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CONTRACT ADMINISTRATION IN A PERFORMANCE-BASED ACQUISITION ENVIRONMENT IS SERIOUS BUSINESS

JOHN CAVADIAS

Many of us are eager to implement Performance-Based Services Acquisitions (PBSA) as we attempt to comply with procurement and acquisition reform. Although there is an abundance of written material instructing us on how to develop and award a PBSA, we find far less guidance on the emerging realities in administering an awarded PBSA. Contract administration in a PBSA environment is mission-critical, not to be treated as an ancillary responsibility subordinate to originating acquisitions. This article approaches this viewpoint by examining the post-award management of a single service in one commercial industry and compares it to government contracting practices particularly with an emphasis on legacy cradle-to-grave organizational structures while also exploring the need for a shift in government perspective and change in organizational practices.

Increasing the use of Performance-based Services Acquisitions (PBSA) to 40 percent of eligible service actions over \$25,000, during fiscal year 2005, is the target achievement level for all federal government contracting offices procuring services (Office of Management and Budget [OMB], 2004). Regardless of what agency, which contracting command, or the size of the contracting office, acquisition reform

applies to all those in the business of procuring and administering services in the federal government. As agencies begin to develop their management plans for the Office of Management and Budget (OMB) outlining their approach to increase the use of PBSA, it is crucial that agencies give considerable attention to managing the post-award contract administration phases just as they will do so with pre-award planning.

Several military components within the Department of Defense (DoD) pass their contract administration functions onto the Defense Contract Management Agency (DCMA) for post-award execution. Not all contracting offices, however, can assign their contracts to the DCMA for contract administration. It is clear that the DCMA does not engage in garrison contract management. The responsibility of that function usually falls to the installation or tenant commander if the contract is for a base, post, camp, or station (Defense Federal Acquisition Regulation Supplement [DFARS], 2001). Moreover, the DCMA must now focus their attention and limited resources on major program efforts and critical readiness items. Accordingly, even a billion-dollar PBSA such as the Marine Corps' (USMC) garrison food service contract is managed at the installation level since it is outside the mission of DCMA (Defense Contract Management Agency [DCMA], n.d.).

Our starting point for discussion begins here, at home base, where we originate our PBSA contracts. After awarding a PBSA, many of us must also face the challenges of administering a contract that demands specialized skills and resources beyond simple contract compliance (Interagency-Industry Partnership in Performance, 2003). Managing performance in a PBSA environment is *a whole new ball game* in the world of government contract administration.

WHO'S ON FIRST?

At contracting offices that manage contracts from inception to closeout—or cradle-to-grave—such as those contracts for base, post, camp and station on military installations, the unwritten prioritized order of work is typically (1) pre-award procurement/acquisition, (2) post-award crisis management, and lastly, (3) post-award contract administration. In these contracting shops, contract administration is given the lowest priority and is sometimes viewed as the necessary evil of the business. This is greatly so because the principal metrics classically established, in order of importance, consist of (1) contract dollars procured, (2) number of contract awards, and (3) procurement administrative lead time (PALT), which is the total time it takes to award a contract—the quicker the better. Conversely, post-award contract administration contributes almost nothing to these three guiding metrics; therefore, it is difficult to justify an investment of labor into a post-award operation that does not point to a visible cost-benefit with regard to these conventional metrics.

This outdated logic can no longer add any value to maintaining an effective program when faced with managing PBSA. We find that PBSA introduces a host of additional

post-award metrics seldom seen within traditional non-PBSA contracting. The standards of measurement in a PBSA become more results-oriented such as quality of work or product, accessibility, timeliness, accuracy, and customer satisfaction. Once performance metrics are defined and methodically developed in the contract formation phase, the acquisition team cannot comfortably disperse immediately after contract award in the assumption that first-rate contract performance will consistently materialize according to plan throughout the execution phase. On the contrary, each member of the team must tirelessly work together managing performance from the point of contract award until contract closeout.

Many commercial industries have long recognized that the servicing or administration arm of their businesses is as mission-critical as their origination or production stage.

PBSA requires a level of commitment and teamwork from all involved that exceeds that required in other types of contracts (Know Net, n.d.). There is no escaping this new reality. The success of a PBSA is highly dependent on the effort and resources invested into monitoring performance by using many sophisticated tools and metrics including performance indicators and standards, quality assurance surveillance plans (QASP), performance requirements summaries (PRS), acceptable quality levels (AQL), and appropriate positive as well as negative incentives. The question is: With essential post-award metrics that carry such heavy consequence, are most cradle-to-grave contracting offices equipped with the resources to manage PBSA in a political environment of federal budget constraints and acquisition workforce downsizing? More important, even if supplied with adequate resources, will the three principal metrics continually eclipse the importance of improving the PBSA post-award metrics? It seems that agencies focus their attention on awarding contracts, not on managing them once awarded (Schooner, 2004).

