Procurement Practices

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

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

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

- 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

- 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

[Graph showing crude oil prices from July 2006 to April 2008 with values at key months: July 2006 (71.9), October 2006 (74), January 2007 (70.3), April 2007 (58.7), July 2007 (60.5), August 2007 (61.8), July 2007 (65.7), August 2007 (71.1), October 2007 (74), January 2008 (94.5), February 2008 (99.6), March 2008 (101.9), April 2008 (113.5)].
Scrap Steel Prices
Managing Suppliers

- 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

- 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

- 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

- 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?

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

Mark E. Krysiak, CPPO, C.P.M.
General Mgr. Contract Administrator
Maryland Port Administration
Port of Houston Authority
Small Business Program
Foundations

- 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

- 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 1st Quarter

- 1,100 Registered Small Businesses
- 3 Businesses have graduated
- $203.7 million dollars for project
- Exceeded 35% each year
James Eldridge  
Director of Finance and Administration  
Port of Houston Authority
Contract Administration Overview

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

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

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

**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

Key Responsibilities

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

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

Ensures Compliance

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

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

Ensures Compliance

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

Ensures Compliance

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

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

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

- 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

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

**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

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

Issues approvals

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

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

Closes out contract

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

Closes out contract
- Authorizes final payment
- Monitors warranties
- Ensures all Agency property accounted for
Contract Administrator Tips

- 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

- 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

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

The Competent Contract Administrator
Competent CA

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

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

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

...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