

Identifying Risk in the Procurement Cycle

Presented by
Myra D. Smith, CPPB,
Independent Consultant



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Objectives of this Presentation

- Identify the steps in the procurement cycle
- Define risk associated with these steps
- Review techniques to control and mitigate the risk in the procurement cycle



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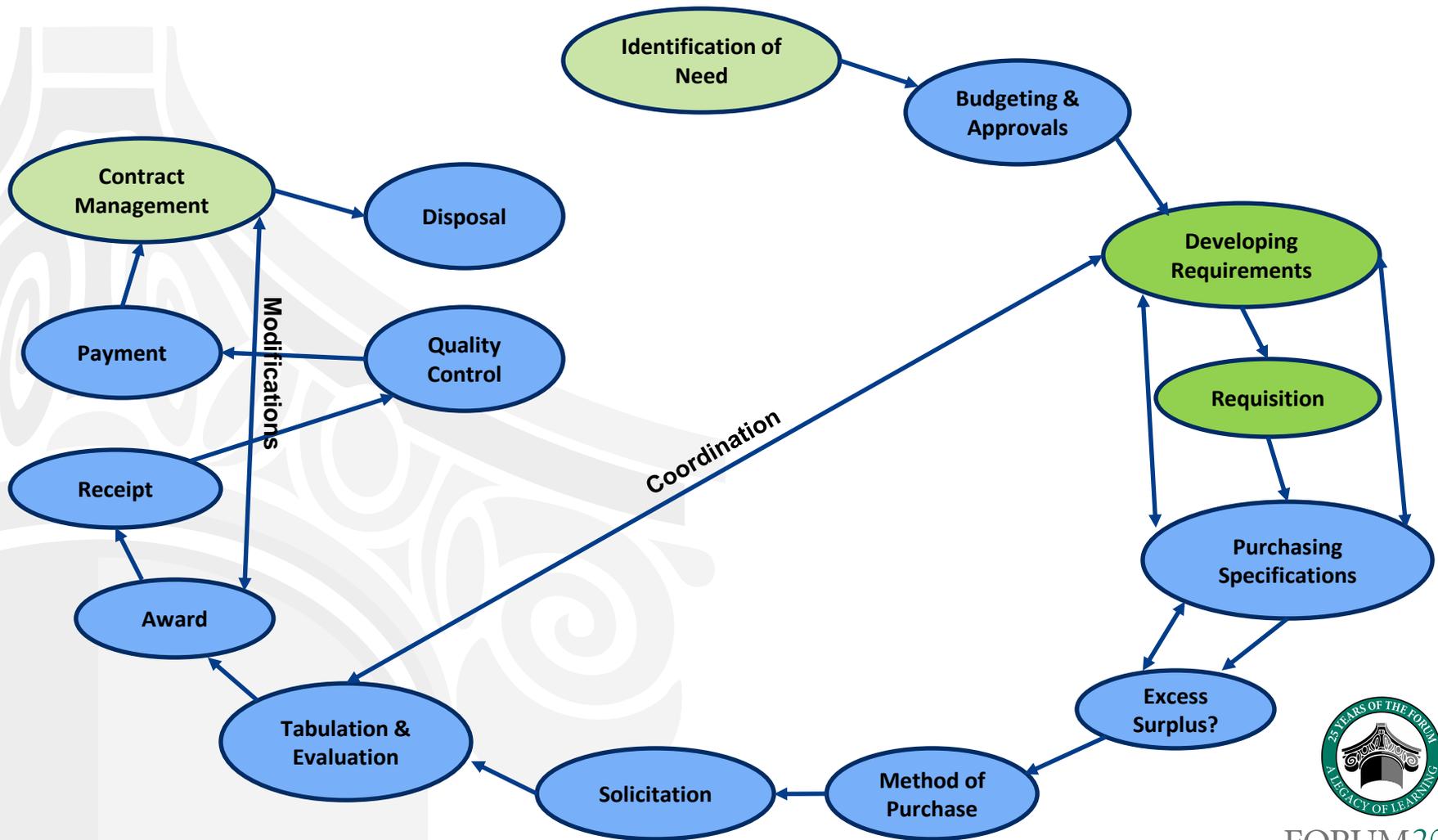
The Procurement Cycle

- The procurement cycle is a series of steps that must take place to provide goods or services to the end user, stakeholder, or customers



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Purchasing Cycle/Procurement Cycle



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What does all this have to do with managing risk?

- First of all, What is Risk?
- Webster's dictionary defines risk as: "The chance of injury, damage or loss"
- In procurement we group risk into four areas. Does anyone know what these areas are?



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Procurement Risk

- In procurement we group risk into four areas. These four areas are:
 - Technical
 - Schedule
 - Cost/Price
 - Other



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Risk Identification

- The Risk Management in Public Contracting Text defines these risk as:
 - Technical Risk – relating to the technical aspects of the requirement which has a direct correlation between either the specification of an Invitation for Bid or a Statement of Work in a Request for Proposal.



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Risk Identification

- Schedule Risk defines the degree of risk associated with meeting the delivery schedule or performance of the specified task
- Cost/Price Risk – what the true cost of the product or service will be
- Will it be driven by other factors?
- Are all costs reasonable and allowable to the project?
Is it too high or too low?



