Contract Closeout

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Procurement Terms and Statement of Work

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**Definition of procurement terms**

Some of the most widely used procurement terms include: make or buy decisions; terms and conditions, sourcing plans; as well as requests for information, proposal and quotation. Make or buy decisions can be described as the challenges met by a firm when determining whether a product or service need to be purchased from external sources or produced internally. Some of the elements of make or buy decisions include: financial aspects, technological elements, marketing factors, purchasing elements, and strategic aspects (Martland, 2005). The financial elements can be in terms of fixed or variable costs.

A sourcing plan is a well-documented and systematic document that provides guidance to individuals responsible for implementing acquisition policies(Sollish & Semanik, 2010a).A request for proposal is an expression of need or solicitation for services and products. Request for information is a tool utilized in sourcing to assist in determining a supplier’s capacity and financial strength. Furthermore, a request for quotation is a demand for price and delivery where other terms have already been specified. Finally, terms and conditions in procurement refer to the general and specific policies, provisions, guidelines and rules that guide the procurement process (Sollish & Semanik, 2007b).

**Statement of Work**

A procurement statement of work, such as the one stated below, provides a description of the requirements for products or services. In most cases, statements of work are written down in comprehensive and prescriptive form, detailing not just what has to be done, but also the strategies to be employed. In addition, they indicate how regular the products or services required need to be provided. (Sollish & Semanik, 2007b) The statements may be simply provided in terms of the anticipated products or services. The table below shows a statement of work with defining quality and delivery requirements, alongside the expected schedule and costs.

|  |  |  |  |
| --- | --- | --- | --- |
| **Project Name:** | **Project Number:** | **Prepared by:** | **Date:** |
| ERP System Project, Webb Communication Company | 3454784 | John Stevens | 25-08-2015 |
| **Customer:** | **Business Unit/ Function Name:** | **Contact Name:** | **Project Type (Standard/Complex):** |
| Webb Communication Company | IT Department | Systems Administrator, Telephone Number: 758-378-9272 | Complex project involving securing of the company’s information resources |

|  |  |
| --- | --- |
| Introduction | *Webb Communication and IT Company requires its information systems to be protected from unauthorized access.* |

|  |  |
| --- | --- |
| Procurement Statement of Work | |
| Procurement Summary | Webb Communications Company requires its information resources to be secured from access, use, and modification by unauthorized parties. We also need our website to be updated and maintained. *This will need both technical, administrative, as well as physical control mechanisms. All the work done must follow the ICT Compliance standards.* |
| Deliverables | Antivirus Software, Network devices such as modems, hardware components like Storage devices, Server Computers, Video Surveillance Devices, Security Personnel, as well as burglar-proof doors and windows. |
| Schedule | The above specified services and products must be installed within two months from 03/09/2015 to 03/11/2015 |
| Costs | The total estimated cost for securing our information resources is  $12,000,000 |
| Acceptance Criteria | All the products and services will be screened to ensure that they meet the latest standards specified for information security by certification bodies such as the National Institute of Standards and Technology (NIST) and PCI. |

**Introduction**

The very essence of public procurement dictates that the entire process be conducted in a framework that not only determines how potential suppliers compete for goods and services but also how the same are awarded to the successful bidders (*Information and Communications Technology Procurement,* 2011). A typical procurement lifecycle plan lays out the procedures and actions involved right from the project’s initial conception stage to the completion phase. This paper serves to show a hypothetical procurement lifecycle plan for Webb Communication and IT Company.

**Discussion**

**Preparation**

The preparation stage of the procurement lifecycle plan for Webb begins by the creation of a hypothetical procurement team. The team comprises of representatives from the different IT departments of the organization; legal, human resources and the intended users of the system that would be developed. The team intends to adhere strictly to the administration’s formal mandate. To say that the procurement team will unanimously accept all tabled proposals would be a blatant lie. There are bound to be disagreements, but all that point to the strength of the final committee’s decisions. It is necessary to point out the fact that the procurement team will gather information relating to the current market practices and establish comparisons with the desired practices in Webb Company. After careful and informed deliberation by the team, it is anticipated that the firm will require a secure system to keep their information safe from unwarranted access by unauthorized parties and hence its resultant misuse and modification. Webb Company also needs administrative, technical and physical control mechanisms in place. On that front, the team will likely identify some of the deliverables as; mass storage devices, Internet access devices, video surveillance units, security personnel, server computers and antivirus software.

