

# Contract Administration - Monitoring



Presented by the  
Department of General Services  
Bureau of Procurement

Rev. November 2010





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# Topics of Discussion

- Contract Management
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  - Duties & Responsibilities
  - Monitoring Performance
  - Determining what to monitor
  - Establish Expectations
  - Risk Assessment
  - Using monitoring review results
- Contractor Responsibility
  - Non-Performance Issues
  - Cancellation





# Course Objectives

Upon Completion of this course, you should be able to:

- Understand how to ensure that a contractor is performing the work required under a contract and what to do if they are not
- Understand what Risk Assessment is and how it is used in monitoring contractors
- Understand Contractor Responsibility non-performance issues and cancellation.





# Contract Management

Contract Management begins after a contract has been executed and does not end until the material has been delivered and accepted or until final acceptance of the work effort has been accomplished and the contract closed with final payment to the contractor. The obligations accepted by the contractor are stated in the contract, however, that does not guarantee the contractor will perform to the agency's expectations. Monitoring and control are essential to ensure the contractor uses and manages its resources in a manner that will provide the agency exactly what it has contracted for in terms of quality, timeliness, and economy of cost.





# Review of Reports

Reports required by the contract will assist the agency in monitoring the contractor's general work effort, but cannot be relied upon to accurately measure contractor progress. The contact person designated in the contract performs the key role in managing the contract and monitoring the contractor's performance.





# Duties and Responsibilities

The duties and responsibilities of a contact person include, but are not limited to the following:

1. Ensure the contractor is performing work as required by the contract.
2. Ensure the contractor's personnel charged to the contract are actually working on the contract.
3. Accept and evaluate the quality of deliverables.
4. Compare monies expended with percentage of completion.
5. Perform administrative details concerned with the approval of subcontractors, etc.
6. Alert appropriate agency personnel, including the contracting officer to any problems that may have a negative effect on the project.





# Duties and Responsibilities

(continued)

7. Immediately alert and obtain guidance from the contracting officer and purchasing agency counsel if contractor is not performing satisfactorily or if terms of the contract are being violated.
8. Conduct on-site visits to observe work in progress.
9. Coordinate any appropriate contract amendments.
10. Before final payment, measure the work performed against the work statement. If performance does not meet contract requirements, it is incumbent upon the contact person to identify deficiencies and to advise the contracting officer so remedial action can be taken before final payment is made.
11. Prepare a final evaluation of the contractor's performance and place a copy in the contract file for reference in future bidding.





# Monitoring Performance

A precursor to monitoring supplier performance is to ensure all procurement documents be established with clear specifications that are comprehensive, measurable and enforceable.

Both the receiver/project manager and the purchaser have roles in monitoring supplier performance and communicating/escalating issues to their internal management team.

Monitoring is needed to ensure that the supplier is meeting the terms and conditions of the procurement documents.

Monitoring will include, but not be limited to, items such as on-time delivery, responsiveness, completion of all requirements, and quality of supply or service provided.





# Monitoring Performance (continued)

Monitoring the performance of the contractor is a key function of proper contract administration. The purpose is to ensure that the contractor is performing all duties in accordance with the contract and for the agency to be aware of and address any developing problems or issues.

Small dollar value or less complex contracts normally, require little, if any, monitoring. However, that does not preclude the possibility of more detailed monitoring if deemed necessary by the agency. Conversely, large dollar contracts may need little monitoring if the items or services purchased are not complex, and the agency is comfortable with the contractor's performance and level of risk associated with the contract.





# Monitoring Performance (continued)

Several areas of contract monitoring are discussed in this course including:

1. Determining what to monitor and the type of monitoring.
2. How to establish expectations so that individuals responsible for contract monitoring and contractors understand what will be monitored and the criteria used to evaluate contractor performance.
3. How to use risk assessment to select which contractors should be reviewed, the level of review for each contractor, and the subject matter to include in the review.
4. How to use the results of monitoring reviews.





