

Contract Management

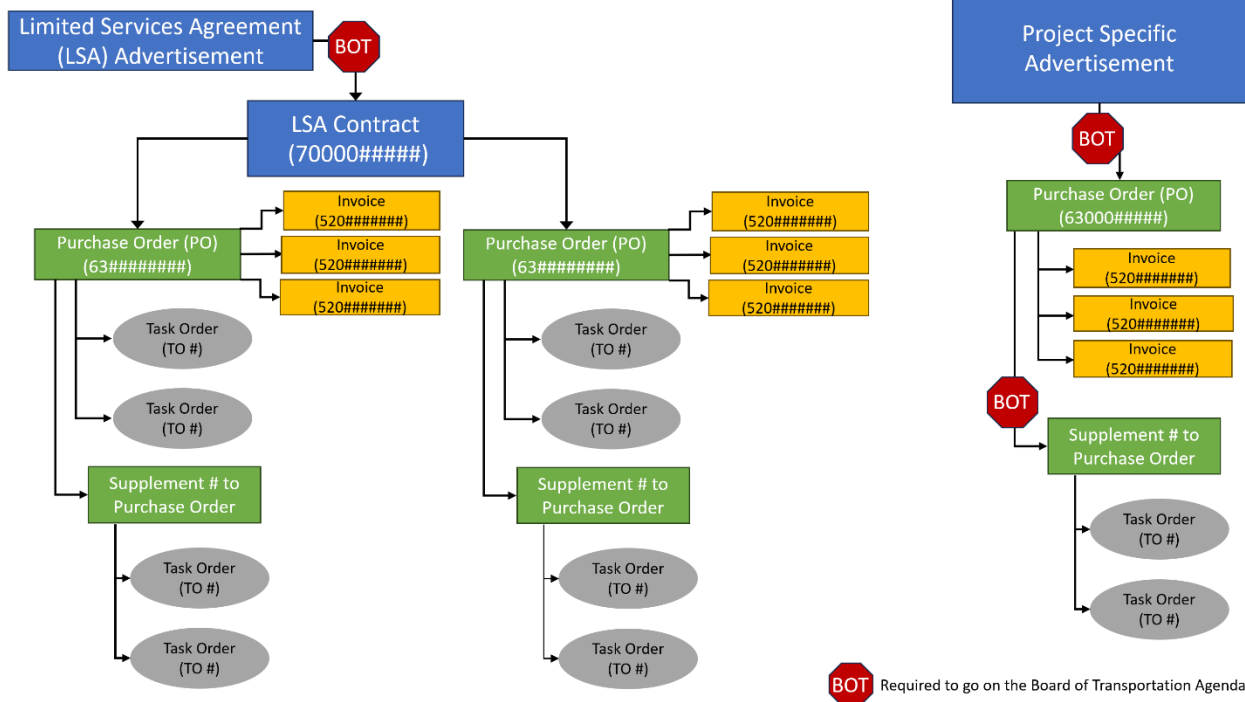


Contract management is the process of overseeing an agreement between two entities to ensure agreed upon services are delivered in the time and quality expected and paid for in a timely manner. Project Managers are responsible for managing purchase orders, which are derived from either a Limited-Service Agreement or a Project Specific Advertisement.

Why Important

- Contracts (or Purchase Orders) are a mechanism NCDOT PMs can use when additional resources or expertise outside of NCDOT is needed to complete work.
- Each Purchase Order, with its scope of service, details the services and deliverables expected within a specified time and the monetary value associated with these agreed upon services by DOT and the firm.
- Not managing contracts in a timely manner (i.e. not perceiving the need for Pos & supplements early enough or having inaccurate and untimely invoices) could delay the project schedule.
- Contracts provide objective criteria to ensure firms are delivering in accordance with expectations and enable performance feedback through Consultant Evaluations.

Contract & Purchase Order Pathways



Limited Service Agreements (LSA – also referred to as LSC):

- The umbrella agreement between NCDOT and a professional service firm.
- Have an overall contract dollar value that purchase orders can be written against to allow firms to perform services for NCDOT.
- A project specific advertisement will not have an LSC.

Purchase Orders (PO):

- PMs manage the Purchase Order which can be derived from a project specific advertisement or a PO from an LSC.
- Can be used for any professional service firm.
- General Engineering Services Consultant (GESC’s) POs may be designated with a 63100xxxx number if anticipated irregular expenditures or not using full commitment. (refer to [11.3.23 PO Doc Type Memo](#)).
- Types of POs:
 - o Cost Plus (Overhead + Profit) - Use when scope cannot be clearly defined.
 - o Lump Sum - Use when a definitive scope can be accurately estimated.
 - o Others – Disciplines may use other types of POs for their purposes.

Task Orders:

- Mechanism for the Project Manager to track services.

Supplement:


- Used to incorporate modifications to the firm’s scope of services in the Purchase Order.
- Supplements can be either positive or negative to add or remove scope.

