

# Procurement Practices

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Best Practices - Mark Krysiak, CPPO, C.P.M.

Small and Minority Businesses – Jim Eldridge

Contract Administration – Gary Robson, C.P.M., CPPB

American Association of Port Authorities  
Finance Seminar-Vancouver, British Columbia  
June 12, 2008

# Procurement Best Practices

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Are you managing your supply chain,  
or is it managing you?

Mark Krysiak

Maryland Port Administration

American Association of Port Authorities

Finance Seminar-Vancouver, British Columbia

June 12, 2008

# Procurement Best Practices

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- Life Cycle Costing
- Supply Chain Management
- Procurement as a Separate Function
- Professionalism in Supply Chain Management

# Life Cycle Costing

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- Face Value Bidding is a thing of the past
- Best Value and Quality-Based Selections
  - More Technology in Everything We Buy
  - Reduction in the Commoditization of Goods and Services
  - The Dollar is Weak – Look for Domestic Alternatives
  - Steel and Oil are Strong – Look for Efficient Equipment
  - Be willing to Trade Longevity for Technological Efficiencies

# Life Cycle Costing

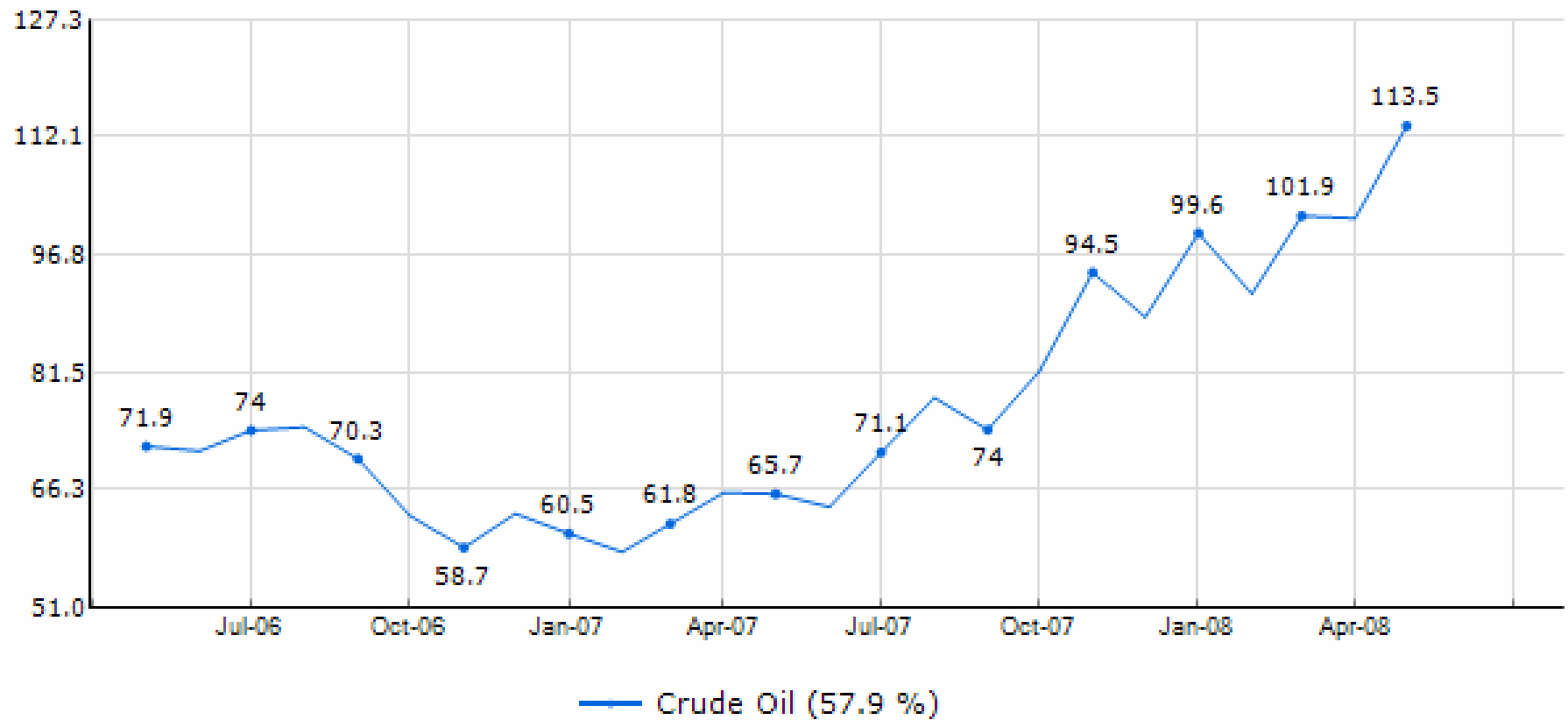
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- Design Costs – Take Advantage of Industry Knowledge
- Purchase Price – Take Advantage of Dramatic Currency Variations
- Operating Costs – Fuel Costs May be More Critical than Labor Costs
- Maintenance Costs – Buy Spare Parts at Initial Purchase
- Depreciation – You Know the Drill
- Salvage Value – If You Have Anything Made of Steel That You Don't Need, **Get Rid of It!**

