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DESIGNING AN EFFECTIVE BIDDING AND MONITORING SYSTEM TO MINIMIZE PROBLEMS IN COMPETITIVE CONTRACTING

by
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EXECUTIVE SUMMARY

Contracting out services to the private sector, a popular form of privatization, has emerged as a standard management technique for state and local governments in the United States and throughout

much of Europe. Fully 99 percent of respondents to a 1987 state and local government survey by Touche Ross reported that they contracted out at least one service to a private firm.¹ Experience has demonstrated that contracting out can result in significant cost savings, efficiency improvements, higher quality services, and leaner, more manageable government.

Crucial to realizing these substantial advantages, however, is a well-designed contract bidding and monitoring system. Most of the problems that have arisen with regard to contracting out have been the direct result of poor bidding and monitoring systems. These problems—which include inadequate or low-quality service, waste of taxpayer money, kickbacks, corruption, and collusion—are rare. Over \$100 billion a year of services are contracted out by state and local governments, yet in only a small percentage of cases do officials encounter major problems in contracting. Nevertheless, even the relatively few instances of inferior service quality, waste, or criminal and unethical behavior in contracting are sometimes enough to taint all contracting efforts.

Fortunately, none of these problems are inherent to the contracting process. By employing effective safeguards in the contracting program, contracting problems can be largely eliminated. The key to minimizing contracting difficulties is a strong, transparent bidding and monitoring system.

The bidding system should be designed to encourage competition, protect the agency, and clarify expectations for the winning contractor by explicitly spelling out the service specifications desired. As a rule, the bidding system should be open and competitive. Employees should be prohibited from having any financial interest in the contract and ex-public employees should be prevented from representing contractors before the public agency for a certain period of time. Furthermore, all bid awards should be widely publicized and a record should be kept of the search for contractors.

Also crucial is the design of the monitoring system. Monitoring is the chief means of safeguarding against contracting problems once the contract is signed and of ensuring that citizens are obtaining high quality services at competitive prices. Comprehensive monitoring systems include contractor reports, inspections, and citizen complaints and surveys.

I. INTRODUCTION

The most common arguments against privatization are that it can lead to instances of collusion, corruption, and waste of taxpayer money. This may include unresponsiveness of contractors to constituents, incomplete work as specified in contract, poor service quality, kickbacks to public officials, price-rigging and cost overruns by contractors, bribing public officials, fraud in substituting cheaper materials, and illegal agreements to obtain contracts. Specific examples include:

- Cutting corners or reducing service levels by such means as skipping required maintenance on trucks; missing required rug shampoos; and applying one coat of paint

- instead of two and sharing the savings between the contractor and the inspector.
- Contracts for ill-defined consulting and personal services given to a preferred consultant in return for campaign contributions.
- Contractors winning bids by using illegally underpaid employees, and the profits shared with agency officials who look the other way.
- Contractors bribing inspectors not to check on them.

This list can be extended forever. However, it has to be put into perspective. The occurrences of severe problems in the contracting out process represent only a small fraction of the total instances of contracting out. Furthermore, corruption in contracting is certainly no worse than in other city programs such as building inspection and zoning.

Nevertheless, contracting problems, particularly inferior service quality, corruption, and collusion are management and political problems. The major public employees union, The American Federation of State, County and Municipal Employees (AFSCME), for example, has targeted these practices as their major argument against contracting.ⁱⁱ AFSCME typically cites a few isolated examples as proof that these are inherent in the contracting out process. Two typical AFSCME examples:

Example #1: In 1981, the consulting firm of Daniel, Mann, Johnson and Mendenhall (DMJM) pled guilty to fraud in Massachusetts. The firm had used political campaign contributions to obtain a \$2 million design contract. A special Massachusetts investigative committee reported that "corruption was a way of life, with "political skill, not professional skill" the primary criterion for state and county decisions.ⁱⁱⁱ

