

# **Successful Methods to Acquire and Oversee the Outsourcing of Tasks and Projects Related to State DOT Management of Transit Grant Programs**

## **FINAL REPORT**

### **Prepared for:**

National Cooperative Highway Research Program  
Transportation Research Board  
Of  
The National Academies

Carey Barr  
Scott Baker  
AECOM  
Arlington, VA

May 2014

### **ACKNOWLEDGMENT OF SPONSORSHIP**

This work was sponsored by one or more of the following as noted:

American Association of State Highway and Transportation Officials, in cooperation with the Federal Highway Administration, and was conducted in the **National Cooperative Highway Research Program,**

Federal Transit Administration and was conducted in the **Transit Cooperative Research Program,**

Federal Aviation Administration and was conducted in the **Airports Cooperative Research Program,**

Research and Innovative Technology Administration and was conducted in the **National Cooperative Freight Research Program,**

Pipeline and Hazardous Materials Safety Administration and was conducted in the **Hazardous Materials Cooperative Research program,**

Federal Railroad Administration and was conducted in the **National Cooperative Rail Research Program,**

which is administered by the Transportation Research Board of the National Academies.

### **DISCLAIMER**

This is an uncorrected draft as submitted by the Contractor. The opinions and conclusions expressed or implied herein are those of the Contractor. They are not necessarily those of the Transportation Research Board, the National Academies, or the program sponsors.

# **Successful Methods to Acquire and Oversee the Outsourcing of Tasks and Projects Related to State DOT Management of Transit Grant Programs**

## **FINAL REPORT**

### **Prepared for:**

National Cooperative Highway Research Program  
Transportation Research Board  
Of  
The National Academies

Carey Barr  
Scott Baker  
AECOM  
Arlington, VA

May 2014

## TABLE OF CONTENTS

TABLE OF CONTENTS.....	iv
LIST OF FIGURES.....	vi
LIST OF TABLES.....	vi
ACKNOWLEDGMENTS.....	vii
ABSTRACT .....	viii
EXECUTIVE SUMMARY .....	1
CHAPTER 1 Background.....	11
CHAPTER 2 Research Approach .....	12
2.1 State DOT Survey.....	12
2.2 State DOT Interviews.....	13
CHAPTER 3 Findings and Applications .....	14
3.1 Current Practices in Transit Grant Management Outsourcing .....	14
3.2 Reasons for Outsourcing .....	14
3.3 Tasks Currently Outsourced .....	15
3.4 Procurement Practices .....	17
3.4.1 Type of Contract.....	17
3.4.2 Scope.....	19
3.4.3 Contract Procurement and Evaluation .....	20
3.4.4 Compensation Initiatives .....	23
3.5 Reflections on the Outsourcing Experience.....	24
3.6 Recommendations for Outsourcing .....	27
3.6.1 Recommended Procurement Methods.....	27
3.6.2 Recommended Evaluation Methods .....	28
3.6.3 Contractor Rating Systems .....	30
3.6.4 Advice for Successfully Managing Contractors.....	31
3.7 Potential Tasks for Outsourcing.....	32
CHAPTER 4 Conclusions and Suggested Research .....	37
4.1 Best Practices for Successful Contracts.....	37
4.1.1 Setting a Contract Duration .....	37
4.1.2 Selecting a Successful Procurement Process.....	38
4.1.3 Selecting a Successful Evaluation Process .....	38
4.1.4 Successful Contractor Oversight Procedures.....	40
4.1.5 Samples Provided .....	42
4.2 Conclusions .....	42

ABBREVIATIONS, ACRONYMS, INITIALISMS, AND SYMBOLS .....	43
APPENDIX A .....	A-1
APPENDIX B .....	B-1
APPENDIX C .....	C-1
APPENDIX D .....	D-1
APPENDIX E .....	E-1
APPENDIX F .....	F-1

## LIST OF FIGURES

ES 1 – Possible Transit Grant Management Tasks .....	3
Figure 1 – Possible Transit Grant Management Tasks .....	14
Figure 2 – Tasks that are Outsourced.....	16
Figure 3 – The Contract Type Predominantly Utilized on Current Contracts .....	19
Figure 4 – The Type of Scope Predominantly Utilized on Current Contracts.....	20
Figure 5 – The Type of Procurement Method Utilized on Current Contracts .....	22
Figure 6 – The Type of Evaluation Method Utilized on Current Contracts .....	23
Figure 7 – Compensation Incentives Utilized on Current Contracts.....	24
Figure 8 – Rating the Advantages and Disadvantages of Outsourcing Compared to Providing the Services with In- House State Resources .....	26
Figure 9 – Biggest Obstacle in Getting the Desired Results from a Contract.....	27
Figure 10 – Procurement Methods that States Would and Would Not Recommend .....	28
Figure 11 – Evaluation Methods that States Would and Would Not Recommend .....	29
Figure 12 – Do Audit or Contractor Rating Results Factor into Future Contractor Selections? .....	31
Figure 13 – Potential Tasks for Outsourcing, Good and Poor.....	35
Figure 14 – Contractor Oversight Procedures, If Any .....	41