Today in this burgeoning PBSA environment, the agencies' needs for contract oversight are expanding, not decreasing. Thus, contract performance management urgently requires an infusion of investment into post-award contract administration operations. Many commercial industries have long recognized that the servicing or administration arm of their businesses is as mission-critical as their origination or production stage. This article includes discussions of one such industry to illustrate the vital importance of managing a business with adequate and specialized resource allocation among all operational phases and the consequences if neglected.

WE CAN ALL LEARN FROM INDUSTRY

The Under Secretary of Defense had stated, "PBSA strategies strive to adopt the best commercial practices...to achieve greater savings and efficiencies" (Department of Defense [DoD] Acquisition and Technology, 2001, p. 1). We can safely presume that this announcement not only applies to the acquisition planning, contract formation, and source selection phases, but also to the execution management phases of a PBSA.

Contract administration is rather analogous to the loan servicing operation within the mortgage banking business, a commercial industry to which most homeowners can relate. We might be able to use some of the same lessons from the mortgage business as we view the business of government contract administration. To illustrate this analogy, let us follow the phases of how a loan is originated and subsequently administered once the loan is funded, a process that is similar to procuring and administering a contract.

When a financial lending organization receives a requirement for a mortgage loan, it goes through a phase akin to tasks performed in government acquisition planning. The processing of a loan will include completing a requirements analysis; credit analysis, employment verifications, and property appraisals; methods of financing; and pricing arrangements. In government contracting, these tasks are respectively parallel to developing an acquisition plan and performance work statement; past performance review; determining contractor responsibility; contracting methods; and choosing a contract type. Once completed, the processed loan package will progress onto a warranted loan officer for underwriting, not unlike the contract formation phase, where the pre-award package undergoes a final review to ensure it conforms to all required guidelines.

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Finally, the loan package is closed, official documents are drawn, and the loan is awarded and funded to the holder of the new mortgage (borrower). Throughout this process, a lender must abide by hundreds of statutes, regulations, and guidelines, similar to government contracting under the Federal Acquisition Regulations (FAR) and its supplements. There are also socioeconomic considerations the lender must heed throughout all phases. In the lending business, these pre-funding stages are referred to as loan origination.

Once a lender completes the loan origination stage, the funded mortgage loan is usually sold to investors via the secondary markets, e.g., Ginnie Mae. Most borrowers never realize that their loan contract is sold to outside investors since the transaction is transparent. For the government, they too have their own group of investors who fund acquisitions—the American taxpayer.

The final and longest phase in the life cycle of a loan contract is known as loan servicing where it is administered. Lenders have the choice of either outsourcing this part of the operation or retaining the servicing operation in-house. Regardless of whether servicing is released or retained with the original lender, this subsequent post-funding stage is where the real work begins. Here, dozens of crucial administration tasks must be implemented and monitored throughout the life of the loan contract.

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Loan origination might have taken only a matter of weeks or a few months from requisition to award. However, in the succeeding loan-servicing phase, a single loan contract requires years of administration—five to seven on average but can go beyond 30. In this multifaceted administration phase, a collaborative team of skilled professionals engages in a form of daily performance monitoring adhering to a clear set of standards and metrics. The loan-servicing workforce required to run such a post-award-like operation is sizeable, diverse, and specialized. Their positions include customer service representatives; quality assurance specialists; escrow/impound analysts; government compliance and reporting specialists; risk investigators; debt collectors; default appraisal managers; bankruptcy and foreclosure specialists; and investor accountants, among others.

WE CAN ALL SUFFER FROM POOR ADMINISTRATION

Can you imagine the harmful consequences to the lender if insufficient, scattered, or unspecialized resources were assigned to managing the post-funding phase of lending? Perhaps a borrower would discover that his property tax bill was paid late through negligence by the loan servicer, resulting in losing their property through a tax sale. How might the financial fate of the investment in the loans change if the lender stopped investing adequate resources toward executing vigilant post-funding oversight? Perhaps property insurance analysts would neglect to check whether mandatory fire insurance premiums are paid. If true, then lender's collateral guaranteeing the loan contract would be at high risk of total loss should it burn down.

Other ensuing scenarios might include losses from abandoning fiscal management oversight. Without properly monitoring the aging of mortgage accounts, debt collections would never begin, as no one would know which borrowers are delinquent. In turn, a high percentage of the loan portfolio would increasingly fail as revenues from monthly mortgage payments decrease or discontinue all together. Delinquent borrowers that could have been salvaged by debt collectors at the early stages of default via informal remedies now would find themselves beyond the point of recovery. Homes that should have been foreclosed long ago would turn into rent-free dwellings. Private and public investors in these now deteriorating mortgage portfolios would risk losing a considerable portion of their financial investment. In short, without the essential resources fully employed in post-award administration, results would turn disastrous for all the parties.

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Similar consequences can occur with inadequate resources in government contract administration. Poor performance monitoring, sporadic quality assurance, little effort expended into managing changes or settling disputes does indeed result in damages to both government and contractor as it does with producer and consumer. Undesirable outcomes from the deficient employment of suitable and adequate resources become highly magnified and perilous in a PBSA environment. Let us now look at a typical contracting office, which is extra vulnerable to finding themselves challenged with PBSA contract administration, such as those offices at the military installation level that are unsupported by the DCMA.