The procurement team would then identify the supplier requirements that should serve as a minimum condition for any interested supplier who aims to bid for this particular project. The supplier requirements are as listed below (*Selection Criteria*, n.d.):

* The supplier must be willing and ready to furnish Webb Company with a statement of their capacity to not only develop but also readily supply accessible Information and Communication Technology (ICT) services. Therefore, the potential supplier would have to provide a “Supplier Statement of Accessibility Capacity”.
* A willingness to provide Webb with records for past performed contracts upon request. Needless to mention is the fact that there should be a readily available way of proving the legitimacy of the previous works done by the supplier. Taking of references should be acceptable. Reference taking during the selection stage would serve to identify the suitability of a supplier to deliver the advertised project.

**Management**

In selecting the appropriate supplier with optimum competence and capability, the first step I would undertake is to prepare a tender and open it for public bidding or ask for proposals from suppliers. The other available option is to send out Request For Information (RFI) documents to the very potential vendors. In case of a tender, the tender price would be reasonably high enough to ward off inexperienced companies without a real intent of delivery. In the request for information, proposal and/or quotation, the suppliers would be expected to: state the number of years working experience, credible references for their most recent clients and the software services offered. In the case of Webb Company, all the feasible options will be exploited. In an RFI, I would expect the supplier to quote the services they can offer with their costs. The supplier must also be willing to provide further advice as to the best available options fit for Webb Company. This could go to one or multiple suppliers.

The purpose of the entire procurement process is to select a supplier on the basis of agreed costs and program, team quality and the appropriate level of risk transferred (*Information and Communications Technology Procurement,* 2011). In that light, I would ensure that the bidding process is done in an open public place to ensure the proceedings are not only transparent but also ethical. The tenders will be analyzed as per the published criteria in a manner reflective of the comparative analysis matrix. The procurement team will have to describe the evaluation criteria as objectively as possible. The evaluation would serve to preclude subjectivity and favoritism. The tender period will be expressly stated in the tender and the same must be observed without any compromise. Four to six weeks is an appropriate time period to conduct the same. It is also a responsibility of the procurement team to provide additional information to potential suppliers in an equitable, ethical and fair manner.

The process of evaluation, negotiation and awarding of the contract is quite complex in nature. The criteria used in evaluation will focus on improving Webb Company’s administration processes and meeting business goals. The aim is not just finding technological solutions but to also reduce costs. Proposals/Bids/quotations should be deemed unacceptable or acceptable on the basis of specified criteria. Some of the supplier requirements include:

* Meets the specified minimum requirements and qualifications for operational capacity, corporate net worth, operational experience and proper financing.
* A reasonably good reputation.
* Guarantees high-quality service as per the requirements of Webb Company.

**Close-Out Contracts**

The elements used to monitor supplier performance include weightings, factors and criteria, rating scale and Effectiveness and Ease of Use (Stueland, 2004).

**Factors and criteria.**

The company will use different factors and related criteria to evaluate supplier performance. Total cost and service are the most significant factors in evaluation. The options under consideration in the service factor include responsiveness, support and service levels.

**Weighting.**

The weighting scales that would be ideal in the procurement for Webb Company include numerical values and percentage criterion.

**Rating scale**.

Most of the evaluation scorecards employ the use of the Likert scale which is a model representation of a bipolar continuum. Mathematical criteria will also be useful in rating computations.

**Effectiveness and ease of use.**

The company providing the required solutions must demonstrate through its previous works that it provides user-friendly services. The software used, for instance, should not be too difficult for the users to comprehend. The software platform that requires users to sign into personal accounts should have a friendly recovery system.

As for the verification of receipts, I propose that Webb Company contract for the services of an outside source. The outsourced firm will handle the acknowledgement of receipts and conducting all invoice processes.

**Summary**

**Executive Summary**

In the acquisition of ICT services, it is imperative that a company seeks the services of the best service provider in the market. Factors that must be considered include financial limitations, ethical values, quality of service delivery and the reliability of the service provider. The supplier evaluation processes as described in this paper, must either be formal or informal. The formal procedures provide both subjective and objective ratings of the supplier-buyer relationship. When properly used, the various supplier evaluation matrices form a core element in determination of the client company’s long-term success.