Example #2: During the 1980 mayoral Democratic primary in Chicago, Jane Byrne, the successful candidate, campaigned partly against the incumbent's "sweetheart deals" (city contracts for campaign contributions) with an architectural firm, C. F. Murphy. Byrne later received a \$30,000 contribution from Murphy in the general election. After the election, she awarded \$150,000 worth of sole source contracts (no bidding) to the same firm.^{iv}

In addition to showing the need for greater government oversight, these examples also demonstrate that public employees are often also to blame for collusion and corruption in contracting. In order for a bribe or payoff to occur, a government official or politician who is in a position to affect the awarding or management of the contract must be willing to accept the money. Criminal activity usually cannot occur unless government agencies and/or politicians are involved. Government officials are also sometimes to blame for poor service quality due to a lack of proper oversight of the contractor.

Another form of public corruption of the contracting out process is the cynical use of contracting to disguise an intended reduction in service. Lack of monitoring then allows the contractor to quietly reduce the service. Contracting has also been used by public officials as a political club in partisan political fights rather than as a management device.⁷

THE SOLUTION

The solution, however, is not to point fingers. People willing to engage in unscrupulous practices in order to misuse taxpayer money for private gain exist in the public and private sectors. Rather, government officials, with the input of private firms, should seek to incorporate safeguards into the contracting process to minimize, if not eliminate, the opportunities for collusion, corruption, and other problems with contracting such as cost overruns, waste, and poor quality services. These safeguards should be standard elements of each city, county, and state's contract bidding and monitoring system. A strong and effective bidding and monitoring system is the best protection against collusion and corruption (see Figure 1 and 2).

Figure 1

Keys To Successful Contracting

- Open Bidding Process.
- Appropriately Detailed Specifications.
- Frequent Competitive Rebidding.

Figure 2

The Ten Principles of Successful Contracting

1. Encourage competition.
2. Prohibit employees from having any financial or other interest in the contract.
3. Prohibit ex-employees from representing others, such as a contractor, before the agency. Two years prohibition after leaving the agency may be an appropriate period.
4. Only allow bid openings and awards in an open, public meeting.
5. If a bid is awarded on any basis other than the lowest competitive written proposal, publicize the rationale for the decision. Any formal bid analysis should be made public.
6. In setting standards, do not use the specification of anyone bidding for the contract.
7. If the bid is to be negotiated or based on an RFP basis, prepare a formal explanation of why the agency's interests are best served by the manner proposed.
8. Rely on legal counsel throughout the bidding process.
9. Once the bidding process begins, limit contacts with contractors to the negotiation period.
10. Publicize bid awards widely and vigorously and keep a record of the search for contractors and the bid award.

II. ELEMENTS OF AN OPEN/PUBLIC BIDDING SYSTEM

Devising a bidding system is both an administrative and a legal task. The bidding system must suit management needs by attracting bidders, establishing desired performance levels, and detailing the necessary specifications and requirements. It is also a legal action because it spells out the government's authority to bid and enter into contracts. Additionally, some bidding systems give formal preferences in a percentage of contracts to specified groups such as females or minorities.

A. PRELIMINARY STEPS BEFORE BIDDING

Several preliminary steps should be taken prior to the bidding process. First, a careful inventory of activities must be undertaken to assure that the unit has considered contracting care-fully. Next, performance standards for these activities should be developed. Establishing standards after the bidding is too late to control the contract.

At some point, the cost of public agency service provision should be estimated. This is an important step. It requires obtaining an objective analysis of costs, including an estimate of the fully allocated cost of providing the service, and comparing these figures to informal quotes obtained from contractors. This comparison makes it possible to assess whether contracting out is likely to be cost effective.

Finally, a careful analysis of the target service should be made. This includes: 1) the ease of defining the service; 2) the number of likely bidders; 3) the ease of monitoring contract compli-ance; 4) the political climate; and 5) legal issues because a number of states restrict certain types of contracting out.

