

Service Contract Management

No Place For Amateurs

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Why do some service contracts work well and others do not? Why are the costs of some contracts high while other similar contracts are not? Why are some contractors responsive to government needs while others are not? Why are these questions even being asked?

Answers to these and other contract-related questions become more important to Department of Defense (DoD) managers as the Military Services rapidly move to streamline and modernize their forces. Concurrently, the Military Services are exploring promising cost containment initiatives such as competitive sourcing and outsourcing services and functions to the private sector, including entire functions and programs that have been traditionally performed in-house. On the positive side, managers can influence the answers to their questions on contracts within their control. This article addresses how a DoD manager can navigate the maze and ensure successful delivery of services through contracting.

Service Outsourcing in DoD

The DoD has become increasingly interested in using the private sector to provide programs that are peripheral to the core mission of the Service, while

retaining those missions in-house that require performance by government civil service or uniformed personnel. Thus, a vast array of services are being subjected to competition throughout the service support sector, including personnel, administrative, engineering, logistics, base and post operations, training, and related support functions in all Military Services. Budget constraints are driving this trend as managers seek to modernize systems while continuing to provide services at lower costs.



THE MANAGEMENT OF SERVICE CONTRACTS IS A DIFFICULT CRADLE-TO-GRAVE ENDEAVOR THAT IS INCREASINGLY AFFECTING MILITARY FORCE READINESS AT ALL LEVELS AROUND THE WORLD.

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The interest in outsourcing has not abated with the change in administrations. The new Secretary of the Army, Thomas White, stated in a June 12, 2001, *Media Round Table* that the Army, "should seek to outsource (all) non-core activities" where better value could be provided at a lower price.

Maybe the key question is, "Why are these questions even being asked?" While the military has been contracting-out services and projects since the birth of the country, only recently has outsourcing started to affect the daily lives of mid-level DoD employees. This change emerged concurrently with the downsizing of the military following the Persian Gulf War when large numbers of DoD civilian employees lost their jobs, were transferred to other agencies, or were not replaced after buy-out, resignation, or retirement.

Table GPS1 at <http://www.fedscope.opm.gov>, published by the Office of Personnel Management, contains some eye-opening statistics. By OPM's accounting, the DoD civilian workforce fell from 816,621 in September 1995 to 660,212 in March 2001—a 19 percent reduction in force. What happened to the functions performed by these employees? Surely not all the lost jobs were production functions as part of a manufacturing process that was no longer required. Some, perhaps many, of the functions these employees were performing were subsequently contracted out by either installation commanders or those responsible for performance of a particular function.

Paul C. Light documents the growth of service contract work (as opposed to contracts that produce products) in a 1999 book, *The True Size of Government*, where he found that the service-contract workforce grew from 51 percent of the total contract workforce in 1984 to 71 percent in 1996. This seemingly represents a dramatic shift toward the growth of the white-collar contract workforce supporting the Federal Government. Furthermore, Light predicts that service contracts are likely to increase over time.

Are Outsourcing Initiatives Outstripping Capability to Respond?

Increasingly apparent to those closest to the change—the contract managers on the front line—is that service contract growth is placing new demands on the capacity of the senior military leadership. In the past, service contracting activities were largely within the finance, accounting, or supply organizations and were considered essentially logistics functions. Today, whole slices of the infrastructure of military posts, bases, and camps are outsourced as well as operational control of training facilities, repair depots, and even activities supporting troops in combat zones. Like it or not, senior military leaders are being drawn into contract operations and procurement decisions. Contract management has become a critical factor in force readiness and becomes more so every day. So what can the leadership and contract managers do to remain in sufficient control to perform mandated duties?

A Necessary First Step—Getting Smart

The increasing reliance on the contractor workforce has identified weaknesses in our ability to rapidly and efficiently outsource mission-essential functions. One such weakness—the lack of business acumen within the DoD—is highlighted in a recent award-winning essay written by Industrial College of the Armed Forces student, Randall J. McFadden. His essay, "Case Study of Complex Business Management for Competitive Sourcing," was awarded the National Contract Management Associ-

ation-Industrial College of the Armed Forces (NCMA-ICAF) Award for best research paper on Competitive Sourcing in June 2001.

McFadden addresses the difficulties associated with getting service-contract competitions underway in the DoD, and identifies the leading culprit as the lack of business management knowledge and training among all involved in service outsourcing projects. His criticism does not extend to the management of products traditionally acquired from industry such as weapons systems, supplies, and major equipment, but to the service areas that are being subjected to outsourcing competitions for the first time. Such projects are affecting commanders at virtually every installation and headquarters in the military.