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Risk Identification

- Other Risk – internal and external factors.
 - Political unrest
 - Change in technology
 - Labor availability
 - New policies
 - Energy regulations
 - Environmental concerns
- What other risk can you think of?



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Stages in the Solicitation Process

- Defining the need and planning the purchase
- Specification and Statement of Work development
- Selecting the Purchasing Method
- Solicitation Development
- Evaluation of Offers
- Contract Management



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Risk in Defining the Need

- Price Risk
 - Insufficient funding
 - Delay in making the purchase or obtaining the services
 - Need for alternative funding sources
 - Grant money with restrictions
- Mitigation Technique
 - Obtain appropriate approvals
 - Understand grant requirements
 - Obtain a cost estimate prior to funding request



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Defining the Need

- Technical Risk – Specifications or SOW
 - Understated
 - Overstated
 - Impractical delivery schedule
 - Type of Specification selected



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Defining the Need

- Mitigation Techniques
 - Understated Risk – Purchase of unsuitable product or services, money wasted, need not satisfied
 - Mitigation – Analyse the need accurately perform market research.
 - Overstated Risk – Greater expense, inadequate competition
 - Mitigation – Use functional and performance specifications, industry standards
 - Impractical Delivery Schedule Risk - Inadequate responses from vendors, reduced competition, late delivery, performance issues the price may be higher than funds available
 - Mitigation – Improve forecasting by performing market research prior, plan ahead, seek supplier input



Defining the Need

- Type of Specification selected can create more risk for the agency
 - Examples
 - Design Specification – The risk is on the agency. Why? Because they tell the contractor in very specific terms what is to be provided to the agency
 - Mitigation – Review all drawings and engineering plans before the final approval
 - Performance Specification Risk – Less risk, but clear specifications must be provided
 - Mitigation – Pre-qualify suppliers, ask for product samples
 - Other – Brand Name or Equal, Combination
(let's discuss)



Specification and Statement of Work Development

- Technical
 - Narrow definition, commercial, or brand name
 - Risk – Fewer alternatives, best product may not be obtained
 - Mitigation – Define the specification in terms of expected outputs, use functional and performance specifications
- Biased Specification
 - Risk – Inadequate responses, protest, time loss, increased cost
 - Mitigation – Review specifications before release to make sure they are not restrictive, use industry standards
- Inadequate Statement/Scope of Work
 - Risk – variety of offers, no apples to apples comparison, products offered/services will not meet the need
 - Mitigation – Perform adequate market research in advance, use a Request for Information, or a Pre-Bid or Pre-Proposal conference
- Note: Cost and Schedule Risk are inherent as well



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Selecting the Purchasing Method

- Technical Risk
 - Failure to identify potential suppliers
 - Risk – Insufficient competition
 - Mitigation – Better procurement planning, improve out-reach, use market research techniques, seek industry help
 - Selection of inappropriate procurement method
 - Risk – Need to re-compete
 - Mitigation – Review evaluation criteria to determine the appropriate method
 - Perceived favouritism in doing a Request for Proposal to influence the outcome
 - Risk – Complaints from offerors, protests, no offers received
 - Mitigation – Keep integrity and transparency in the process



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Selecting the Purchasing Method

- Insufficient responses
 - Risk – Increased cost, Schedule risk, time
 - Mitigation – Allow enough time for responses, pre-qualify in advance, review specifications or scope for restrictions, seek feedback from industry



Solicitation Development

- Technical Risk/Cost/Schedule/Other
 - Terms and conditions not appropriate for the industry, insurance requirements don't reflect industry standards, bonding requirements are not in line with work to be performed, delivery requirements is inconsistent with industry standards, ambiguous language, bases for award is unclear, type of contract pricing (firm fixed prices vs. other types of pricing), all or none awards, aggregate line item award, past performance not considered
 - Risk – No responsive offers, high cost, change orders, limited competition, poor performance, high failure risk, issues with subcontractors, quality issues, late delivery, and high administrative cost after award
 - Mitigation – Review the industry standards, seek legal guidance, do market research, develop an Acquisition Plan and Risk Management plan, develop a milestone schedule, request samples, testing procedures



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Evaluation of offers



- Technical Risk
 - Not following established evaluation criteria
 - Risk – Inconsistent evaluations, protest, policy and procedure violations
 - Mitigation – For evaluators, training, selecting appropriate evaluation team
 - Breach of confidentiality
 - Risk – Unethical or unfair results, loss of respect for the agency's procedures, legal consequences
 - Mitigation – make sure confidentiality agreement is executed



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Contract Management



- Technical/Schedule/Cost/Price Risk
 - Delivery delays, quality issues, payment to subcontractors, cost increases, unsatisfactory product or service received, unauthorized work, un-excusable delays, personnel changes contract disputes, bad business practices, lack of integrity, not providing reports
 - Risk – Cost over runs, delivery problem, program objectives not met, termination for default may be necessary, misuse of resources, time loss, contract administration is difficult
 - Mitigation – Determine contractors responsibility, check past performance carefully performance, have a Contract Administration Plan in advance, identify how changes are made and why and by whom



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Questions and Answers

- Are there any questions?



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Questions to Consider?

- What are the risk in the purchases of this product or services?
- Do I understand the requirement fully?
- Have I performed adequate market research?
- Do I have a Procurement Action Plan and a Contract Administration Plan



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