B. INVITATIONS TO BID (ITBs)

ITBs are formal requests or invitations for bidding that list the standards and specifications required for the target service. ITBs are usually used for services that can be clearly and precisely defined. They are usually written by lawyers, although managers should make sure that they are as free as possible from legal jargon. The following checklist includes the most typical provisions of ITBs.

Table 1

CHECKLIST FOR ITB CONTENTS	
<input checked="" type="checkbox"/>	Advertisement (legal published notice to bid).
<input checked="" type="checkbox"/>	Name of agency and place to deliver bids.
<input checked="" type="checkbox"/>	Place, time and date of bid opening.

<input checked="" type="checkbox"/>	10	Description of target service.
<input checked="" type="checkbox"/>	10	Place to obtain bids and receive additional information.
<input checked="" type="checkbox"/>	0	Other details such as right of agency to reject all bids.

SOURCE: John Marlin, ed., *Contracting Municipal Services* (New York: Ronald Press, 1984).

Table 1 (continued)

INVITATION TO BID PROPOSAL FORM		
<input checked="" type="checkbox"/>	10	Bidder instructions, bidding terms and conditions and service specifications.
<input checked="" type="checkbox"/>	10	Place for bidder's name and address, for bidder's signature or notarization, and bidders price quotation.
<input checked="" type="checkbox"/>	10	Bond or deposit information.
<input checked="" type="checkbox"/>	10	Statement that the bid is a contract on acceptance by agency.
<input checked="" type="checkbox"/>	0	Details on bidder qualifications, reasons for disqualification, basis for payment, and other contract details such as reporting procedures.

SOURCE: John Marlin, ed., *Contracting Municipal Services* (New York: Ronald Press, 1984).

The service specifications are the most important part of an ITB. If they are not adequately detailed, the government unit cannot compel performance and the contractor is unsure of how much to bid or what performance level will be required. On the other hand, excessive specificity may reduce competition. For instance, requiring tow car response in 5 rather than 15 minutes may rule out smaller contractors without large fleets of available trucks and drivers. Table 2 gives a few sample specifications for a custodial contract.

Table 2

SAMPLE CUSTODIAL SPECIFICATIONS Conference Room	
Empty Wastebaskets:	Daily
Clean Tables:	Daily
Vacuum Carpet:	Three times per week

Standards should be set by an objective party. *They should never be set by anyone bidding for the contract: either the in-house unit or a private firm.*

After the bid request has been advertised, a prebid conference for contractors is held. This meeting of prospective contractors has a number of important elements. It clarifies instructions, interprets bid specifications, introduces the unit's contract manager, and often includes a tour of the contract site.

The next step is to obtain information about the financial capacity of the bidders. This includes securing credit reports from banks and/or visiting the contractors' offices. If there are questions about the financial conditions of bidders, the government unit may require prequalification. These

financial tests must be uniformly applied to all contractors or the tests appear arbitrary and invite criticism.

C. PERFORMANCE BONDS AND CONTRACT AWARDS

To guard against temporary service interruption in the case of bankruptcy or other factors, performance bonds are commonly required from the contractors. The bonds usually range from 10 to 100 percent of the contract's value. Bonds should vary according to the difficulties that would be imposed by service failure. For example, if other contractors or the unit itself can assume a failed contract easily, a smaller bond is appropriate. In contrast, a complex data processing contract, with no ready replacement, calls for a higher bond. As a rule, however, performance bonds should be kept as low as possible, since the cost of a bond usually increases the contract price; moreover, small bidders may decline to bid if the bonds are too high.

In some cases, liability waivers are required to protect the agency from lawsuits. These, however, may not always be enforceable, and, like bonds, may price out smaller contractors.^{vi}

Awarding the contract is an important element of the bidding process. Ideally, a team of officials reviews the bid, even though it may be perfectly clear who is the low bidder. The team usually has representatives from the legal, finance, purchasing and contracting departments. This group certifies that the bid meets all specifications; meets all requirements (including bonds); is from a ?responsible? bidder (i.e., an experienced and financially stable concern); and is the best (usually lowest) bidder. The bid award process should be transparent and announced at an open, public meeting that is widely publicized.

