progeny of “Little Miller Acts” have been an effective means to protect both the government contracting agencies and contractors from bad actors in the industry or companies that found themselves contracted with an insolvent entity. Payment and performance bonds provide confidence to contractors that there is a mechanism in place which will allow for payment in the event of contractor default. This system benefits the government by keeping prices down by allocating risk it cannot assume to a third party surety. Some states have decided that such a system only works if a contractor has the certainty that a bond it may rely upon for payment is sound and verified to exist, and the contracting agency has a duty to verify such bonds because they are in the best administrative position to do so.

Endnotes

2. M.G. L. c. 149, §29
3. M.G. L. c. 149, §29D
6. Kapiloff’s Glass, Inc. et.al. v. University of Massachusetts (UMASS), et.al., MICV2014-08766
The ABA’s Problems Are Our Problems

The Forum on Construction Law ("Forum") is flourishing. We recently had over 700 people at our Fall 2017 meeting in Boston. Membership remains steady, our finances are sound and we continue to provide first rate CLE to our members and others who join us at our national programs. Our Divisions are hot and member interest in the Forum has never been higher.

However, we are part of the American Bar Association ("ABA"). The ABA is facing challenges. The ABA is losing members at rates that are not sustainable. The coming baby boomer retirements as well as statistics that show younger members are not joiners of trade associations like the ABA, will hurt the ABA.

According to the Bureau of Labor Statistics, there are over 1.2 million lawyers in the United States. Yet, less than 25% are dues paying members of the ABA. Only 6% of sole practitioners are members of the ABA, according to data shared with us by the ABA. Lawyers are questioning the value in belonging to the ABA.

Faced with these challenges, the ABA is addressing the issue head on. As Forum members, we must join the ABA in seeking ways for it to be more successful. Its failure will be our failure. Its success will be our success. We will continue to be the best place for construction lawyers to meet, interact, obtain their legal education, network and the like, but we have to join the ABA in helping it solve its problems.

The ABA cannot continue doing things as it has in the past. The ABA is not a commodity that can be driven by price, but rather, it has to demonstrate value to lawyers. Is there value in being a member of the ABA? Or alternatively, is the value in being a member of a Section, Division of Forum? Obviously, we believe that the value lies in being a member of a Section, Division or Forum such as the Forum on Construction Law.

OneABA is the ABA’s approach to addressing its problems. OneABA seeks to unlock the value of ABA membership to more lawyers and to reduce its cumbersome and complex bureaucracy. It seeks to make membership more convenient for those in law firms, legal departments, courts, government, military and public service organizations. It seeks to address the growing challenges that the ABA faces from competitive, demographic, and cultural shifts in our profession and society. It seeks to create a new membership model that reflects what today’s legal professionals desire. It will accommodate growth and future innovation.

How will it do this? First, it will eliminate the multitude of dues structures throughout the ABA and create a simplified dues structure with a reduced payment. At this time, the proposal calls for dues to max out at $350 for lawyers in private practice 20 years or more. With payment of your dues, you will obtain membership in two Sections, Divisions or Forums at no additional cost and eligible lawyers will be automatically enrolled in the Young Lawyers Divisions or Senior Lawyers Division. Members will be able to join additional Sections, Divisions or Forums for a nominal fee. Members will enjoy unlimited access to a free CLE library. Additional benefits are currently being considered.

What does this mean for us in the Forum on Construction Law? It means that we have to be better stewards of our finances, look to increase non-dues revenue and maintain and seek to increase our membership. Reduced dues to join the ABA and free enrollment in two Sections, Divisions or Forums will result in a loss of dues revenue to our Forum. The approximate amount of lost dues, as well as when the loss of dues revenue will impact us are still being determined. In all likelihood, we will be fine for a few years. However, now is the time to look at our resources. We have to find ways to increase our membership. We need to focus on better recruitment of young lawyers and prove to young lawyers that there is value in joining the Forum on Construction Law. We need to capture the successes that many of our young lawyers have had by being members of the Forum and make those success stories available to everyone. We need to make diverse lawyers aware that a friendly home exists within the Forum on Construction Law.