## LIST OF TABLES

Table 1 – Example Evaluation Checklist for Deliverables .....	32
Table 2 – Top 5 Potentially Good Tasks for Outsourcing.....	35
Table 3 – Top 5 Potentially Poor Tasks for Outsourcing.....	36

## **ACKNOWLEDGMENTS**

The research reported herein was performed under NCHRP Project 20-65 by AECOM. Carey Barr of AECOM was the Principal Investigator. Scott Baker of AECOM was the Project Advisor. The project was managed by Gwen Chisholm-Smith, NCHRP Senior Program Officer.

## **ABSTRACT**

This report documents and presents the results of a study to investigate the experiences of state Departments of Transportation (DOTs) with outsourcing tasks and projects related to the management of transit grant programs. The research focuses on surveys and interviews of state DOTs to determine tasks that are currently outsourced, tasks that have the potential for outsourcing, and best practices for contracts, scopes, procurement, evaluation, and contractor oversight. Outsourcing these tasks is often a case-by-case situation, where agency size, staff expertise, federal compliance, and budgets factor into the consideration of tasks that can be completed in-house compared to those that can be outsourced. The surveys and interviews served as a guide to outline the individual experiences and overarching trends of current state DOT outsourcing practices, as well as to help understand whether and how tasks are appropriate for outsourcing. This Final Report presents the findings of the surveys, interviews, and analysis thereof in order to assist state DOTs in identifying appropriate tasks for outsourcing and determining how to select and oversee successful contracts and consultants. Appendices include sample contract forms and procurement aids requested by practitioners.



## **EXECUTIVE SUMMARY**

### **Introduction**

AECOM is supporting the Transportation Research Board (TRB) by conducting this study on the successful methods to acquire and oversee the outsourcing of tasks and projects related to state departments of transportation (DOTs) management of transit grant programs. As part of this study, AECOM conducted an internet survey of state DOTs, as well as follow-up interviews with a select group of state DOTs. The survey used multiple choice questions and provided opportunities for additional comments to help:

- 1) Determine the extent to which outsourcing has been utilized,
- 2) Understand tasks that have potential for outsourcing,
- 3) Identify procurement and evaluation processes and techniques that lead to the selection of competent and productive contractors, and
- 4) Identify processes and techniques for managing contractors.

This report incorporates the above information about outsourcing state transit grant management functions and programs so that state transit administrators considering outsourcing can base their recommendations and execution on actual experience. The information in this report was obtained through an online survey and follow-up interviews with state DOT personnel. Where appropriate, specifics about experiences or advice are noted, but the responses are not always attributed in order to protect the privacy of both the DOT employees and contractors.

### **State DOT Survey**

In order to learn about the current outsourcing practices at state DOTs, a survey was created and distributed to DOT officials. The survey covered a number of topics in an effort to get a comprehensive view of each state's individual experiences and opinions on outsourcing. The topics included current outsourcing practices, procurement and evaluation methods, contractor rating systems and oversight procedures, tasks that would be good or poor candidates for outsourcing, and opinions on the advantages and disadvantages of outsourcing.

After the initial e-mail distribution, two reminder e-mails were sent to participants asking for their help in completing the survey. The survey was sent to all 50 state DOTs and 21 surveys were completed by 19 states (one state had three officials complete separate surveys). The following states completed the survey:

- Alabama
- California
- Florida
- Hawaii
- Massachusetts
- Michigan
- Minnesota
- Missouri
- Nevada
- New Hampshire
- New Mexico
- North Dakota
- Ohio