D. REQUESTS FOR PROPOSALS (RFPs)

If the contract specifications cannot be spelled out precisely, an RFP is often used instead of an ITB. RFPs are negotiated bids, usually entered into after costs, provisions, and other elements of the contract have been agreed upon. By permitting some post-bid variations and allowing negotiations, competition is more informal in an RFP process than with the more rigorously specified ITBs. This is because RFPs place a greater emphasis on the quality of the product rather than the cost (see Table 3).

Table 3

INVITATION TO BID (ITB) vs. REQUEST FOR PROPOSAL (RFP)		
	ITB	RFP
Sealed bids (ITB) or offers (RFP) are always opened at a public meeting; response becomes a binding contract; usually award made after bids or offers are agreed to without further dialogue.	YES	NO
Candidates may be eliminated on quality grounds.	YES	YES
Among qualified candidates, preference given to more qualified candidate even though price is higher.	NO	Possibly [*]
Pricing is the main basis of the award.	YES	NO
Commonly a follow-up conference for negotiation after bids or offers are received and before award is made.	NO	YES
Most commonly used for purchase of commodities.	YES	NO
Most commonly used for purchase of professional services.	NO	YES
Competition a factor; federal antitrust laws apply.	YES	YES

* Preference given to a more expensive bidder only if the candidate is sufficiently superior. Award should always be made to the qualified offeror whose proposed services are most advantageous to the contracting government agency.

SOURCE: John Marlin, ed., *Contracting Municipal Services* (New York: Ronald Press, 1984).

RFPs are often used for a variety of programs and services including:

- Personnel services like attorneys and engineers;
- Experimental programs such as drug-treatment programs;
- Management of facility operations; and
- Sole source suppliers such as computer software programs.

It is often a good idea to accompany an RFP with a justification for its use. This will indicate that quality is a crucial factor in the award and that focusing primarily on cost may not be appropriate.^{vii}

Because of the greater degree of subjectivity in awarding contracts via RFPs than ITBs, they are more subject to unethical practices such as kickbacks and cronyism. In order to lower the

Table 4

HYPOTHETICAL RFP WEIGHTING SYSTEM			
Criteria	Score	Weight	Weighted Score
Contractor Qualification			
Experience	1	20%	.20
Employees to be Assigned	3	20%	.60
Technical Value of Proposal	5	35%	1.75
Fee	5	<u>25%</u>	<u>1.25</u>
Total		100%	3.80

Note: 1= low, 5= high

possibilities that political contributions will corrupt the bidding process, some states and localities have enacted stiff restrictions on the political contributions of contractors. An Ohio statute, for example, prohibits the award of noncompetitive bids?such as all RFPs?to almost anyone who has made a contribution of over \$1,000 within the past two years to any public official in a position to award a contract.^{viii}

RFP provisions are similar to ITBs. The service to be delivered should be clearly specified, performance reports should be outlined, and staffing levels identified. RFPs should have price quotations, as well as information about vendor qualifications and relevant experience. Normally, a team similar to the ITB team will be recommending an award, after a review of the different proposals. Because the reputation and proven ability of the contractor is so important in RFPs, a form for rating potential contractors is commonly used, as shown in Table 4.

The weighting system, of course, can be changed depending on the importance local officials attach to the different criteria. If price is very important, for instance, its weight can be increased and the weight for technical merit decreased. Another way to make cost a greater factor, without dominating the decision between consultants, is to use a two-step process. First, technical merit is established by some means such as in Table 4. Then sealed bids are submitted (or are submitted earlier with the RFP) and the low bid from contractors with good technical merit is taken. Keep in mind, however, that there can be potential political objections to RFPs. One reason: the judgment required in rating contractor's ?technical merit? is inherently subjective and thus may be controversial, particularly if those selected seem to have ties to elected officials.