McFadden recognizes in his essay that, "Program management of competitively sourced activities may not have the glitter and glory of traditional weapons system project management, but it influences a larger part of the defense budget, touches more of the force, and impacts more and more of our capability." What solution does McFadden propose? His solution is to eliminate cultural, process, execution, and training barriers and treat outsourcing as a complex business management process that combines functional expertise with business sense and is fully integrated into the command structure.

In a recent article by Steven Kelman, published in the July 30, 2001, issue of *Govexec.com* (www.govexec.com/dailyfed/0701/0700/ebird.htm) and reprinted in the Armed Forces Information Service (AFIS) *Early Bird*, Steven Kelman identifies another weakness in the outsourcing process, namely, the tendency to de-emphasize the importance of the contract management function itself. He offers a strong argument for establishing contracting management as a core competency for organizations deeply involved in contract work.

In addressing this issue, Kelman states, "A leadership job in contract administration is not a consolation prize..." It

requires “strategy and goal-setting; inspiring those doing the work, including contractors, with enthusiasm and public purpose...” and a host of other attributes more usually associated with senior leadership.” He summarizes this concept by stating that, “the responsibilities of a contract administration leader are analogous to those of a senior executive, not a first-line supervisor or middle manager.”

The Role of the Contracting Officer’s Representative

Kelman’s observation raises another question—what exactly are the responsibilities of a contract manager? The Federal Acquisition Regulation (FAR) 37.103 offers general guidelines on the responsibilities of a Contracting Officer on service contracts. The DoD FAR Supplement (DFARS) 201.602 authorizes Contracting Officers on DoD contracts to designate qualified personnel as their authorized representative to assist in the technical monitoring in the administration of a contract. This individual—the Contracting Officer’s Representative (COR)—exercises authority specifically delegated in writing by the Contracting Officer.

A typical letter to a COR from a Contracting Officer may authorize the following actions:

“Assure that the contractor performs the technical requirements of the contract in accordance with the contract terms, funding, conditions, and specifications.

Perform, or cause to be performed, inspections ...and to require the contractor to correct all deficiencies.

Maintain liaison and direct communications with both the contractor and the contracting officer.”

Usually, a limitations clause in the delegation letter prohibits the COR from taking any action that may be construed as changing any contract provisions such as modifying contract or delivery order schedules, funds, or scope of work. Another provision routinely included

makes it clear that the Contracting Officer is the only authorized individual that can modify any contractual agreement, commitment, or modification that involves price, quantity, quality, or delivery schedule and makes the COR liable for any deviation from the delegated authorizations.

In actual practice, the COR is the primary functional representative of the government in the execution of the service contract, exercises authority over the performance evaluation of the contractor, and is the primary day-to-day point of contact for the contractor’s program manager. On service contracts, the COR routinely is the originator of the contract requirement, shapes the contract through the competitive process to award, is responsible for funding the contract, evaluates the performance of the contractor for the chain of command and Contracting Officer, and influences decisions on the continuation or non-continuation of the contract. These are not insignificant responsibilities because collectively they add up to the fact that the COR is ultimately the key to the success or failure of a contract.

Despite this, the typically ambitious government employee does not aspire to become a COR. Why? Well, for a variety of reasons. No established career track for a COR exists within the Federal Civil Service; no standards are set for performance; and obtaining training—which is often an item managers fail to budget for—is very much dependent on the employee’s own initiative. In practice, one often becomes a COR by happenstance. This has to change, and it should change quickly because contract management is becoming an essential function for the military.

The COR as an Important Part of the Solution

As CORs gain increased responsibility for providing significant portions of command or installation support services, they are displacing traditional senior civilian and military leaders who formerly managed functions performed in-house—functions now outsourced

to the private sector. For example, with the recent outsourcing of large-scale installation administrative functions in both the Army and Navy, no longer is it uncommon to find a COR responsible for administrative support functions previously handled by a colonel or GS-15 division chief at medium-sized installations, supervising over 100 government employees.

The prudent commander will exercise the same amount of care in selecting a COR for such a large project as would be taken in selecting a manager for an in-house staff. Not only are basic leadership and employee motivation skills required for the job, but the COR also must bring considerable cross-agency skills such as financial, acquisition, and programmatic management as well as knowledge and experience of contract management and administration skills to the table. Also, a finely developed sense of interpersonal communications and diplomatic acumen are required to work with Contracting Department personnel who frequently have other priorities and do not face the functional problems that CORs experience and solve on a daily basis.

What should a military leader look for in selecting a COR to manage a critical part of the command’s mission? Here are several ideas.

Experience

The ideal COR will bring a wide array of experience to the table, preferably including functional expertise in the technical area being managed. In the contract environment today, the Contracting Officer and the related contracting superstructure provide sufficient oversight on regulatory matters requiring specific knowledge of the FAR, DFARS, and legal issues of the contracting world. The COR is, and should be, the Contracting Officer’s interface with the day-to-day technical work performed on the contract.