# Determining what to monitor

Consider the following questions when determining what to monitor:

- How will you know that the agency is receiving what is paid for?
- How will you know that the contractor is complying with the terms of the contract?

Review the statement of work and other contract terms, including contractor compliance requirements. All of these requirements are deliverables that the contractor agreed to when the contract was executed or the purchase order was issued. Design the monitoring program to focus on items that are most important. Generally, this means to focus the monitoring on the outcomes that result from the contract.





# Determining what to monitor

(continued)

Consider the effect that the contract payment methodology has on what needs to be monitored. For example, if payment is based on a firm fixed price (a specific amount of money for a unit of service), it is not necessary to verify contractor's expenses as they are not relevant to this type of contract. Under a firm, fixed price contract, the agency should ensure that:

- The number of units billed is the same as the number of units received.
- The quantity and price agree with the contract amounts.
- The units meet or exceed the contract specifications.





# Determining what to monitor

(continued)

If the contract is a cost reimbursement contract wherein the agency pays for the contractor's cost, the agency needs to consider the following monitoring reviews:

- Was the item billed really purchased by the contractor?
- Was the item billed used for the purpose of the contract?
- Was the item necessary and reasonable for the purpose of the contract?
- Was the item of the quality and quantity specified in the contract?
- Was the item listed in the contractor's budget and approved by the agency? The agency must review the contract to see how costs are reimbursed.





# Determining what to monitor

(continued)

## Monitoring Types

There are different types of monitoring available, including but not limited to:

- **Site Visits (full and limited scope).**
  - Full scope site visits are typically scheduled visits to the contractor's place of business. They are based on risk assessment and cover a broad range of contract compliance and performance issues.
  - Limited scope site visits typically focus on a particular problem. Examples of some typical reasons for considering a limited scope site visit include, but are not limited to:
    - Other contractors have experienced problems in a specific area and there is an indication that this contractor might be experiencing the same problem.
    - Contractor has provided a corrective action plan for a problem, but the agency is not certain that the proposed solution will resolve the problem.





# Determining what to monitor

(continued)

- **Desk Review.** Typically these are agency reviews of reports submitted by the contractor to the agency. Agencies should review the reports for the following;
  - Compare the actual performance against the contract requirements. Is the contractor performing in accordance with the contract requirements?
  - Compare actual expenditures to the approved budget. Is the contractor following their approved budget plan?
  - Compare the current period to prior periods. Are there any unexplained trends? Is the contractor performing work significantly different from the last period or the last year?





# Determining what to monitor

(continued)

- Compare what the current contractor is doing in comparison with other contractors performing similar work.
- Compare the relationships between key components of the report such as:
  - The cost per unit of service or the percentage of the fees charged to the program;
  - The charge in variable costs compared to the units of services provided; and
  - Reported salaries match staffing plan.
- Compare the report with what is known about the contractor's operating environment. Did a weather emergency in the area recently increase the cost of construction supplies or in the cause of a temporary reduction in services provided?





# Determining what to monitor

(continued)

- **Expenditure Document Review.** These are reviews of contractor invoices to determine if the rates and services are the same as allowed by the contract. Determine if the supporting documents such as cost reports, third party receipts for expenses, detailed client information, etc., adequately support the request for payment. If the contractor consistently provides incorrect invoices and/or the supporting document is insufficient to support the request, then additional monitoring such as an on-site visit may be necessary.





# Establish Expectations

The following section explains how to establish expectations so that individuals responsible for contract monitoring and the contractors all understand what will be monitored and the criteria used to evaluate contractor performance.





# Establish Expectations (continued)

## Site Visits

More complex contracts and contracts that the agency perceives as having a higher degree of risk may require both reviews and visits to the contractor's facilities to ensure progress is in accordance with the contract schedule. Site visits can be used to verify actual performance against scheduled or reported performance. They can also ensure that the contractor is dedicating sufficient resources and appropriate personnel to the contract. Site visits also reinforce the importance of the contract to the contractor, as well as provide the opportunity to enhance communication with the contractor.