Once the list of contractors is narrowed, the team or some individual negotiates with the finalist(s) over the contract. This includes visits to the contractor's office, and the preparation of a draft contract. A record of the negotiations should be kept. Eventually a final contract is prepared, which is similar to that for an ITB, except that performance standards may be less specific.

Encouraging Competition. The single most important technique for preventing contracting problems is to promote competition between service providers. Competition encourages bidders to lower their bids through concern that a competitor will bid lower. Furthermore, in a competitive process unsuccessful contractors are quick to raise legal objections, thus discouraging sweetheart deals and other forms of collusion between contractors and public officials. Frequent competitive rebidding of contracts ensures that ineffective contractors who may have developed cozy relationships with public officials are replaced by new firms if they fail to provide quality services.

There are a number of ways to encourage competition in the bidding process, such as:

1. Have city forces compete with outside bidders. The best known example is Phoenix, where city crews have underbid private contractors for the last 10 years for solid waste pickup.
2. Divide up the service areas into smaller units such as groups of buildings for custodial work. Small contractors, often lower-cost producers, may be able to compete for a smaller unit.
3. Encourage individual contractors, particularly smaller ones, to bid.
4. Avoid excessive performance bonds that discourage small contractors.
5. Avoid lengthy bidding documents and unnecessary reporting requirements, for they often frighten small contractors.^{ix}
6. Pay contractors on time.
7. Do not create overly detailed specifications.
8. Only use sole-source contracting when competitive bidding is impractical.

III. MONITORING SYSTEMS

Monitoring is the process by which agencies oversee and check the contractor's performance to be sure it meets the contract's performance standards. Monitoring is the chief means of guarding against contracting problems once the contract is signed. Without monitoring a contract, there is no way of

knowing whether the contractor's work is faithful to the contract terms or whether or not citizens and agency officials are satisfied with the service.

A key question for government should be, "Who should monitor the contract?" Several types of employees can be assigned responsibility for checking the contractor's work. One option is to use employees from the department that once performed the service, called "line" or "operating department" monitors. These employees are likely to be very familiar with the program or service. However, having a strong familiarity with operating the program does not necessarily mean that the person will make a good monitor. Supervising a waste disposal unit, for example, is not the same as inspecting contract work, interpreting the contract, or dealing with balky contractors.

A. CENTRALIZED MONITORS

An alternative is to use centralized monitoring, meaning the monitor(s) comes from the office that arranged and awarded the contract, usually the purchasing or procurement office. These employees typically know the contract and its provisions well, but are less familiar with the specific program's operation.

There are several advantages to using centralized monitors, instead of line or operating department monitors:

- Being more removed from the program, they are more likely to be disinterested, objective monitors and to treat contractors more consistently;
- They can become the basis of an experienced cadre of contracting officers; and
- The possibility of collusion between program officers and the contractor is reduced.

B. DEVELOPING A COMPREHENSIVE MONITORING SYSTEM

A comprehensive monitoring system has three main components:

- Contractor Reports;
- Inspections; and
- Citizen Complaints and Surveys.

CONTRACTOR REPORTS. Contractor reports are contractor-generated statements of progress. The report details work completed to date; compares work with the contract requirements and previous periods; gives expenditures to date; forecasts work for the entire contract period; and gives a narrative account of problems encountered. It also mentions any contract adjustments believed necessary. When verified by the government monitor, the report becomes the formal statement of contract compliance. Verification is more than a cursory review of the data; it normally requires independent inspections and confirmation of accuracy.

INSPECTIONS. Inspections and observations vary greatly, depending on a number of considerations such as: the function contracted; the interest of the unit in serious monitoring; and the type of monitoring conducted. Some functions such as solid waste collection may require little monitoring, since poor performance will trigger citizen complaints.^x However, even with this service, most agencies should check performance by some formal means, such as spot-checking the number of disposal bins unemptied. Other services, such as nursing home care, may require surprise inspections, while still others, fleet maintenance for instance, require periodic or individual inspection. In any case, monitoring must be flexible. For example, a swimming pool inspection should not inconvenience users on hot summer weekends.