For example, the COR of a logistics function would ideally have sufficient experience with the standards of performance, the specialized vocabulary as-

sociated with the work, and the broad base of functional knowledge to successfully communicate with the contractor. Similarly, the COR of an engineering function would have the level of experience or education necessary to provide quality assurance over the desired product or service.

The experience level required in a COR should be directly proportional to the scope and complexity of the operation. Ideally, the career path of a COR should include several major components that include: experience in the functional area commensurate with the project; cross-industry experience in financial management and business administration at a level commensurate with the project; an apprenticeship under an experienced veteran of the contracting business so that the individual will have sufficient knowledge of COR functions and related problem-solving skills before assuming responsibility for a first job as a COR; and prior experience as a government contractor at the managerial level. Prior business management experience offers substantial value to a COR as it provides the potential to avoid a costly and time-consuming trial-and-error process of learning what the business world is all about.

In short, the smart commander will seek out an individual with a strong background and experience to become a COR. An experienced contract manager is more likely to meet the complex challenge of the contract environment, exercise the control mechanisms embedded in the contract operation, perform the necessary quality assurance and risk management functions, and ensure financial accountability on the part of the contractor.

No longer is it sufficient to point a finger at the contractor when something goes wrong. If anything does go awry, the COR is responsible for introducing corrective and remedial action, including terminating the contract if that becomes necessary. On the other hand, the COR merits credit when the contractor does well. After all, contract success often depends on the COR preparing

the functional area should be required. Frequently, the requirement for a graduate degree is more important on a professional services contract than for a product or manufacturing contract because of the nature of services contracts. Because a professional services contract often requires a graduate degree for the contractor manager, one should likewise be required of the COR. More importantly, a graduate degree confers an example of individual achievement that requires commitment, perseverance, and capability—all traits normally characteristic of a seasoned manager.

For a contract of lesser size and complexity, a bachelor's degree is the minimum education a commander should accept in a COR. Contract management requires mastery of many college-level concepts such as business administration principles, cost-benefit analysis, negotiating techniques, cost modeling, and understanding of the applicable law and technical regulations. Those that have not been exposed to higher education would clearly be at a disadvantage.

In addition, the well trained COR will have completed a wide-range of professional-level

courses provided by the contract management community and will hold memberships in professional organizations such as the American Society of Public Administration, National Contract Management Association, or similar organizations that sponsor a Code of Ethics or professional standards as a condition of membership.

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effective written specifications for the contract and exercising vigilant quality assurance and oversight of the services once the contract is underway.

Education

What is the appropriate education level for a COR? Education prerequisites depend upon the size and complexity of the contract and on several other factors. For a contract with substantial size and complexity, a strong case can be made that a graduate degree related to

for in a COR? Intangible qualities or skills such as patience, tolerance, perseverance, a results-oriented management style, dedication to the task at hand, and motivation will help ensure effectiveness. A finely tuned sense of patience and tolerance is almost a necessity for a COR to cope with built-in delays inherent in the contracting process. Delays are not only intentionally factored into the procurement process to discourage all but the most determined from proceeding, but also unintentional delays surface frequently and often extend into lengthy delays. To complicate matters further, lengthy delays can frequently result in loss of momentum and introduction of peripheral issues that cause loss of focus and progress.

The fully equipped COR maintains a tool bag full of personal qualities to operate effectively in an intensely regulated environment filled with bureaucratic delays, and remains focused on the goal of bringing the procurement to award. Once the contractor is on the job, the results-oriented COR remains focused

on the job and vigorously protects the government's interests while motivating and enabling the contractor to achieve expected levels of performance.

In some cases, a COR may work on several contracts. In these cases, the COR should have the capability to conduct project oversight for several large, complex procurement projects in various stages of the acquisition process where activities on one project could impact other projects. Obviously, the government's best interest is not served by having a poorly prepared individual assigned to a COR position, but rather the government's best interest is served by ensuring that an individual is fully equipped to handle the responsibilities.

Some Final Thoughts

The time has long passed when government could afford to ignore contract management. It has become a serious and complex business management process of increasing importance to mission accomplishment. The management of service contracts is a difficult cradle-

to-grave endeavor that is increasingly affecting military force readiness at all levels. No longer is it sufficient to rationalize poor contract performance as "the contractor's fault" when the problem is just as likely to be a defect in the contract specification, a serious mistake by the source selection board, or an unqualified COR who is unable to handle the job.

Increasingly, the outsourced function provides essential support to the mission of the command. Accordingly, standards should be set high, and contractors should be expected to meet, or preferably *exceed* the standards. In the competitive, free enterprise system that exists in our country, only the smart businesses survive, and the smart businesses are those that satisfy their customers. Ultimately, the success or failure of a business relationship between a service contractor and the government rests on the back of the COR. Successful contract performance does not happen by accident.

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