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How the different approaches to contract financing can impact the company

There are various approaches/methods of financing contracts. The following is the description of the approaches and how they may impact on a company. First, we begin with advance payments: these are advances of money given by the government to a prime contractor before, in anticipation of, and purposely for complete performance under a single or many contracts. These advances are expected to be liquidated from those payments due to the incident of the contractor to the performance of the contracts. Since these advance payments are not measured by performance, they differ from partial, progress, or those payments that are based on partial or complete performance of a contract (Division of the Federal Register, 2005). Advance payments may be made to prime contractor companies for the purpose of making advances on subcontractors. This approach to financing may make the contracted company to relax given that it is not based on the performance of the contract.

Private financing is another means of financing the contract. This is a situation where the contractor secures his/her own financing without getting to involve the government. The contractor can get these funds in form of loans whereby some trustees may be required. This type of financing relies on the previously executed contracts by the company and it, therefore, means that the company should perform the contract to repay the private financiers of the contract. Performance based payments is the third method of financing the contract (Thomas, 2009). These are customary contract financing payments that are made based on the performance. This

performance is measured by objective, and quantifiable methods of contract execution. Therefore, a company has to have a measurable objective that will ensure that the company working hard. Some defined events have to be accomplished for this kind of financing to be made to a company. Also, other quantifiable measures of results have to be factored when looking for this kind of financing. The next source of financing is loan guarantees.

Loan guarantees are made by the Federal Reserve banks, and on behalf of guaranteeing agencies that have been designated to enable the contractor companies to obtain financing from the private sources. This financing is aimed for acquisition of supplies of services for the purpose of national defense. The company that is contracted has to be trustworthy charged by the previous contracts that have been undertaken by the company (Thomas, 2009). The next approach of financing is partial payments for accepted supplies. These are payments or financing for supplies and other services that are part of the requirements of the contract. The Management and Budget Circular office, Prompt Paying demand that agencies should make payment for partial delivery of supplies or partial performance of services that have not been prohibited by the contract. Using partial payment type of financing can assist a company to participate in government contracts without, or with nominal, contract financing (Division of the Federal Register, 2005). The company should make statements of work and arrangements of pricing that should be designed to allow for acceptance and payment for tactful portions of work.

The most appropriate approach

The approach that is most appropriate for the organization of a company is loan guarantee. This is due to the fact that the loan guarantees are made by the Federal Reserve Bank on behalf of the company. The company therefore does not have to go through the long procedure of listing the securities and other guarantors to the financiers to enable them secure a loan from private financiers (Thomas, 2009). The only part of the company in this approach of financing is the company to fulfill all the requirements as directed by the government. It also helps the contracted company to be on the lookout of achieving the objective of the contract as it is always under monitoring from the government agencies. The next advantage that will be enjoyed by the contracted organization as a result of loan guarantee is that the finances will be sufficient to cover for most non-commercial expenses of the contract. In case the contractor does not meet the conditions set by the financing organization, the assets of the company cannot be auctioned in the process of recovering the finances although the company should demonstrate adequate security to the Federal Reserve Bank. A company should, therefore, settle for loan guarantees provided they satisfy the requirements that are set out by the government.

Policies the organization will need due to presence of The Defense Contract Audit Agency

The companies are required to adhere to some standard policies for organizing their internal audit departments. The first of the policies is independence and objectivity- According to the company's organizational chart, the chief audit executive should be reporting directly to the audit

committees of the Board of Trustees for matters that are related to internal auditing. For matters of administration such as office space and the payroll, the internal audit departments are linked to the chief financial officer or any other department. This organizational feature allows the activity of internal audit to be independent of company management, as called for under the standards of the Defense Contract Audit Agency. To ensure independence and objectivity further, the executives should have a policy of encouraging the culture of objectivity among their staff.