Many inspections use a rating or scorecard system, that indicate, for example, the number of waste disposal spills, or the cleanliness of streets (by a visual rating scorecard). Rating scores and other formal evidence of contractor performance reduce the possibility of arbitrary inspector action.

CITIZEN COMPLAINTS AND SURVEYS. The third major type of monitoring activity is conducted through citizen complaints and surveys. Complaints should be formally documented and can either be taken by the contractor and forwarded to the agency, or taken by the agency and forwarded to the contractor. In the former case, the contractor has a chance to handle the matter first, although the monitor should be alerted that a complaint has been registered. Complaints can be supplemented by citizen surveys. Surveys are useful because they also measure citizen satisfaction with the service, while complaints measure only *dissatisfaction*.

Some government units rely almost entirely on complaints for contract monitoring. This is done for a variety of reasons, including: 1) the unit does not know how or does not want to monitor; 2) the unit does not believe monitoring is important; or 3) the unit feels that complaints alone provide enough control (as in waste disposal and other high-visibility functions, where it is assumed that if citizens don't complain, things are going well.) While complaints and surveys are useful, they should not, in most cases, entirely take the place of actual inspections and contractor reports.

C. JUDGING CONTRACTOR EFFECTIVENESS

The Role of Performance Standards

The best way to monitor programs is to set reasonable but explicit performance standards in the contract and inspect closely enough to ensure that the contractor meets these standards. Performance standards are specific indicators of the level of contractor performance. Without careful attention to standards, it is impossible to determine if the contractor's performance meets contract specifications. Standards also help the contractor by protecting them from arbitrary monitoring.

There are several ways to measure whether performance standards are being met. One way is by using output measures. Example: the number of street miles cleaned or tons of solid waste collected. Standards can also rely on more complex measures such as patient satisfaction with nursing care.

Another option is to use input measures such as the number of registered nurses per shift at a nursing home. The problem with relying primarily on input standards, however, is that they fail to measure the actual performance of the contractor. Having five registered nurses on a shift may meet state standards and the agency contract. It does not, however, prove that patients are being well cared for. Therefore, performance measures based on input standards should be avoided whenever possible.

Table 5

PERFORMANCE, EFFECTIVENESS, AND EFFICIENCY MEASURES			
Service	Performance	Efficiency	Effectiveness
Park Maintenance	Weekly Mowing	Cost per Acre Mowed	Citizen Satisfaction
Library Circulation	Hours of Operation	Cost per Book Borrowed	Client Usage

Lastly, performance can be measured by using efficiency or effectiveness measures. Efficiency measures demonstrate how inputs relate to outputs. For instance, hours expended mowing lawns versus the actual acres mowed (see Table 5). Effectiveness measures, on the other hand, assess the impact of the service

on customers. Efficiency and effectiveness measures are usually better criteria than output or input measures for judging contractor performance. However, they are also more complex, thereby making them more difficult and time-consuming to calculate.

The best monitored contracts generally have two key elements. First, they are well written with the expected contractor performance spelled out. Without clearly drawn specifications, there is no legal authority to hold the contractor to certain standards. Figure 3 is an example of well-written

specifications for a floor-finishing contract.

The second important element that usually goes hand-in-hand with well-monitored contracts is the department having a strong reason to monitor the contract closely. One example is the Los Angeles County Contract City Plan, in which the county provides a variety of services ranging from police patrol to street sign maintenance to 70 cities. In this case there are built-in incentives for diligent contract monitoring because cities are jealous of their municipal prerogatives. Since many citizens and elected officials would rather hire their own staff than continue to contract with the county, careful attention is paid to the efficiency and quality of county contract services. City officials and citizens zealously watch performance and are quick to complain verbally at any lapse.^{xi}

Figure 3

Sample Floor-Finishing Specifications

Finishing: Apply a minimum of four coats of floor finish, allowing sufficient drying time between each coat. The last coat only should be applied up to but not touching the baseboard. All other coats should be applied to within four inches of the baseboard. (Note: Should there be more than eight hours delay before applying finish after the floor has been cleaned or between coats, the areas must again be cleaned to remove surface dirt and scuff marks before applying finish).

