

# **Risk Management in Government Acquisition Planning**

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# Presentation Structure

- FAR Definitions
- Why risk management in acquisition planning?
- Purpose/Scope of presentation
- Risks analysis
- Risk analysis in acquisition planning activities
- Basic approach to formalizing risks analysis in acquisition planning
- Conclusion

# Government is Risk Averse

## FAR Section 15.001 - Definitions

- “Deficiency” is a material failure of a proposal to meet a Government requirement or a combination of significant weaknesses in a proposal that **increases the risk** of unsuccessful contract performance to an unacceptable level.
- “Weakness” means a flaw in the proposal that **increases the risk** of unsuccessful contract performance.
- A “significant weakness” in the proposal is a flaw that appreciably **increases the risk** of unsuccessful contract performance.

# Why Risk Management in Acquisition Planning?

- Risk consideration should not be an after thought given Government aversion to it
- Risk is the primary criterion for assessing the quality of an offeror's response to a Government RFP
- Risk management improves successful execution of projects and contracts
- When risks are not formally considered during the acquisition planning phase, potential results are:
  - RFPs and Source Selection Plans that fall short in mitigating risks to the Government and which do not lend themselves to fully leverage risk as a key criterion for justifying source selection decisions
  - Inefficient and inconsistent proposal evaluations
  - Poor contract performance

# Purpose/Scope

- **Purpose**

- Introduce an approach for **formalizing and incorporating** risk analysis in the acquisition planning phase as a means to:
  - Produce higher quality RFPs
  - Produce higher quality Source Selection Plans
  - Improve quality of proposals' evaluations
  - Improve quality of source selection decisions
- With the aim of managing acquisition risks and improving Program success