- Oregon
- Pennsylvania
- Texas
- Utah
- Virginia
- Wisconsin

### **State DOT Interviews**

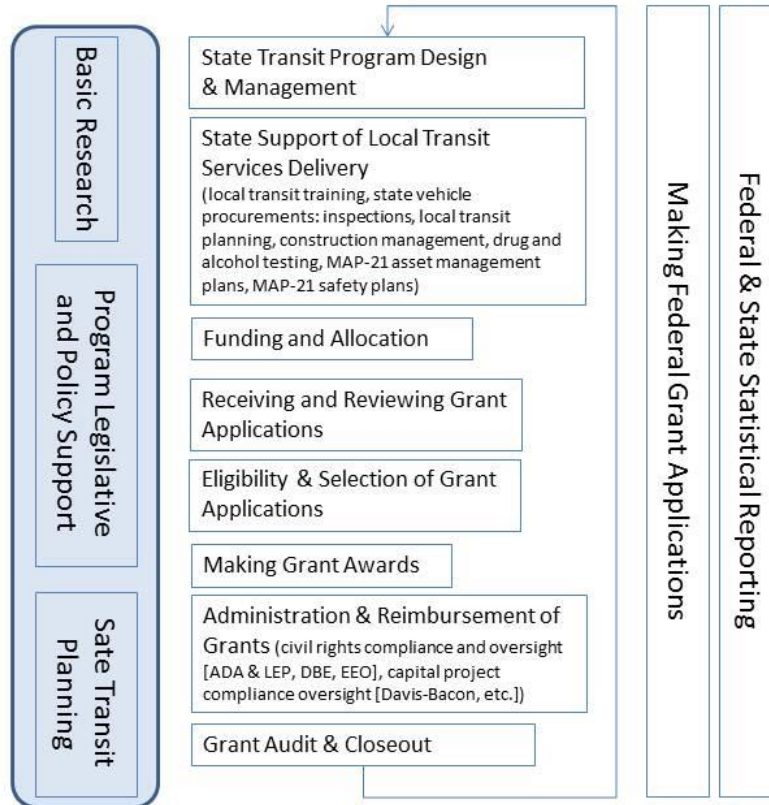
A limited number of personalized telephone interviews were conducted after the survey results were analyzed. States were selected for interviews by investigating their online survey responses for detailed responses, situations that would offer interesting insights, or experiences that would be beneficial to share with other states. Certain situations or advice that resulted from a particularly good or bad contractor experience could be used as guidelines for best practices. The following states were contacted for follow-up interviews:

- Alabama
- Michigan
- Missouri
- New Mexico
- Ohio
- Oregon
- Pennsylvania
- Virginia

### **Current Practices in Transit Grant Management Outsourcing**

Outsourcing is a common practice in both the public and private sectors. The potential risks and benefits must be weighed appropriately before deciding how to proceed. The purpose of this research is to understand whether and how state DOTs outsource transit grant management tasks, which are administrative tasks for DOTs that receive federal transit grants. The state DOT then distributes funds to subrecipients, usually through a funding formula, or retains them to fund projects at the state level. Some of these administrative tasks at the state level are listed in ES 1.

## ES 1 – Possible Transit Grant Management Tasks



### *Reasons for Outsourcing*

There are two general reasons reported for outsourcing, and in order to fully take advantage of the possible benefits of outsourcing, an agency would aim to achieve both criteria. In most cases, agencies choose to outsource in order to:

1. Save money and/or
2. Complete a task.

A common reason for outsourcing is to pay a contractor less than they would pay for the task to be completed by in-house staff. The reason that outsourcing can cost less is that contractors and consultants offer their services to a number of agencies, and as a result each agency only pays for a portion of the consultant's time. This portion of the consultant's time is ideally less than the cost of hiring additional agency staff to complete the task. In-house full-time staff is paid a salary and fringe benefits, whereas consultants build into their contract fees the costs of salaries, fringes, and overhead.

The other common reason for outsourcing is to complete a task. There are any number of secondary reasons for completing a task (including staff shortages, budget freezes, the need of specialized expertise, and others), but the primary reasons are to maintain federal compliance and to execute daily operations. In this economic climate, agencies are strained to complete the required tasks for federal compliance while still providing transit services to state residents. Many states have endured budget freezes for years, and as a result are not able to hire staff to complete the required tasks. The only feasible option, in many cases, is to outsource the task. Because of the necessity to complete the tasks and the inability to do the work in-house, the cost of the contract compared to completing the task in-house may not be the first priority; that being said, price should always be a consideration in the contract evaluation process, and agencies should seek multiple bidders in order to fairly compare proposals.

#### *Tasks Currently Outsourced*

The survey asked responders which tasks listed in ES 1 are currently being outsourced at their agency, if any. Of the 20 state DOT representatives who responded to the question in the survey, 11 (55%) currently outsource transit grant management tasks. Asked what tasks they currently outsource, nine states provided up to five contracts that are underway, for a total of 31 current contracts. Most respondents had three or four current contracts. The most common tasks listed include: drug and alcohol testing (8), general compliance oversight of federal requirements (6), local transit training (7), research (6), state rail safety oversight programs (4), and federal or state statistical reporting (4). Some of the commonly-outsourced tasks, particularly drug and alcohol testing and local transit training, are tasks that are the responsibility of local transit operating agencies but for which the state DOT has offered assistance or undertakes on their behalf. For that reason, the state DOT is unlikely to be able to cost-effectively execute the task with in-house resources.