SOURCE: John Rehfuss, *Contracting Out in Government* (San Francisco: Jossey-Bass, 1989).

Where there is little or no incentive to monitor the service assiduously, corruption can result. Example: In 1979, the Department of Energy engaged in a number of consulting contracts. One of the contracts—a \$29,000 contract for “Assessing the technology base”—was actually a contract for typing. Another, a \$453,000 contract for assessing industry research, was given to a sole-source contractor who was supposed to perform the work himself, but instead had it done entirely by a subcontractor for \$300,000. Only six of the 20 consulting contracts were competitively bid and performance results were not even used in six of the contracts. The contracts were not monitored, but then again, management never had intended to examine them.^{xii} Most of the contracts were simply intended as a means to expend all available funds before the fiscal year ended.

IV. CONCLUSION

Creating effective bidding and monitoring systems are the two central tasks in developing a contracting out program that minimizes the opportunity for poor service quality, collusion, corruption, waste, and fraud. Experience has demonstrated that most of the cases of inferior service quality and/or corruption in contracting out could have been avoided if the government had better designed the bidding and monitoring systems (see Figure 4).

Bidding for services should be open and competitive whenever possible and bid awards should be widely publicized. Collusion can be safeguarded against by, for example, prohibiting employees from having any financial or other interest in the contract. In addition, ex-employees can be forbidden from representing others, such as a contractor, before the agency for a specified period. Furthermore, if the bid is to be negotiated, a formal explanation should be prepared of why the agency's interests are best served by the manner proposed.

Governments must not abdicate their responsibility to ensure that citizens receive quality, cost-effective services. The government is accountable to the taxpayers for the services contracted out. Public officials, therefore, must develop strong, comprehensive monitoring systems. These typically include: contractor reports, inspections, formal citizen complaint mechanisms, and customer surveys. The performance of the contractor should be based on clear and specific performance standards. Efficiency and effectiveness measures are often the best standards to utilize. By following the guidelines outlined here and in the other how-to manuals on contracting out, government officials can largely prevent abuses. This, in turn, sustains public support for contracting, helps to ensure that taxpayer money is not wasted, and takes away the most effective argument for opponents of privatization.

Figure 4

Elements of a Good Monitoring System:

1. Require the contractor to present periodic reports.
2. Review those reports carefully for adherence to the written contract.
3. Compare wage rates and equipment charges for materials or rentals with the contract.
4. Verify that all services, material, labor and equipment were actually received, used or consumed.
5. Initiate all change orders that affect the contract.
6. Whenever possible, make on-site inspections. Report the results of those inspections, comparing accomplishment to the prescribed specifications.
7. If site inspections are not feasible (as for a personal service contract as an attorney) keep a record of user department satisfaction.
8. Follow up on every complaint.
9. Survey citizen or user satisfaction whenever possible.

V. ADDITIONAL INFORMATION

For more information about designing an effective contracting system, consult the list of references at the end of the paper.

The following books are particularly informative guides to contracting out:

- E. S. Savas, *Privatization: The Key to Better Government* (Chatham, New Jersey: Chatham Publishers, 1987).
- John Marlin, ed., *Contracting Municipal Services* (New York: Ronald Press, 1984).
- John Rehfuss, *Contracting Out in Government* (San Francisco: Jossey-Bass, 1989).
- Edward Wesemann, *Contracting for City Services* (Pittsburgh: Innovations Press, 1981).
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ENDNOTES

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ix.. Susan McManus, "Why Businesses are Reluctant to Sell to Governments," *Public Administration Review*, 51 (January/February, 1991).

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