Progress Payments Based on Costs

Chapter 9.2

Timothy J. Frank, Contract Specialist
Contract Business Operations
Phone: 703-767-3431
tfrank@dcmchq.dla.mil
Risk Planning

• What to look for

**Fixed Price contract w/ Progress Payment clause**

**Requirements identified in contract**

- E.g., First Article, Multiple ACRNs on other than FFP, special payment instructions, mixed type, etc.

**Supplier prior performance, status of business systems, ability to manage costs, company financial condition. use of EDI**

• Standard key processes

**Mgmt of Company Financial Condition**

**Mgmt of Costs**

**Mgmt of Business Systems**

“Financial analysis which addresses the supplier’s overall liquidity, cash flow, backlog of work and financial posture…”
Risk Assessment
(Sample Rating of a Key Process)

• “Management of Companies Financial Condition” - P/C/S High Risk

“...financial capability relatively unstable, ability to complete the contract may be threatened by significant changes (mergers, takeovers, etc) in the corporate structure and management.”

Use risk matrix - Potential for adverse performance & schedule impacts very likely, may impact cost as well.

• Impact: Why This is a Key Process

Major impact If supplier financially unstable. If financing not available, performance risk is high. Supplier may not be able to complete contract, even with progress payments.

• Risk Reassessment to - P/C/S Moderate Risk

Financial capability stable, but significant changes (mergers, takeovers, etc) may affect historical...
Risk Handling

• Risk Handling Tool: Review of Financial Condition

  **Intensity**
  - Perform or obtain from financial analyst, reviews of supplier’s financial condition
  - Meet with supplier & auditor to review problems detected and contractor’s planned corrective actions (eg commercial financing)

  **Frequency** - Quarterly
  **Schedule (example)** - 1st week, Jan, Apr, Jul, Oct each year

• Rationale for Risk Handling Tool

  Since Management of Financial Condition is a known high-risk key process, need to establish ways to mitigate the risk. By reviewing financial condition, adverse changes in
Risk Monitoring

• Monitoring assessed risk for impact on risk rating
  Monitor progress in contractor improvement (improved cash flow, financial ratios)
  Monitor contractor progress in implementing planned corrective actions (e.g., obtaining additional financing)

• Risk handling adjustments if risk handling methods aren’t resulting in improvements
  Consider reviews of other supporting business systems (e.g., Accounting, MMAS, Quality, etc.)
  Consider suspending progress payments if liquidation in doubt

• Rationale for Risk Monitoring
  Documenting contractor performance in this key process identifies problem (risk) areas and trends, thus allowing us...
Risk Documentation

• Documentation is required for Risk Planning, Assessment, Handling, and Monitoring

• Reassessments and changes to any elements of risk management must also be documented; this includes progress made to date in risk handling and monitoring efforts

• Documentation is one method to communicate to your team, buying office, and supervisor your efforts on monitoring/improving contractor key processes and systems
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For more information, contact your District Process Champion...

**DCMDW:** Marjorie McFarlin  **DCMDE:** Barbara O’Connell

mmcfarlin@dcmdw.dla.mil  boconnell@dcmde.dla.mil
(310) 900-6776  (617) 753-4439

**DCMDI:** Harris Hill

hhill@dcmchq.dla.mil

**DCMA HQ Process Owner:** Tim Frank

tfrank@dcmchq.dla.mil

(703) 767-3431