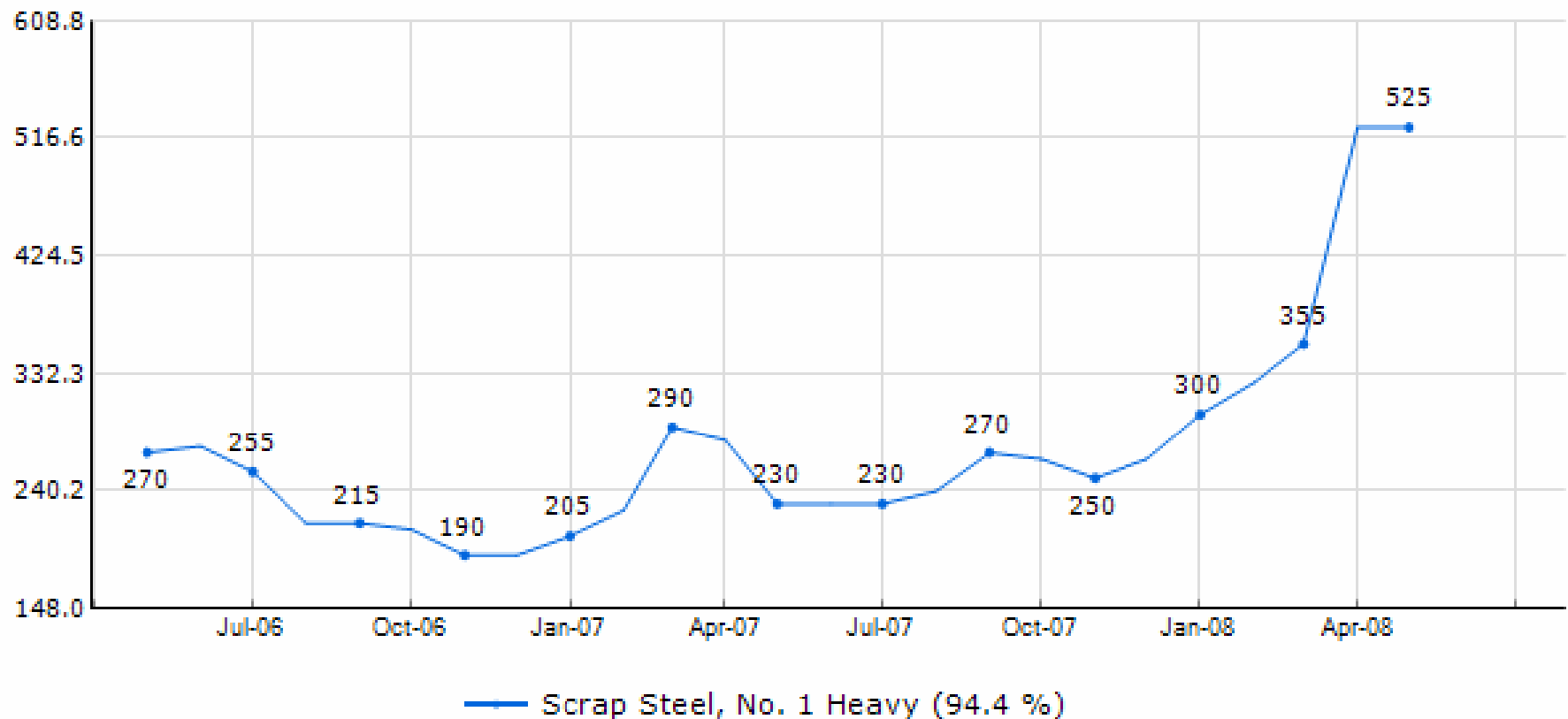
# US Dollar vs. Euro



# Crude Oil Prices



# Scrap Steel Prices





# Managing Suppliers

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- Financial Stability is More Important Than You Think
  - Currency Fluctuations Can Send Marginal Firms Over the Edge
- Consider Sharing Material Costs up Front
  - Your Risk is Probably Cheaper Than Their Risk
  - Ensure Assignment Rights in Material Contracts
- Evaluate Potential Suppliers as Teams Including Their Suppliers
  - Consider Length of Supply Chains
  - Look at Socio-Economic Aspects
- Give Supplier Performance Feedback
  - Set Goals
  - Demand Corrective Action

# Managing Suppliers

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- Know and Control the Terms of Title Transfer
  - FOB (Domestic) Controls Title Transfer
  - Incoterms (International) Does NOT Control Title
- Weigh the Value of Negotiating Your Own Transportation Provider
- Look at “Just in Time” Inventory for Possible Savings and Improved Cash Flow
- Share Information with Suppliers, They Know More About their Products Than You Do

# Procurement as a Separate Function

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- The Purpose of Procurement is NOT to Pay Bills
- To Be Effective, a Supply Chain Manager Needs to be Involved Early in the Project
- Make/Lease/Purchase Decisions are Critical and Often Overlooked
- Procurement Professionals Need to Understand The Economies in Commodities
  - There are as Many Diseconomies of Scale as Economies of Scale
  - Economies of Scale are Proportional to the Variance of Cost from Average

# Professionalism in Supply Chain Management

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- Buying Groceries Does NOT Make Someone a Supply Chain Professional
- Certification Ensures at Least a Basic Level of Understanding
- Various Certifications Available
  - ISM, NIGP, APICS
- Professionalism Raises Morale and Increases Productivity

# So which is it?

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... Are you managing your supply chain,  
or is it managing you?

Mark E. Krysiak, CPPPO, C.P.M.

