

## Answers

### Case Study 2: Managing the Risk During Contract Management

*A department is in a warranty dispute with the vendor during contract management*

#### Scenario

A department procured a large-scale robotic platform. After successfully completing the RFP process and awarding the contract, the department moved into the contract management phase, which included system installation and acceptance. The agreement specifies that full payment would be made only after successful system acceptance, including installation, testing, and training. The warranty was to begin after full system installation and acceptance.

The vendor installed most of the system, but one critical module was still in production. Despite this, the vendor requested that the department to sign the installation and testing report. The department signed the report prematurely and processed full payment before all components were installed and tested.

As a result, a series of missteps occurred:

1. The department signed the installation report before full delivery and testing.
2. Full payment was released before all components and modules had been delivered and accepted.
3. The vendor deemed the system accepted and started the warranty period.
4. The warranty began before the system was fully functional.
5. The department lost leverage to negotiate the warranty start date.
6. As a result, approximately \$20,000 in warranty coverage was forfeited.

#### Team Tasks

**With your group, discuss the following questions. Consider both the immediate issues and how these lessons apply to future contracts.**

1. What are the risks of signing the installation and testing report before the system is fully delivered and tested?
  - Premature acceptance may trigger contractual obligations, such as payment release and warranty start, even if the system is incomplete.
  - The department may lose leverage to enforce outstanding deliverables or negotiate corrective actions.
  - Early warranty activation can reduce the effective coverage period and expose the department to future repair costs.

- Audit and compliance risks may arise if payments are made without verifying that contractual conditions have been met.
  - It can lead to disputes with the vendor, reputational risk, and raise red flags during external audits or reviews.
2. What should the department have done differently during contract management to protect its warranty rights?
- Withhold acceptance until all components are delivered, installed, tested, and verified against contract specifications.
  - Ensure that acceptance documentation accurately reflects the actual status of the system, including any outstanding items.
  - Link payment strictly to contract milestones, ensuring that full payment is contingent on complete and verified system acceptance.
  - Engage Procurement Services and/or Legal for guidance when vendor documentation or acceptance conditions are unclear.
  - Maintain clear, written communication with the vendor regarding incomplete deliverables and warranty terms.
3. What criteria or checks can the department rely on to confirm that acceptance is appropriate?
- Technical verification confirming that all components are fully installed and operational.
  - Functional testing results demonstrating that meet performance requirements are met.
  - Confirmation of training completion for all end users
  - Written confirmation from the technical lead that the system meets its intended use and functional requirements.
  - Comprehensive review of contract deliverables against what has been received.
4. What practices help ensure that payments remain tied to contract milestones and outstanding deliverables?
- Include milestone-based payment schedules in the contract.
  - Require formal sign-off from technical lead and signing authority before approving any payment including evidence of milestone completion (e.g. inspection reports, test results, sign-off forms).
  - Maintain a deliverables tracker to monitor progress and outstanding items.
  - Ensure that the Finance team is fully aligned on payment conditions and milestone completion status
5. What lessons can be applied to future procurements of complex systems or large-scale platforms?
- Strictly follow the acceptance and payment terms stated in the contract to ensure that obligations such as warranty start dates and payment releases are triggered only after all deliverables have been verified.
  - Ensure that acceptance criteria are clearly defined and measurable, and that all components are fully tested and confirmed before signing any vendor documentation.

- Avoid informal agreements or verbal assurances; document all communications and outstanding items.
- Promote cross-functional collaboration between technical leads, procurement, and finance teams to ensure alignment on deliverables and payment conditions.

6. How can departments maintain good vendor relationships while still enforcing contract terms and protecting their interests?

- Maintain professional and transparent communication with vendors.
- Be firm but fair; enforce contract terms consistently while maintaining respect for the vendor relationship.
- Use formal documentation to address issues and avoid relying on informal agreements.
- Document conditional acceptance, when appropriate, to acknowledge partial completion while preserving warranty rights and maintaining goodwill with the vendor.
- Build relationships based on mutual accountability and clarity of expectations.
- Escalate concerns through appropriate channels while maintaining constructive and solution-focused dialogue.

## Key Takeaways

- Interpret and enforce contract terms carefully, especially around acceptance and payment terms.
- Sign acceptance reports only after all deliverables are fulfilled and verified.
- Align payment schedule with milestones to maintain leverage and protect warranty coverage.
- Document outstanding items in writing and communicate clearly with vendors.
- Understand that warranty rights are directly tied to acceptance. Premature acceptance can reduce coverage.
- For large-scale purchases completed through an RFP process, engage Procurement Services early for contract review and vendor communications.
- Acceptance is not just a formality as it has legal and financial implications that directly affect warranty coverage.