**Conclusion and Recommendations**

The procurement process for the acquisition of services and goods required by Webb Company is very crucial in determining how successful the company would be in the future. Quality, total cost, service and delivery form a significant part of the supplier evaluation matrix. Service evaluation criteria must not be subjective in any way, it ought to be well defined to achieve consistency. The evaluations are aimed at rating the supplier performances equally and objectively. Some of the recommendations that I would make to Webb Company are as follows:

* The management should provide an elaborate list of the short-term and long-term goals of the company. The goals would determine the extent of resources to allocate for the project.
* Identify and define the major criteria to be used. The procurement team should be in a position to incorporate the aspects of Delivery, Services and Total cost into the primary criteria used to award the project.
* Seek the services of a third party who will review the procurement plan in detail to avoid costly oversights that could have been made by the procurement team.

Contract Closeout

Contract closeout entails an administrative process that involves the sealing of a business or contract agreement with the supplier and the documentation of any transactions in the contract file (Dee, 2013). This administrative procedure occurs as soon as the supplier has completed the performance of the contract and has been duly compensated for the services offered. Nevertheless, the contract closeout may also occur if the contract is terminated for convenience or default. The prime purpose of the contract closeout is to ascertain that the supplier or vendor has compiled with all the legal and contractual requirements and that the customer's needs have been gratified. The first step in ensuring that the supplier has completed all the services and that the client's needs are fulfilled is evaluating supplier performance.

Companies supervise supplier performance through a series of activities consisting of monitoring, assessing, applying remedial measures when necessary and reporting on the whether the performance goals were met (Government purchasing , 2015). Supplier performance is the action undertaken by a supplier to fulfill its contractual obligations in providing services or delivering a commodity such as the provision of ICT services. Several elements are used to manage supplier performance. These elements include weightings, rating scale, factors and criteria, effectiveness and ease of use, a supplier performance policy, automated systems, processes and procedures, performance indicators as well as reporting and feedback mechanisms.

Factors and criteria encompass the total cost and service aspects such as service levels, support and responsiveness that aid in evaluation of supplier performance. These aspects can be derived from progress meetings, feedback and reports generated to determine the performance of the supplier during the contract period. Also, weighting and rating scales are used to measure the performance of suppliers using numerical or percentage values. The scales are similar to performance indicators and help assess whether a supplier satisfies the company's expectations. These elements are primarily used to monitor the performance of a supplier.

A supplier performance policy reinforces the framework for overseeing supplier performance (Government purchasing , 2015). It augments fairness by ensuring that all suppliers are treated equally and in a consistent manner. Moreover, it enhances the transparency of the entire procurement process through providing information to suppliers on what a company's expectations are, and the basis of the decisions made as a result of the actions undertaken. Next, organizations use automated systems to help them in monitoring, evaluating as well as reporting of supplier performance (Government purchasing , 2015). Automated systems contain embedded systems that permit the standardization of activities and production of performance reports. Therefore, they can be used to manage supplier performance during the procurement process.

Most organizations also use established processes to oversee ongoing supplier performance. These processes and procedures are outlined according to the type of service, the operational requirements, value and scope of the contract. Key Performance Indicators are also often used to identify supplier performance (Dee, 2013). It measures a specific activity and is used to determine the success of a supplier in meeting the obligations of a contract. Lastly, organizations employ formal tools like progress meetings, milestones, and technical review meeting to provide reports and feedback on supplier performance as the occur (Government purchasing , 2015). They also use various templates, forms, user guides, checklists and manuals to support their decision-making process and ensuring transparency of the procurement process.

Besides managing supplier performance, organizations must ensure that final payments are made. The procurement process is complete only after the services or goods have been received, and the vendor or supplier has been paid (Heinemann, Holliday & Mikulak, 2005). A receipt is issued to indicate the successful delivery of a commodity or provision of services by the supplier, and in turn authorizes payment to the supplier. It is a written acknowledgment that the supplier has been paid for delivering goods or services (Heinemann, Holliday & Mikulak, 2005). Likewise, suppliers are required to send invoices for processing to ensure timely payment. An invoice outlines a list of all services or goods provided with a statement of their total cost (Heinemann, Holliday & Mikulak, 2005). In the case of Webb Communications Company, acknowledging receipts and conducting all invoicing processes can be outsourced from another firm.