General Mgr. Contract Administrator

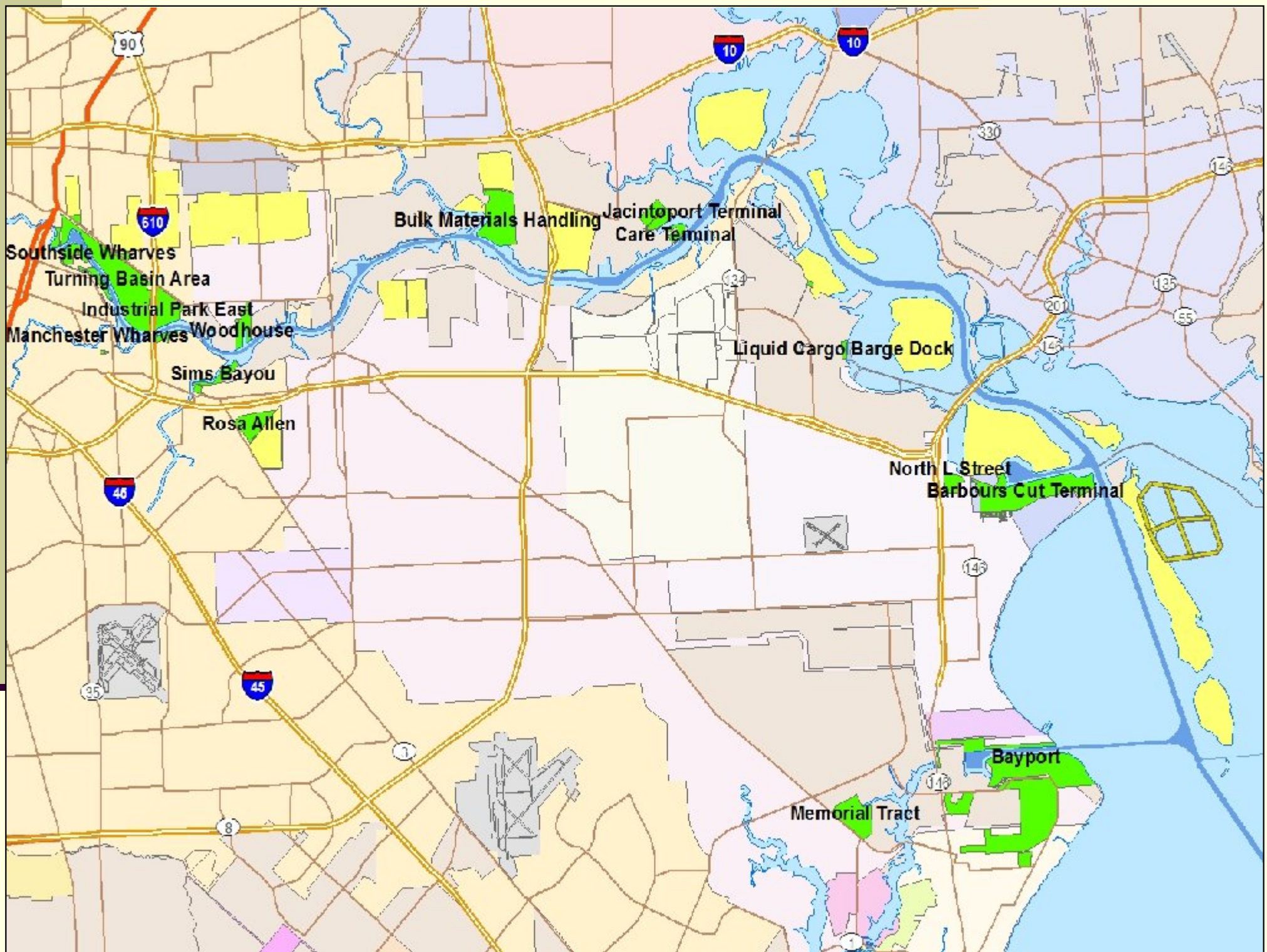
Maryland Port Administration



# Port of Houston Authority Small Business Program







# Foundations

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- Desire to provide economic development to the community
- Desire for the program to be gender and race neutral
- Change in State Procurement Laws to allow consideration of criteria other than price for selection of proposal bringing the best value
- Qualifications for the program
- Goal



# Enabling Activities

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- Vendor Information System (VIS)
  - Information as Prime Contractor
  - Information as Sub-Contractor
- Certification through other agencies
- Monthly Forums
- Port University
- Annual Recognition
- Outreach

# Results

## 2001 through 2008 1<sup>st</sup> Quarter

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- 1,100 Registered Small Businesses
- 3 Businesses have graduated
- \$203.7 million dollars for project
- Exceeded 35% each year



THE PORT  
DELIVERS  
*the goods*

James Eldridge  
Director of Finance and Administration  
Port of Houston Authority

# Contract Administration Overview

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Gary R. Robson, C.P.M., CPPB  
Director, Materials Management  
Doctors Community Hospital  
American Association of Port Authorities  
Finance Seminar-Vancouver, British Columbia  
June 12, 2008

# Objectives

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- Define contract management
- State the contract administrator's roles and responsibilities
- Identify effective contract management techniques

# Objectives

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- Identify typical contract management challenges
- Examine the essential steps in managing a contract

# Contract Administration

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## ■ **Definition:**

The management of all actions (after the award of a contract) that must be taken to assure compliance with:

- The terms of the contract in its entirety
- All Federal, State, and Local laws/codes/regulations as may be applicable to your Entity.