In addition, we need to maintain our relationships with our sponsors and exhibitors who provide great resources to us financially and otherwise. We have become dependent upon our sponsors and exhibitors. That dependence will never go away, but will in all likelihood, increase. While we have had a successful year in terms of book sales, we cannot depend upon book sales going forward to be a significant source of revenue. Young people are simply not buying books the way lawyers did in the past. We are experimenting with a joint online publication with the Associated General Contractors of America in an effort to determine our ability to be profitable in the online publications market. We need to continue to put on first rate programs so that we can derive revenue to meet our budgets every year.

We are also challenged by our lack of staffing. The Forums have an inordinately small amount of staff compared to other Sections and Divisions of the ABA and as a result, we lack the staff resources to market, interact with our members and develop programs on top of what we currently provide. We must re-examine our staffing allocation and seek to increase staff if possible. Faced with all of these challenges though, the Forum on Construction Law is strong enough to meet them head on and succeed.

I am convinced we can do so.

Thomas L. Rosenberg, Chair-Elect, Roetzel & Andress, Columbus, OH
Cultural and language barriers, trade restrictions, local regulations—these are just a few of the key issues counsel should consider when their clients pursue foreign projects. In this article I explore these topics, based on my experience as in-house counsel for a mid-sized U.S.-based engineering consulting firm that is increasingly expanding its international services.

In-house counsel for engineering firms that want to do more international work, but need to improve their international awareness may use this article as a general guide. The information contained in this article should not be construed as an exhaustive list for doing work in any foreign country. You must still conduct your own research, hire local counsel and other advisors, and address issues that are specific to the country, the project, and your firm.

**Trade Restrictions**

**U.S. Sanctions**

One of the first questions in-house counsel should ask when their firm is contemplating a foreign project is whether U.S. companies are permitted to transact business in the country or with a particular party. The Office of Foreign Assets Control lists countries with which U.S. firms are strictly prohibited to conduct business (the “OFAC List”). In addition, U.S. firms must avoid any transaction with a country or person on any of the lists of prohibited parties maintained by the Commerce, State, or Treasury Departments of the U.S. Government. Your firm should have procedures for checking such lists before committing to a foreign project opportunity. Checks should also include any potential subconsultants or other vendors your firm intends to use on a foreign project.

**Export Controls**

The applicable Export Control Laws are the International Trade in Arms Regulations and Export Administration Regulation, and, if your firm provides engineering services to the nuclear industry, 10 CFR Part 810 promulgated by the Department of Energy. The purpose of these laws is to protect national security. Violations can result in fines and being barred from doing future work for the U.S. Government.

It is critical to understand the type of information your firm’s engineers will receive from your firm’s client and other project participants, and the information they will be expected to generate and transmit during the course of the project. The U.S. restricts the export of certain items, technology, and information to Foreign Nationals (as defined under the law) without prior authorization from the U.S. Government. Granting access to “controlled” information to a Foreign National within the U.S., including a firm’s Foreign National employees, is a deemed export. Keep in mind that traveling with certain information on laptops, or bringing certain equipment abroad without prior authorization can also be an export and violate U.S. Export Control Laws.

To the extent applicable, your firm’s contract with its client and any subconsultants should address compliance with Export Control Laws. Your firm should also provide awareness training to employees and other project participants within the firm’s control.

**U.S. Foreign Corrupt Practices Act (FCPA) and Foreign Anti-Bribery Laws**

The FCPA prohibits bribery of a foreign official and, if violated, can result in fines and imprisonment for companies and individuals. One of the keys to controlling the potential for corruption on a project is being aware of the corruption climate of a foreign country. The website of the organization Transparency International is a good resource for this information.

As with the Export Control Laws, another key to controlling the potential for corruption on a project is obtaining commitments in writing from clients and subconsultants that they will abide by applicable anti-corruption laws. It is important to keep in mind that other countries beyond the U.S. have anti-bribery laws and some of these laws are distinctly different than the FCPA.

Training staff to identify “red flags,” which are indicators that bribery among project team members is occurring or there is a risk that it will or could occur, is also key to controlling the potential for corruption on a project. As with the trade restrictions discussed above, it is advisable that your firm issue guidelines to employees and implement procedures to ensure compliance with anti-corruption laws.