# Establish Expectations (continued)

To perform a site visit, the agency should:

- Develop a comprehensive and objective monitoring checklist which:
  - Focuses on the outcomes, but also includes compliance requirements. Monitoring criteria should reference the applicable contract requirement.
  - Assess contractor performance the same way. Are any errors considered minor or inconsequential? If so, these must be outlined up front so that the contract is monitored consistently. Clarify areas where monitors may exercise judgment.





# Risk Assessment

Limited resources require the use of risk assessment because there is not sufficient time to oversee all aspects of a contract. An effective risk assessment model will help focus monitoring resources on contractors with the highest risk of noncompliance. First, identify risk factors. Risk factors are indicators that assess the risk of the contract or project objectives not being achieved. General risk factors may include, but are not limited to:

- The contractor's past performance (and past performance of similar contractors);
- The dollar amount of the contract;
- Factors from desk reviews, such as the variance between expected and actual performance;





# Risk Assessment (continued)

- Significant problems with payment requests;
- Results of previous monitoring visits;
- Results of monitoring visits completed by other agencies or divisions within the same agency that contract with the same contractor;
- The length of time since the last monitoring visit; and
- How experienced the contractor is with the type of work to be performed.

Once the risk factors are identified, assign weights to each factor. Weights describe how significant each factor is in identifying the contractors who should be monitored.





# Risk Assessment (continued)

Next, rate each contractor on the risk elements. Consider using a three point scale, where 3 is the high risk, 2 is medium risk, and 1 is low risk.

The following is a sample risk assessment. The assumptions for this sample risk assessment include:

- The agency has contracts with many suppliers for providing the same service. Only three contractors are rated in this example but there are many contractors involved.





# Risk Assessment (continued)

- The three risk elements used are dollars, past performance, and experience.
  - Dollars: 40% of the contractors receive less than \$100,000 from the agency per year. 50% receive between \$100,000 and \$250,000. 10% receive more than \$250,000.
  - Experience:
    - High Risk – the supplier has never done this type of work before
    - Medium Risk – the supplier has contracted with the state before but not for this type of work
    - Low Risk – the supplier has previously contracted with the state for the same type of work.
  - Past Performance: If the contractor has at least one significant finding from a prior monitoring or three less significant findings the contractor is considered high risk. Agencies should define their own past performance risk factors and weights.





# Risk Assessment (continued)

## Example – Risk Assessment Analysis

Contractor	Dollars			Experience			Past Performance			Total Risk
	Amount	Risk	Risk x Weight (0.2)	Results	Risk	Risk x Weight (0.5)	Results	Risk	Risk x Weight (0.3)	
#1	\$300K	3	.6	Held previous contract with state	1	.5	3 minor findings	2	.6	.6 + .5 + .6 = <b>1.7</b>
#2	\$75K	1	.2	New to type of work	3	1.5	New - no findings	1	.3	.2 + 1.5 + .3 = <b>2.0</b>
#3	\$125K	2	.4	Used before - but not for this type of work	2	1.0	Previous year finding regarding safety	3	.9	.4 + 1.0 + .9 = <b>2.3</b>





# Risk Assessment (continued)

In the example, Contractor #3 has the highest risk, followed by Contractor #2 and #1, respectively. Typically, there will be many different risk elements. The previous is a simple example shown for illustration purposes only.

Accordingly, the contractors with the highest risk level must be monitored more closely. In the example, Contractor #3 has been used before and there was only one finding in regard to safety. This is the key area that requires close monitoring during the contract. The example can also be used for single contractors to focus on specific areas of risk within a contract and to assist agencies in determining which areas to monitor.