WHAT'S ON SECOND?

In the traditional world of non-performance-based contracting, many awarded service contracts may appear fully automated during its post-award life cycle. Some believe there is no need to shift gears in this post-award phase because it is perceived as self-regulating. The contractor delivers the service, perhaps with only modest issues or few problems along the way. Contract specialists can often get away with ignoring many of their post-awarded contracts, with little consequence, as they work on new procurements until, for example, an option to extend services comes due.

On the surface, ignoring most administration duties usually goes unnoticed. However, when a potentially serious problem does crop up requiring immediate action on the part of the contracting office, the situation quickly becomes a firefight. Fighting fires is second in order of prioritized jobs previously referred to as *post-award crises management*. All business in the pre-award arena must come to a halt as energy now focuses on extinguishing the crises at hand. Once the fire is ostensibly extinguished, it is back to originating new contracts although sizzling embers from those earlier fires may still burn beneath the surface, perhaps waiting to re-ignite.

While the contract administration file often sits in a remote file cabinet, *out of sight, out of mind* becomes more of a standard practice than just a figure of speech. Though supervisory contract specialists practically never encourage this behavior, it is frequently condoned. The underlying reasons are internally evident: metrics. The contract specialist has little time to perform duties perceived as non-critical while continually pressured to rapidly originate more contracts in order to increase the contract dollars procured and number of contracts awarded. Moreover, new requirements must be awarded expeditiously in accordance with another significant metric mentioned earlier, PALT. These are the metrics most often monitored and evaluated by government leaders from supervisory contract specialists all the way up to congressional representatives.

Considering the exposure these metrics receive, it is no wonder that government investment into pre-award contracting activities rises above other competing priorities, most detrimentally above contract administration that appear to carry no worthy metrics. However, there is one worthy metric in contract administration that overridingly seems to capture the attention at the highest levels of government: the media broadcasting of embarrassing news stories whenever contracts fail to self-regulate.

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The organizational views on contract administration in this cradle-to-grave structure appear to murmur, *No more time than is absolutely required should be devoted to this less visible job*. So in effect, time invested administering contracts equate to time lost procuring new purchase requirements. Therefore, we can infer that performing contract administration in this cradle-to-grave environment emerges mostly as a distraction and a hindrance to the primary goals of the contracting office, which are to procure more contracts to fulfill those highly visible metrics.

Occasionally, many of us do come upon some highly talented contract specialists that are quite masterful at juggling both procurement and administration tasks. Recruiting the finest jugglers into government contracting, however, is not a long-term

or viable solution. The fundamental dilemma does not lie within uncovering and developing the multi-tasking skills of the individual contract specialist. The problem is with continuing to expect optimum results in both procurement and administration from a single, group, or department of contract specialists whose behavior is almost entirely directed by three metrics—dollars procured, number of awards, and PALT. The mind-set that we can *do it all* as we transition toward PBSA contract management must be seriously reconsidered if we are to ensure the highest possible resource utilization and level of success in this emerging world of performance-based contract management.

MANAGE RESOURCE ALLOCATION FOR OPTIMUM RESULTS

Ask yourself as you think back to the loan servicing scenarios presented earlier: Can the loan originators do it all? Can they successfully monitor a diverse portfolio of post-awarded loans as they juggle loan origination efforts to satisfy prospective homeowners' expectations for a quick loan closing? Furthermore, can the debt collectors simultaneously meet the demands for originating new loans as they juggle their loan servicing efforts toward meeting aggressive low-delinquency goals to protect investors? Most would agree it seems unreasonable to expect that such a misallocation of human resources could produce the desired objectives in either the loan origination phase or loan-servicing phase of a lending operation.

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Classical economic thinking encourages increasing the division of labor to improve efficiency and growth. Therefore, it should be recognized by and adapted to contract administration as has always been standard practice in commercial industry. Invest in sufficient human resources and specialize the workforce to the job requirements considering the entire organizational structure and its goals.

CLOSING REMARKS

Managing contracts in today's PBSA environment demands leadership's unwavering commitment to build a contracting organization that will not find their contracting professionals continually divided between chairing a source selection committee and negotiating multi-million dollar equitable adjustments. One priority will forever battle

to overtake another higher, equivalent, or lesser priority. Each phase of contracting is justifiably and distinctly a mission-critical entity that warrants specialized resources. These entities must equally coexist so that competing priorities no longer struggle to survive at the same time, in the same space. Preserving a cradle-to-grave operation under a single edict of three metrics will only guarantee an early grave for acquisition reform.

If we are to ensure that government and contractor both fulfill their contractual obligations under a PBSA, we must invest in the right mix of specialized talent as we undertake these aggressive acquisition reforms. Plan for, invest in, and fight for all the right resources to make your PBSA a total success throughout the entire life of the acquisition. Invest early, discriminately, and prudently, so that we can guarantee that our ultimate investors, the American taxpayers, will continue to reap a meaningful return on their investment in the most productive government in the world.



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