The second policy is that of risk-based audit plan. The risk-based assessment plans should be consistent with the standards of Defense Contract Audit Agency (DCAA). These are the plans that are used by a company's internal audit departments in scheduling their audits throughout the year so that the risk issues that are high and faced by the company are well covered (Thomas, 2009). According to DCAA, internal audit departments should base audit plans on an annual evaluation of risk factors that are prioritized to ensure coverage of the highest risk areas. Sometimes, companies do a follow-up audit for issues that are of high risk nature, highlighted in the previous year. These audits allow the internal audit department to track high-risk outcomes to ensure they are corrected.

Proficiency is another policy that the company needs to have in place. The standards of DCAA require that internal auditors have sufficient expertise. The staffs of a company need to have comparable professional qualifications. The staffs should be qualified with professional credentials in accounting packages and also where possible have advanced degrees and masters. There should be a framework of enhancing the connection between the

auditors and the company. The fourth policy is that of continuing professional development. The standards of DCAA require that internal certified auditors should complete 80 hours of continuing professional education after every 2 years. This is to ensure that they maintain and update their professional skills and knowledge. In addition to these requirements, the company should have training programs that are allowing staff from other departments or even other business units to rotate through the department of internal auditing for a limited time.

The fifth policy is planning the audit that includes assessing the risk of fraud. There should be planning steps for each objective in a contract that is consistent with the standards of DCAA. This exercise planning steps should contain assessments of fraud risks that are specific to the auditor's scope. For instance, the audit team should plan to meet with the legal department about risks of fraud and ethics consideration for particular audits that are done by the company. The areas to be included in the audit's scope along with the rationale of inclusion is identified in this policy

Conducting fieldwork including testing is another policy that companies should have. This is because DCAA require internal auditors to carry out sufficient analysis and make documenting of information to support the audit. There should be extensive documentation of fieldwork in the policies that include carrying out interviews regularly with company officials to compare company policies and procedures in order to determine the extent of compliance. The fieldwork and testing should show the level of compliance with the policies of the company, business systems and defense contracts.

Approaches the organization will need in place due to the government's need for quality

There are some approaches that a company will need to put in place in order to satisfy the governments needs for quality provisions. There is coverage assurance for conformance of products and services to the requirements of the contract. The first approach is contractor's existing quality assurance system of the company. When the government is purchasing commercial items, it may depend on the existing system of the contractor of quality assurance, without government inspection and testing. This is reason as to why a company should have a contractor's existing system of quality assurance. However, if practices of customary market, for the commercial item to be bought include in-process inspection, then the government may carry out some inspection using its own personnel.

Another approach by the organization is inspection by the contractor. When a contract for non-commercial items such as those items that are built to the specs of government, has an expectation of not exceeding the simplified item acquisition threshold of \$100, 000 or less, the government may specify the contractor responsible for performing all tests and inspections that are necessary in order to substantiate the supplies or services furnished to conform to the quality requirements of the contract. However, the government may impose requirements that are stricter, if it has needs that are special and require a greater degree of quality assurance.

The next approach for an organization to acquire government quality is higher-level quality standards. This approach is applicable to complex or critical items. Under this critical or complex item, high level requirements are usually applicable. The contracting organization is responsible for identifying

standards that are of high level, and which will satisfy the requirements of the government. This quality level is required when it is important for the control of work operations, in-process controls, and attention to such factors as organization, work instructions, planning, and documentation (Division of the Federal Register, 2005).

The only way that the prime contractor can assure that it can do quality work, within budget and on time, is to inspect the organizations systems and getting them approved. Therefore, the company must be marketed by ensuring that it adheres to quality standards expected. The government contract quality assurance at the level of subcontractor does not relieve the prime contractor of any of the responsibilities under the contract. Therefore, quality is a must.

Reference

Division of the Federal Register, U. S. (2005). The Code of Federal Regulations of the United States of America. U. S. Government Printing Office.

Thomas E. Uher, P. D. (2009). Fundamentals of building contract management. UNSW Press.