The company must validate the receipts to authorize payment. Validating or verifying receipts is a method that helps companies to protect their revenue. A valid receipt must contain the name of the supplier, a list of the specific services that were offered, the unit price and the total amount due as well as the amount that was paid (Etiemble, 2014). The company contracted to verify the receipts may use an inbuilt application to ensure accurate validation. The process of verification of a receipt can be done through a series of steps (Etiemble, 2014). First, the receipt is located in the system to ascertain that the transaction actually occurred. All activities during the procurement process are recorded and stored in a contract file both manually and electronically. Thus, if the receipt is found in the system, then the validation is authentic.

After locating the receipt, the company can check its authenticity and integrity. This can be certified by confirming that the receipt has an authorized company signature and has not been tampered with. Third, the receipt is parsed and analyzed to extract attributes that are unique to the services provided such as unit price, quantity, and total cost. After parsing the receipt, its authenticity can be verified by comparing the details found with those stored in the electronic system. The verification process ends with checking if the expiration date of the receipt is authentic. However, it is important to install a receipt validation code to protect the application from unauthorized users or hackers who can tamper with the information stored.

Receipting is accompanied by the provision of invoices for processing. The invoicing process is the same regardless of the nature of the invoices whether paper or electronic formats (Heinemann, Holliday & Mikulak, 2005). The process of invoicing starts with the arrival of the invoice in the company via email, postal mail or facsimile. An accounts payable clerk then verifies the invoice by scanning it through automated software or checking it physically. If in paper format, the clerk then classifies the invoices into several categories to simplify their retrieval. After the category is identified, the invoice is forwarded to the respective department as per the placed order. Here, the invoice is matched against the corresponding purchase order to ascertain that the amount stated is parallel to the initially placed order. If the amount is correct, the responsible department approves the invoice by signing it. Once the invoice is approved and has no errors, it is posted in the company's accounting system.

On the other hand, if the invoice is in an electronic format, the automation software converts the scanned image into a text document so that the different fields of the invoice can be captured in the system. Some of the important fields registered include the supplier name, total cost, and supplier code. Once the information has been extracted from the invoice and captured in the system, it is matched against the corresponding purchase order to validate the invoice. The responsible department can then approve the invoice if the information is parallel to the purchase order. Finally, the invoice is posted into the company's system. The entire procedure in processing invoices is important for a company to ensure that it only pays for the goods and services that were ordered, authorized, received and accepted (Heinemann, Holliday & Mikulak, 2005).

Validation of receipts, processing of invoices and evaluating supplier performance is part the contract close out process (Dee, 2013). Nonetheless, the basic procedure in the contract closeout process is outlined in several steps. The first step is determining the person responsible for the contract close out. Usually, the contracting officer of a company has the duty to close out a contract (Dee, 2013). The second step involves establishing a closeout file that contains important details about the purchase order. After building a close out file, the contracting officer determines the physical completion of a contract. This entails ensuring that all the deliveries are approved, and all necessary costs have been incurred. The fourth step is to identify payment histories and funding resolutions to check whether there are any funds to be obligated or de-obligated.

The next step involves reviewing the clauses of the contract or any special provisions to check for any terms or conditions related to closeout are in the contract. Reviewing clauses also ensure that the rights of both the company and the supplier are gratified. A letter is then sent to the supplier addressing all closeout clauses and actions related to the contract. Moreover, the letter provides a platform for requesting the supplier of any missing documents in the contract file (Wysocki, 2004). Upon response from the supplier, the subsequent step involves requesting for an audit to verify the completeness and authenticity of the procurement process. After the final and approved audit reports, the company authorizes payment and acknowledges receipts. The final step of the close out process involves ensuring that all the closeout document are filed, signed and legally reviewed. Accordingly, the importance of the contract closeout process is to ensure that the final price of procurement is established properly and legally and ascertains that the final payment is made to the supplier (Erridge, Fee, & McIlroy, 2001).

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