**Registration**

**Business Registration**

Some countries require that a foreign firm register to transact business in the foreign country. Canada has a similar business registration method to the U.S., whereby firms must obtain an extra-provincial license that is similar to a certificate of authorization issued by a Secretary of State office in the states. Some countries such as New Zealand require that a firm be listed on a published Register as a foreign firm conducting business within the country.
Professional Registration
From my experience, rules on requirements for professional registration in the U.S. and Canada are much broader than those of other countries. In the U.S. and Canada, holding oneself out as a professional engineer requires registration in the jurisdiction where the representation is made. This is not to say that registration is not an important issue to consider when your firm is providing services outside the U.S. or Canada. Registration rules can still vary tremendously from country to country and to interpret them often requires consultation with local counsel.

Your firm’s role on a project will often dictate whether it needs local registration. Getting a local engineer to take responsibility for a design is one option to get around registration requirements in some countries, but is not appropriate everywhere. Some countries require the individual and not the firm to be registered. Other countries require professional registration for certain types of services or, as in the case of Vietnam, an engineer’s mere presence on the project site. To be the engineer of record on a project, many countries in the Middle East require formation of a separate local entity majority owned by a local firm.

Professional Liability Insurance
Contracts for international projects sometimes require engineering firms to purchase local professional liability insurance coverage. If you have worldwide professional liability coverage, this entails a local insurance company fronting the existing professional liability policy. Pay close attention if your firm is working in the Middle East, as Decennial Liability exposure can be significant. Depending on your services, you should seek this coverage, as well as coverage for other statutory liability imposed on design professionals in countries where a Civil Code legal system exists.

Protection of Intellectual Property and Confidential Information
The more employees travel internationally with laptops and handheld devices, the more risks there are to the confidentiality of company information, client confidential information, or employee personal information. This information is extremely valuable to firms, foreign competitors, and criminals, so you should exercise due care to protect it. Your information technology department should be able to encrypt laptops or provide clean laptops for international business travel purposes.

Contracts
A contract for a foreign project can be a trap for the unwary. The following contract clauses are important to include in a foreign contract and require careful drafting.

Governing Law & Language
If the governing law of the contract is that of the foreign country, be aware of the implications. Seek advice from local counsel so that you know how the contract will be interpreted, especially if you want to ensure that certain provisions such as indemnification and limitations of liability that you may have included in the agreement are enforceable.

Dispute Resolution
Any dispute under the contract will be subject to the governing law of the contract. Foreign litigation is very complex. It can take years to resolve, is quite costly, and strong local biases can exist. Enforcing a judgment for nonpayment of services can be impossible in some jurisdictions. In my experience, International Chamber of Commerce Arbitration can be a good middle ground as a dispute resolution mechanism in a foreign contract.

Force Majeure
Anything can happen on a project. It is important that your firm is protected by an appropriate force majeure clause so that if conditions prevent your firm from delivering its services on schedule, or significantly increase your firm’s costs associated with its services, your firm will be excused. Under such circumstances, your firm will want to renegotiate its schedule and fees. So long as the force majeure clause reasonably contemplates the situation for which you are seeking excuse from performance, it should be upheld.

Conclusion
If you are not already established in a foreign country and you are going after foreign work as opportunities arise, the most important advice I can provide on how to turn an international project opportunity into a successful project is to know your client, the hidden costs, administrative burdens, and key compliance issues in doing international work. Taking on foreign work without any awareness of the complexities entailed can expose a firm to great risk. However, avoiding foreign work altogether can cause a firm to miss out on opportunities to work on unique technical challenges and to enrich staff. When done right, in-house counsel can help position a firm to be a successful participant in the ever-expanding global practice of engineering.

Beverly Tompkins, Simpson Gumpertz & Heger Inc., Waltham, MA, Division 11 (Corporate Counsel)
The Nominating Committee met on January 18, 2018 to consider nominees for the position of Chair-Elect of the Forum on Construction Law, as well as the nomination of four members for positions on the Governing Committee of the Forum on Construction Law. The members of the Nominating Committee were Dave Senter, Terry Brookie, Allen Estes, Jeff Cruz, Tracy James and Michael K. Kamprath. I served as Chairperson of the Nominating Committee. The Nominating Committee received three applications for the position of Chair-Elect and 10 applications for Governing Committee positions. After careful and thorough consideration, the Committee nominated as follows:

Chair-Elect – Kristine Kubes of Minneapolis, MN
Governing Committee:
• Cathy Altman of Dallas, TX
• Keith Bergeron of New Orleans, LA
• Edward Gentilcore of Pittsburgh, PA
• Tracy Steedman of Baltimore, MD

In accordance with Section 6.1(b) of the Forum’s By-laws, Ms. Kubes was determined to have the experience, leadership abilities, passion, compassion and drive to serve as the Chair-Elect. Her demonstrated performance as the Chairperson of the Special Programs and Education Committee for the past several years as well as her prior involvement in the Forum as Chair of Division 3, as a speaker and in other activities makes her well suited for this position.