Key PM Responsibilities


Selection Committee for LSA/LSC or Project Specific Advertisement

If PMs are on the selection committee for an LSC or Project Specific Advertisement, their responsibilities may include:


	<p>Review Letter of Interests Review Letters of Interest based on criteria, scope, and expectations laid out in the RFLOI.</p>		<p>Firm Selection Evaluate firm workload and qualifications.</p>
<p><u>Establish Purchase Orders (PO’s):</u></p>			<p>Available Balance on LSC Verify the LSC has adequate balance available and is not expired prior to setting up PO.</p>
	<p>Select Firm from LSC Review evaluations, firm workload, qualifications, and LSC Utilization for fair distribution.</p>		<p>Develop Scope of Service Clearly document the scope of services and deliverables the firm will provide.</p>
			<p>Develop In-House Est. Ensure an independent in-house workday estimate is completed to use for cost comparison.</p>



Negotiate Work Effort
Ensure negotiation occurs and work effort (workdays) is within 5% for each discipline.




Attain Spending Approval
Submit an Expenditure Approval to get approval to obligate funds.




Obtain NTP
Coordinate with business officer to obtain NTP and to ensure PO is established in SAP.


Ongoing Management of PO's




Adequate Funds on WBS
Verify adequate funds are on WBS to pay invoices. Submit a funding request as needed.




Review/Approve Invoices
Review invoices for accuracy, coordinate with firm on concerns and approve in a timely manner.




Manage PEF/GESC Costs
Monitor PEF & GESC costs to ensure accurate charging is occurring.



Perform Firm Evaluation
Evaluate the firm's performance at major deliverables or every 6 months.



Close PO's
Coordinate with business unit officer to close PO's in SAP.




Supplements
Execute supplements for additional work as needed.

Key Things to Consider

Purchase Orders

- If the PO is pulling from an LSC, will the LSC be valid (not expired) at NTP?
- Was an Expenditure Tracking webapp request submitted for expenditure approval prior to submitting the NTP package?
- Does the final PO package have the:
 - o Signed NTP
 - o Prime/Sub RS2 forms- even if no sub on project
 - o Cost certification memo
 - o Expenditure tracking approval
 - o Cost comparison
- If modifications to the subconsultants need to occur, does the LSC have the provisions to add subconsultant? If so, a "Prime Consultant's Subconsultant Add/Remove" form will be needed.



Are enough funds on the LSC to set up a new PO or supplement an existing PO?

- o Final Firm estimate
- o Final NCDOT estimate
- o Scope of Service
- o Backup justification for additional costs

- Do the prequalification's and work codes listed in the LSC for subconsultant match the services in the PO?

Informal Advertisement - Task Order Competition (Hybrid of Project Specific & Selecting from LSC)

- Would the project benefit from having firms under existing LSC compete, but does not have enough time to go through a project specific advertisement?
 - o Utilizing this method does not require going to the BOT and follows the same process as a LSC. Additionally, this process does not take as much time as a project specific advertisement.
- Would it be beneficial to select a firm based on unique project attributes, specific project needs, and prequalification discipline codes?
 - o If so, the NCDOT business unit contracting with a firm evaluates and scores, then selects the firm or shortlist and interview several firms to determine selection. Professional Services Management (PSM) can provide examples of Request for Letter of Interest (RFLOI) and the spreadsheet for evaluations.

Project Specific Advertisements:

Project specific advertisements can be completed for an entire project, the planning portion of a project, or the design portion of a project.

- Is the project complex or unique?
- Will the project require specific disciplines or key industry staff?
- Is a unique or unusual approach needed to deliver the project?
- Do you have enough time to procure a project specific team (~5 months)?
- Is the project construction estimate exceeding \$100M? If so, a project specific advertisement is recommended.
- Does the project construction estimate exceed \$50M? If so, a project specific advertisement should be considered.
- Does the project require an Environmental Impact Statement (EIS)?

Best Practices & Common Pitfalls

Best Practices	Common Pitfalls
<p><u>Firm Selection:</u></p> <ul style="list-style-type: none"> ✓ Right sizing the advertisement and firm selection based on project size & complexity. ✓ Project Specific Adv. for unique & complex projects. <p><u>Purchase Orders:</u></p> <ul style="list-style-type: none"> ✓ Consider setting up both a Lump Sum and a Cost-Plus PO for complex projects. ✓ Complete in-house estimates before receiving the firm's estimate. ✓ Scope all work through a deliverable in 1 PO. ✓ Ensure there are adequate funds on the WBS for the current State Fiscal Year. 	<p><u>Firm Selection:</u></p> <ul style="list-style-type: none"> ✗ Hybrid Selection Process – firms cannot modify the team submitted in LSC. ✗ Project Specific Adv. – do not have enough time available to procure a team. <p><u>Purchase Orders:</u></p> <ul style="list-style-type: none"> ✗ Not enough funds on LSC to set up PO. ✗ Contract (LSC) has expired. ✗ If multiple PO's are set up for project, the firm may unintentionally bill to wrong PO. ✗ Firm rates used are not approved in CRS. ✗ Limited NTP's do not allow firms to submit an invoice.