# The Contract Administrator

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## Key Responsibilities

- Ensures compliance (monitor performance)
- Issues approvals
- Requests modifications\*
- Closes out the contract/P.O.



# The Contract Administrator

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## Ensures Compliance

- Is involved in the complete procurement process (plan/procure/administer) to ensure total understanding
- Once contracts are executed, the contract administrator's responsibility is to guide the contractor through the work process \*

# The Contract Administrator

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## Ensures Compliance

- Contract Administrator may delegate all or parts of compliance responsibility to field inspector, project manager, etc.

# The Contract Administrator

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## Ensures Compliance

- Understands the promises and agreements in the contract
- Helps contractor/vendor understand the promises and agreements in the contract \*
- Supports MBE functions

# The Contract Administrator

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## Ensures Compliance

- Provides direction to the contractor
- Responds to contractor questions and correspondences
- Makes regular on-site visits \*

# The Contract Administrator

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## Ensures Compliance

- Ensures work/product meets specifications
- May consider termination for nonperformance

# The Contract Administrator

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## Ensures Compliance

- Reviews, initiates, and tracks work assignments, task orders, delivery orders, or purchase requisitions
- Tracks the contract payments, ensuring payments are justified \*

# Compliance Challenges

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- Keeping track of “deliverables” and schedules
- Promptly putting concerns in writing to contractor \*
- Requesting/requiring (in writing) contractor to remedy work/issue

# Compliance Challenges

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- Reaching an accommodation between performance/outcome delivered and performance/outcome desired
- Reaching this accommodation is typically a Contract Administrator/ Procurement Officer combined function



# Compliance Challenges

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- Invoking corrective action
- Instructing contractor how to remedy issue (s)
- Maintaining control over documentation
- Keeping all parties informed \*

# The Contract Administrator

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## Issues approvals

- Serves as arbiter for what is contractor responsibilities and what is off-limits
- Serves as first-line dispute resolution
- Authorizes use of Agency property and resources (if applicable)

# The Contract Administrator

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## Issues approvals

- Determines the degree of completion to authorize progress payments (when applicable)
- Approves subcontracts and purchase orders (as required in contract)

# The Contract Administrator

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## Issues approvals

- Approves addition or substitution of key personnel and/or subcontractors
- Provides justification for extensions \*

# The Contract Administrator

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## Initiates Modifications

- Is involved in any substantive contract modifications or changes in contract's scope of work
- Ensures appropriate/available funding
- Ensures all stakeholders are aware and receives buy-in from all concerned.
- Notifies contractor of modifications.

# The Contract Administrator

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## Closes out contract

- Ensures warranties are in place \*
- Accepts completed work or product
- Composes end-of-contract performance report \*

# The Contract Administrator

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## Closes out contract

- Authorizes final payment
- Monitors warranties
- Ensures all Agency property accounted for

# Contract Administrator Tips

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- Monitor and review the progress of the work on a continual basis
  - **Regular and unscheduled inspections**
  - **Regular and unscheduled reports**
- Keep management informed
- Survey customers on service delivery



# Contract Administrator Tips

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- Document any deviations from contract specifications when monitoring progress
- Maintain specific, dated, written records on performance
- Document phone conversations, meetings, and site visits

# Contract Administrator Tips

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- Inform/work with procurement officer on all contract issues
- Clears/discusses contract modifications with procurement officer and other stakeholders.

# Contract Management

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## The Competent Contract Administrator

# Competent CA

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- Understands the procurement cycle
- Participates in contract development
- Knows the contract administrator's roles and responsibilities
- Communicates, communicates, communicates

# Competent CA

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- Documents, documents, documents
- Practices effective contract management techniques
- Maintains a complete and up-to-date contract file cabinet \*

# Competent CA

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- Looks for typical contract management challenges
- Uses the essential steps in managing a contract
- Follows-through completely

# Competent CA

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...and whenever in doubt...  
Call the Procurement Office.  
They really **are** your friend!

Gary R. Robson, C.P.M., CPPB  
Director, Materials Management  
Doctors Community Hospital