Ms. Altman has been actively involved in Forum activities. Her performance as a Program Co-Chair, Chairperson of a Division and Program Co-Chair of the Trial Academy demonstrates her ability to serve as a Governing Committee member.

Ms. Bergeron has served the Forum in many capacities. He has spoken at many programs. He has been a Division Chair and a Program Co-Chair. The Nominating Committee felt he would be an excellent member of the Governing Committee.

Mr. Gentilcore has served as a Program Co-Chair, Chairperson of a Division, engaged in marketing activities and has performed other roles for the Forum such that the Nominating Committee believes he is well suited to serve on the Governing Committee.

Ms. Steedman has served as a Program Co-Chair, Division Chair, editor of books, speaker on many occasions and has engaged in other Forum activities. The Nominating Committee believes that she will be an excellent member of the Governing Committee.

In accordance with Section 6.1(b) of the By-laws, within seven days after delivery of this report, the name and address of each nominee is to be posted on the Forum’s website. I am providing you with this information.

• Kristine Kubes, Kubes Law Office, PLLC, 275 Market Street, Suite 566, Minneapolis, MN 55405
• Cathy Altman, Carington, Coleman, Sloman & Blumenthal, LLP, 901 Main Street, Suite 5500, Dallas, TX 75202
• Keith Bergeron, Deutsch Kerrigan, LLP, 755 Magazine Street, New Orleans, LA 70130
• Edward Gentilcore, Sherrard, German & Kelly, P.C., 535 Smithfield Street, Suite 300, Pittsburgh, PA 15222
• Tracy Steedman, Adelberg, Rudow, 7 St. Paul Street, Suite 600, Baltimore, MD 21202

I want to thank you for the opportunity to serve as Chairperson of the Nominating Committee. The Nominating Committee worked very hard and took extremely serious its role in considering all applicants for the available positions. I am personally proud of the efforts undertaken by everyone on the Nominating Committee.

If you have any questions or need any additional information, please contact me.

Very truly yours,
Thomas L. Rosenberg
Chairperson
Nominating Committee – 2018
Calling All Forum Members: Come to New Orleans for the ABA Forum on Construction Law 2018 Annual Meeting!

This year, we’re . . . “Taking Care of Business: A Mini-MBA Program for the Construction Lawyer.” As the Meeting title suggests, during the 2018 Annual’s sessions, you will be immersed in topics focused on the business aspects of the construction industry.

Join us on April 11-13, 2018 at The Roosevelt New Orleans—a Waldorf Astoria hotel, for three days of networking, education from leaders in the construction industry and the construction law community, collaboration and all the food, fun and frivolity you would expect in the Crescent City.

Attend the Advocacy Practicum, a half-day session focused on understanding and presenting an effective case on delay damages. Sign up for the Diversity Luncheon, featuring a Former Forum Leadership Panel comprised of five diverse Chairs Emeriti of the Forum, who will share their experiences with growing diversity in the construction industry and within the Forum.

March with us, NOLA-Style, in our own Forum Parade to the Welcome Reception being held at the House of Blues. After that, plan to revel with fellow Forum night-owls at Bourbon Heat on Bourbon Street before your next day of Forum activities and sessions. Then, make sure to stay the weekend for the French Quarter Festival. This year marks the 35th Anniversary of the largest free music festival in the South, showcasing local music on multiple stages throughout the City of New Orleans.

The Forum on Construction Law Annual Meeting and the French Quarter Festival all await you in New Orleans!

Registration Opening Soon

Program Team: Tamara Lindsay, Program Co-Chair; Carson Fisk, Program Co-Chair; and Dan King, GC Liaison