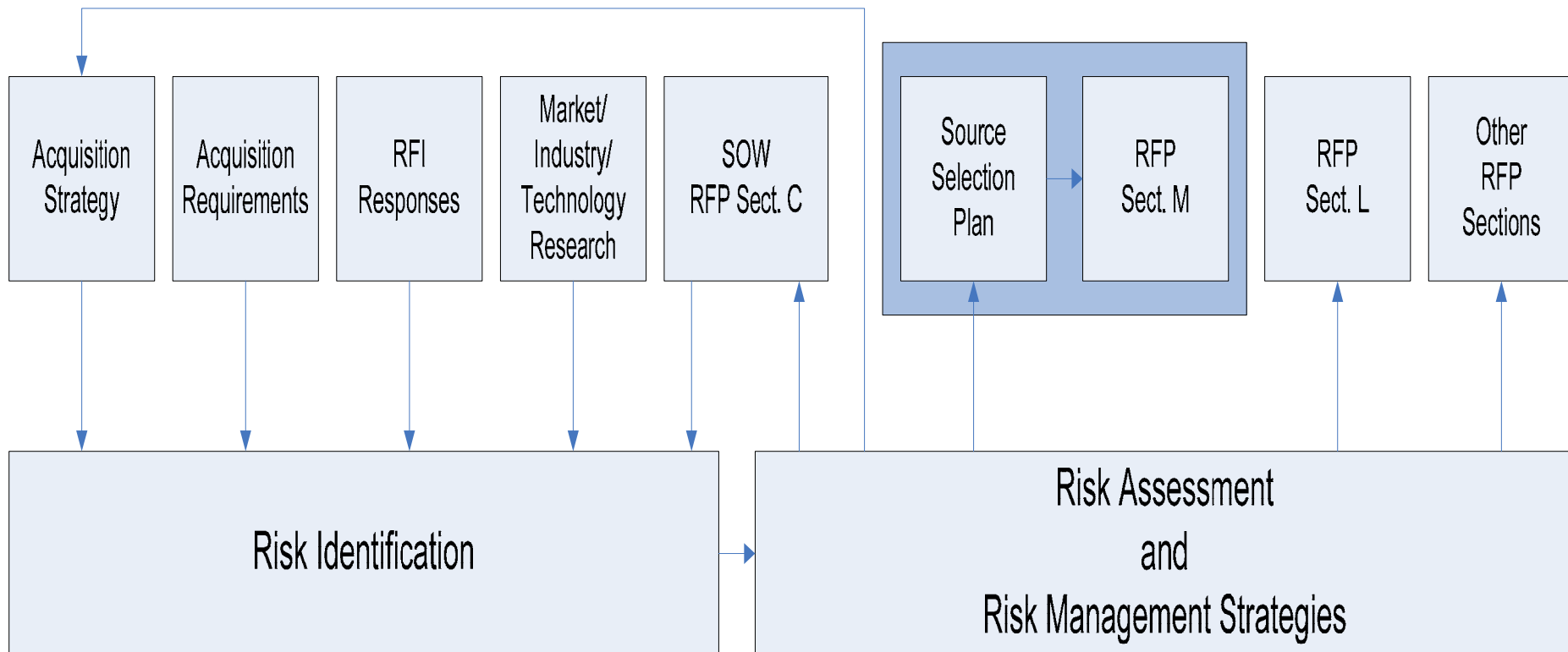
- **Scope**

- **Presentation Focus: Risks associated with contract execution (Post-contract award)**
- **Not Addressed - Risks associated with acquisition process itself (Pre-contract award)**

# Risk Analysis

- **Step 1 - Risk Identification**
- **Step 2 - Risk Assessment**
  - Evaluation
    - Qualitative or quantitative
    - Dimensions - Probability and impact
    - Expected Value (probability \* impact) or severity
  - Ranking/Prioritization
- **Step 3 - Risk Management Strategies**
  - Accept
  - Mitigate (action(s) that reduce expected value of risk)
  - Transfer
  - Eliminate

# Risk Analysis Phases Acquisition Planning



# Risk Identification

- **Acquisition Strategy**
- **Requirements gathering**
  - Similar acquisitions – Post mortem
  - Interview users/experts
- **RFI**
  - Include section on risks
    - Ask vendor to identify major or typical risks
    - Ask vendors to comment on risks management strategies
- **Market/Industry/Technology research**
- **Draft SOW – Source of technical and other risks**
- **Other risk identification techniques (Crawford, Delphi, brainstorming, others)**

# Risk Categories

- **Technical/Operational**
  - **Obsolescence**
  - **Change (Technology/Industry trends, Operational)**
  - **Industry/Industry practices**
  - **Architecture/design**
  - **Quality**
  - **Resource level/Competence**
  - **Growth/Capacity**
  - **Performance**
  - **Proven vs. New Technologies**
- **Management**
  - **Competence**
  - **Planning (Budget/schedule)**
  - **Coordination/Controlling/Change Mgt.**
  - **Quality Control/Assurance**

# Risk Categories (Cont.)

- **Business**
  - Viability
  - Continuity
  - Relationships
  - Dependencies (Government and contractor)
  - Experience
- **Environmental**
  - Disasters
  - Environmental factors (e.g., temperature, humidity)
- **Economic**
- **Regulatory/Political/Legal**
- **Security**
  - Physical
  - Systems/Information
  - Fraud/terrorism
  - Cleared Facilities/Personnel
- **Contractual**
  - SOW/RFP

# Risk Assessment/Strategy

- **Known risks - severity and ranking/prioritization**
- **Decide on risk management strategy for each risk (accept, mitigate, transfer, eliminate)**
  - As a general rule “accept” low severity risks
  - Ensure that you define strategy for unknown risks
  - Describe how strategy will be incorporated in solicitation process (RFP, SSP, etc.)
- **Supports preparation of solicitation documents and source selection**
  - Provides documented basis for supporting evaluation decisions and additional SOW/RFP requirements
  - Provides mechanism for rationalizing evaluation factors
  - Common framework for understanding risks by evaluation team
- **May identify issues with acquisition strategy**