# Risk Assessment (continued)

It is important to note that the risk assessment is a dynamic process that should be updated regularly to reflect the results of monitoring visits, reviews of payment vouchers, desk reviews, etc. For example, if a contractor has fallen significantly behind schedule in delivering services to the targeted population, the risk assessment should be updated to indicate the elevated risk and this impacts how the contract is monitored in the future. Likewise, if a contractor is well ahead of schedule in delivering services to the targeted population, the risk assessment should be updated to indicate the lower level of risk.





# Using monitoring review results

Monitoring reviews, audits and investigations should be routinely followed up to:

- Ensure corrective actions have been taken;
- Identify common problem areas that might require training; and
- Improve future contracts.

Agencies should design a system that includes criteria and defined follow up actions. The goal of follow up should be to bring the contractor back into compliance with the contract requirements. Follow up is essential as the problem will not correct itself simply by identifying it and including it in the monitoring report.





# Using monitoring review results

(continued)

Monitoring results should also be used to improve the contract requirements for future contracts. If there are unnecessary restrictions or insufficient restrictions, this is the time to make a note of the recommended changes so future contracts can incorporate the changes.



# Contractor Responsibility – Non-Performance Issues

If a supplier fails to meet a term or condition, immediate action must be taken, but should be progressive as suggested below:

- Initially that action may involve contacting the supplier and asking them the reason behind the failure. If the supplier provides a satisfactory response, the issue and the response should be documented.
- If the supplier either fails to respond, provides an inadequate response, or continues to have performance problems, continue to document the performance issue and issue a Cure letter requesting a formal response as to root cause, and proposed corrective actions, including timing. This letter should be issued by the respective Contracting Officer.





# Contractor Responsibility – Non-Performance Issues (continued)

- Progressive or egregious issues of non-performance issues require a CRP entry. The entry should be made by the using agency. If the contract is a state-wide contract issued by Bureau of Procurement (BOP) then BOP should approve the entry into the system. The designees for this CRP entry approval are the respective Director's of BOP Materials and Services commodity teams.





# Contractor Responsibility - Cancellation

If a supplier's poor performance rises to the level that it is necessary to cancel their contract and/or purchase order for cause:

- A formal cancellation letter must be drafted by the agency Contracting Officer and approved by the Office of Chief Counsel prior to issuance. If the cancellation of a purchase order involves a Department of General Services (DGS) contract, the appropriate Commodity Specialist must be informed of the problem prior to cancellation. In the later case, DGS and the respective agency legal counsel must approve termination and be copied on the letter.





# Contractor Responsibility – Cancellation (continued)

- The approved cancellation letter may be emailed (with a receipt confirmation requested) or faxed to the supplier. The letter must also be mailed, delivery receipt required. Copies of the confirmation documents must be retained as part of the purchasing record.
- If several instances with this same supplier have occurred or if any one event is significant enough by itself, the Contracting Officer should give consideration to suspension or debarment of the supplier.





# References

- [Part I Chapter 54 Contact Person Responsibilities](#)
- [Part 1 Chapter 57 Contractor Performance and Legal Remedies \(Materials and Services\)](#)
- [Part 1 Chapter 14 Contractor Responsibility](#)
- [Management Directive 215.9 Amended - Contractor Responsibility Program](#)





# Knowledge Check

1. Contract Management begins after a contract has been executed and does not end until the material has been delivered and accepted or until final acceptance of the work effort has been accomplished and the contract closed with final payment to the contractor.

- True
- False





# Knowledge Check

2. A precursor to monitoring supplier performance is to ensure all procurement documents be established with clear specifications that are comprehensive, measurable and enforceable.

- True
- False





# Knowledge Check

3. Monitoring is needed to ensure that the supplier is meeting the terms and conditions of the procurement documents.

True

False





# Knowledge Check

4. Monitoring will include, but not be limited to, items such as on-time delivery, responsiveness, completion of all requirements, and quality of supply or service provided.

True

False





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