Best Practices	Common Pitfalls
<p><u>Lump Sum PO's:</u></p> <ul style="list-style-type: none"> ✓ Use Lump Sum when scope of work and timeframe can be clearly defined. ✓ PM reviews percent complete of deliverables before approving invoices. <p><u>Cost Plus PO's:</u></p> <ul style="list-style-type: none"> ✓ Use Cost Plus when the scope of service or timeframe cannot be clearly defined. ✓ Use when need flexibility in expediting work. ✓ PM reviews timesheets and progress reports before approving invoices. ✓ Verify firm/employee rates match CRS. <p><u>Invoices</u></p> <ul style="list-style-type: none"> ✓ Firm submit within 30 days of performance period. NCDOT pay within 30 days of receipt. ✓ Compare invoice to cost projections 	<p><u>Lump Sum PO's:</u></p> <ul style="list-style-type: none"> ✗ Overestimate, underestimate, or insufficient use of resources. ✗ Reduction or expansion of scope once PO is negotiated. <p><u>Cost Plus PO's:</u></p> <ul style="list-style-type: none"> ✗ Not having firm rates checked prior to PM approving the invoice may result in invoice rejection, delaying payment. ✗ Insufficient oversight and tracking could lead to reaching contracted amount prematurely. <p><u>Invoices</u></p> <ul style="list-style-type: none"> ✗ Firm name is not an exact match to SAP/Directory of Firms format. ✗ Mathematical errors. ✗ Incorrect project details (project number, WBS number, remittance address).

Tools

- [Preconstruction Finance Guide](#)
- [Consultant Evaluations](#)
- [Consultant Mgmt. Guidelines](#)
- [Utilization Report](#)
- [Expenditure Tracking Site](#)
- [Subconsultant Notification Expectations](#)

Memos:

- [1.24.18 Firm Contract Negotiations, Fees and Limited NTP Memo](#)
- [11.3.23 GESC Limited Service Contract Memo](#)
- [3.2.22 Firm Invoicing Requirements Memo](#)

Invoice Templates:

- [Lump Sum](#)
- [Cost Plus](#)
- [Progress Report](#)

Helpful SAP Transaction Codes to Monitor Contracts:

PO's & Invoices

- ME23N: Display PO
- ME2J: Display PO by project
- ME2K: Purchase order by account assignment
- ME2L: Display PO by vendor
- ME2N: Use when have the PO number.
- MIR4: Display invoice – use when have invoice document number.
- KS03: Display cost centers – may refer to when developing workday estimate.

LSC

- ME33K: Display Contract (LSA/LSC) – when have contract number.
- ME3N: Looks up LSC – when have document type or purchasing group.
- ME3L: LSC - Outline Agreements per Vendor

Definitions

Contract	<i>A legally binding written agreement between multiple entities for the performance of services and completion of deliverable as defined in the scope of services.</i>
Cost of Capital	<i>A rate applied to cover tangible and intangible assets subject to reimbursement. This is an audited percentage approved by the Department. This is in addition to the Fee and not part of the firm's profit.</i>
Cost Plus (Overhead + Profit)	<i>A method of compensation based on the actual allowable and documented cost for labor, overhead, cost of capital, and other non-salary direct costs incurred by the firm performing the work plus fee.</i>
CRS	<i>Consultant Rate System. Designated personnel in NCDOT units and divisions have access to view firm's personnel salary, overhead rate, and cost of capital and verify these rates are accurate in cost plus invoices or in the PO package submitted to obtain NTP.</i>
Letter of Interest (LOI)	<i>An expression of interest by a firm for performing specific services as advertised by the Department.</i>
Limited-Service Agreement (LSA or LSC)	<i>LSA's are managed by PSM. An as needed "contract" established for a maximum dollar amount for professional or specialized services to be performed during a specified contract period. These are also referred to as Limited-Service Contracts or LSC's.</i>
Lump Sum	<i>A fixed price including labor, overhead, non-salary direct costs and fixed fee for the performance of specific services.</i>
Limited NTP	<i>Short duration (< 30 day) small (\$50k max) notifications to proceed with work prior to receiving an official NTP. NCDOT management (Director of TS/DE) approves. Firm may not bill for completed work until NTP.</i>
Notice to Proceed (NTP)	<i>Authorization for the firm to begin the negotiated work, per the scope of services.</i>
Negotiation	<i>A strategic discussion between two or more parties to resolve points of difference in a way each party finds acceptable.</i>
Overhead	<i>A firm's indirect costs, stated as a percentage of direct labor, including general administrative expenses plus employee fringe benefits.</i>
Purchase Order (PO)	<i>A contract that outlines the services and deliverables assigned to a firm to be completed as well as the payment type.</i>
Progress Report	<i>A document required to be submitted on all invoices for cost-plus PO's to monitor the overall progress of actual work performed.</i>
Supplemental Agreement (SA)	<i>An agreement between the Department and the firm that amend the PO or LSC as necessary to satisfactorily complete the proposed work.</i>
Task Order (TO)	<i>A mechanism Project Managers can use to track services provided by firms.</i>