# SOW - Section C

## Risk Analysis

- **SOW input to risk analysis**
  - Provides framework for identification of technical, operational, and management risks
  - Technical, operational, and management requirements may create new risks
- **Risk management strategy input to SOW**
  - Add requirements to support risk strategy
  - Remove/change requirements to support risk strategy
- **Iterative process**
  - Input of risk management strategy in SOW may create new risks
  - Improves quality of SOW
  - Reduces risks to Government

# Source Selection Plan/Section M Risk Analysis

- Provides common and objective framework for rationalizing, supporting, and documenting evaluation factors/consideration decisions
- Provides focus for what factors and considerations to select
  - Focus on areas of high risk severity
  - Eliminate high likelihood/low impact
  - Eliminate low likelihood/high impact
- Provides framework for assessing relative importance of evaluation factors
- Source for thinking and deriving discriminating evaluation considerations
  - How well understands risks
  - Risk management strategies

# Instructions - Section L

## Risk Analysis

- **Provides a framework for more consistent and complete writing of Section L**
- **Helps focus on what to ask of the vendor**
  - Ask vendor for information or artifacts that will assist in assessing execution/operational risks (e.g., security plan, risk management approach)
- **Approaches**
  - Ask vendor how they will mitigate or manage specific risks identified by the Government in the risk analysis
  - Ask vendor to identify risks and how they are going to manage them
  - Ask vendor how they will manage unknown risks
  - Combination
- **Helps request information that provides contractor discrimination**
  - How well they manage/address risks
  - Provides insight into contractor's experience in particular areas
  - Provides insight into contractor's process maturity

# Proposal Evaluation Risk Analysis

- **Provides a common understanding for evaluating proposal risks**
  - Include Attachment - Source Selection Plan
- **Improves consistency of evaluation**
  - Common team awareness and understanding of risks and risk magnitude supports more uniform and objective rating of proposals
- **Improves quality of evaluation**
  - Makes it easier to identify deficiencies, weaknesses, and significant weaknesses
  - “Deficiency” - material failure that increases risk to contract performance
  - “Weakness” – flaw that increases risk to contract performance
  - “Significant weakness” – flaw that appreciably increases risk to contract performance

# Proposal Evaluation Risk Analysis (Cont.)

- **Makes writing evaluations easier**
  - Known risks and risk areas have been identified beforehand
- **Provides means for bringing new evaluation team members up to speed faster**
- **Improves efficiency of the consensus ranking process**
  - Objective, documented, and agreed basis of risk severity
    - Provides perspective, helps ground discussions
    - Reduces lengthy debates
  - Supports decisions and documentation of decisions

# Approach

- **Include formal risk analysis as part of the approach in acquisition support proposals**
- **Educate customer and acquisition team in benefits of formal risk analysis/management and how it contributes to higher quality solicitation documents, source selection, and program execution**
- **Formalize risk analysis as part of the Acquisition Support Project Plan**
  - **Define Risk analysis approach & methodology**
  - **Plan for an iterative risk analysis process**
  - **Define activities**
  - **Allocate resources**
  - **Assign ownership**
  - **Schedule and track progress**

# Approach (cont.)

- **Ensure wide participation in risks analysis (acquisition team, customer, vendors)**
- **Get customer signoff on risks analysis results**
- **Ensure risk analysis is distributed to solicitation team during RFP development**
- **Ensure risk analysis distributed to source selection team**
  - **Attach - Source Selection Plan**
- **Communicate/educate team members on how risk analysis feeds into solicitation documents and source selection**

# Conclusions

## Formal Risk Analysis

- **Contributes to better quality RFPs**
  - Better quality proposals
  - Better quality contracts
- **Contributes to better quality Source Selection Plan and improved source selection**
  - Supports a more efficiency and objectivity source selection process
  - Contributes to more uniform and consistent proposal evaluation
  - Provides basis for supporting and documenting source selection decisions
  - Reduces chances of protest
- **Increases contract/program execution success**

