

## Cost Contracting – Rules of the Road and best Practices

The following is a short compilation of considerations when managing cost contracts in the field to avoid common mistakes.

1. Do not allow or direct work beyond the funds obligated to the contract. No exceptions.
2. You are buying the contractor's management and best effort, not a final product. The final deliverable is based on their best efforts and funds available.
3. The Government does have the right to direct means and methods as we are paying the cost for what is performed. The Government is integral in purchase and lease decisions. Use common sense, or a reasonable person approach given the circumstances.
4. Use of performance specifications is best practice. However prescriptive specifications can be used if appropriate
5. Effective communication between the Government and contractor is essential!
6. The Government owns the risk for both schedule and cost
7. Technical changes and direction can be issued without modification of the contract (in scope and within available funding)
8. Management controls are critical. Do not skimp! Document, document, document!
9. Allowable, allocable and reasonable become a mantra.
10. Contractor must incur and pay costs before invoiced to the Government.
11. Government must approve wage rates in excess of Davis Bacon before they are incurred.
12. Government must approve overtime before it is incurred.
13. Government must verify workers are actually on the project and compare to invoices
14. Government must verify equipment and materials delivered and used on project and compare to invoices.
15. Contractor has an affirmative duty to notify Government when costs will exceed 75% of obligation.
16. Use pre-construction meeting to agree on scope, schedule, purchasing system (and associated controls), property management system (and associated controls), invoicing (may consider bi-weekly for cash flow) and other management controls to protect both the contractor and the government.
17. Fee can be paid based on percentage of construction complete, up to 85% of fee.
18. Relationship must be open, honest and collaborative between the contractor and Government. If adversarial...remove offending party immediately.
19. Establish single point of direction on both Government and contractor side. Communication must be effectively managed!!
20. Establish PM briefing and information requirements upfront to assure smooth information flow. Identify a standard measure of performance that can be updated daily.
21. While formal EVMS will typically not be required, establish an earned value system that is appropriate (simple is better) and usable for the specific project.
  - a. What are the deliverables to be provided and can they be broken down into measurable elements.
  - b. Establish a budget cost and schedule for the elements (think baseline)
  - c. At end of billing period establish (or distribute) actual costs of the work performed to the elements. Again keep it simple.

- d. Now you have both the budget cost and actual cost as well as actual and scheduled values.
  - e. If this is to be usable, it must be simple and straightforward. Plan it up front such that you have a usable tool to measure productivity and budget. It is better to know early if you will run out of money or miss the schedule.
  - f. The basic structure should be established during contract formation.
22. Property management is often forgotten about. If the contractor buys material or equipment and we pay for it, the Government owns it. Both Government and Contractor needs to keep track of what is purchased, that it is actually used on the project, and what happens to the leftover material or equipment once the project is completed.
23. A subset of property management is buying versus rental/lease of equipment. Renting or leasing at fair market value is usually better. The Government is part of this decision making process.
24. Government oversight will be double of what is normally required for FFP type projects. Consider a full time person responsible for invoice review and management control activities. Document decisions and rationale.
25. Contract management plan – plan the work/management before you start and then adjust the plan as required when you execute. Keep it simple and think “plan the work, work the plan” and expect that once you start adjustments will be needed. The focus of these plans are for you to think ahead and be proactive. Once you become reactionary, you have lost control.
26. Work breakdown structure and work authorization documents are used to provide control of scope and budget. While these processes and systems are very common and complicated on large cost contracts, they can be scaled and simplified. Develop and use tools that improve management that are appropriate to what you are doing.
27. Develop a schedule that is usable and understandable. Simple is better and scale to what is appropriate for the project.
28. Voucher reviews are critical. Document what you have looked at and what management controls occurred to validate what you approved. Assure any Government documentation of our actions is placed in the file for future audit. Simply signing off on the voucher for payment is under no conditions acceptable. Having a person whose full time responsibilities is management controls is a best practice.
29. Risk management is a tool that can be as simple or complicated as you make it. Scale this to meet your needs. The goal is proactive prevention of issues that may arise. Simple projects may be as simple as discussion during the pre-work conference and discussion at the weekly meetings. Be proactive in your management, not reactionary. The Government pays for what goes wrong, not the contractor.
30. Lastly, read your contract cover to cover. These contracts are different than FFP. Take the time to understand the requirement and learn what the contract actually requires as opposed to what you think is required.