### **Procurement Practices**

#### *Type of Contract*

There are three types of contract structures typically used for outsourcing. The type of contract describes how the agency will pay the contractor's fees for the work performed and can be a lump sum, hourly, or cost plus fixed fee contract. In addition, some agencies have found success in parallel contracting. Parallel contracting is, in general, two or more contracts for the same or similar tasks given to separate contractors. As part of parallel contracts, staggered terms can be used. A staggered term parallel contract is used to avoid the parallel contracts expiring at the same time. They provide some flexibility for the agency while ensuring that at least one experienced contractor is available as needed. Of the 26 contracts that were described in the survey, 35% used lump sum contracts, 27% used cost plus fixed fee, and 19% used hourly or "other." Approximately 19% of the contracts are parallel contracts, and of the parallel contracts, 40% used staggered terms. Much of the choice of contract type corresponds to the degree of flexibility in the scope.

#### *Scope*

The majority of the contracts were scoped using a fixed scope (48%), while 22% defined the scope as "all that is required," and 19% issued individual task orders. The remainder used some combination of the three scoping techniques. Fixed scopes are used for specific tasks that are usually well-understood as far as the tasks involved, time required, and costs. Task order and "all that is required" scopes are more often used for projects that are less defined, but are covered under a standing contract.

### *Contract Procurement and Evaluation*

Procurement, which is the act of legally obtaining, securing, and purchasing the task through a contractor, is usually completed using one of five standard processes in terms of the actual contract structure. The five methods include single-phase request for proposal (RFP), two-step competitive negotiation, prequalification, informal quotes, and sealed bids. In most agencies, procurement can be a lengthy process with numerous “hoops” to jump through and bureaucratic layers to traverse. As a result of the arduous process, securing a competent contractor becomes even more important. The most commonly used procurement method was the single-phase RFP (31%), followed by the two-step RFP (19%). Prequalification was not utilized on any of the contracts. Informal quotes and sealed bids (low-bid) were each used for one contract.

Evaluation is the method used to compare and select the best bid and is usually completed using one of three methods—low-bid, qualifications-based, and weighted point evaluation with price included. The evaluation methods used were primarily (40% and 36%, respectively) qualifications-based (where the price is considered only for the most qualified applicant) or weighted point evaluations with price included. Both of these evaluation methods consider a contractor’s previous experiences doing the task in question. The low bid contract evaluation method was not used for any contracts discussed in this survey, although one DOT, which did not discuss specific contracts, is required to use the low-bid method when contracting.

### *Compensation Initiatives*

Compensation incentives are usually financial incentives offered to contractors in exchange for quality, on-time or early, or under budget services. There are three types of compensation incentives typically offered. Bonuses for early completion are offered to contractors who complete their work in a shorter amount of time than agreed-upon in the contract. Bonuses for quality of work are offered when the quality of the work product is considered to be above and beyond that included in the contract as evaluated by agency personnel most familiar with it. And finally, a share of the savings can be split with the contractor if the total costs come in below the contracted amount.

In the survey, only two of the 27 contracts offered any type of compensation incentives. One contractor was offered a bonus for quality of work and another was offered the incentive of good work leading to another phase of the contract. Overall, however, it appears that compensation incentives are not widely used. The most likely reason for this is that the contract is fair in terms of schedule and rates for the expected product, so there is no need for incentives. Additionally, a bonus for the quality of work would be highly subjective, while a bonus for early completion is more easily defined. Finally, some states may be precluded from offering any incentives.

### **Reflections on the Outsourcing Experience**

The survey respondents were asked about each of the current contracts that they oversee in regards to the generally-perceived advantages and disadvantages of outsourcing. They were asked to numerically rank each outsourced task to compare whether they feel a task was completed (or is currently being conducted) well through outsourcing (+3) or if it would have been completed (or is currently being conducted) with better results in-house (-3). A zero (0) would indicate that the outsourced task was completed (or is being conducted) by the contractor to the same standard as would be done in-house, indicating no advantage or disadvantage to outsourcing the task. The agencies were asked to rank the following aspects of the contract: net cost or savings (taking into account contractor procurement and oversight costs), quality of work, level of control, flexibility, and overall experience.

There is a range of outcomes experienced by the agencies that outsourced tasks. The survey asked state DOTs what they felt was the major issue keeping them from achieving the desired results from their contractor (if any). A high percentage – 48% – said that they had adequately achieved their desired results. The remaining respondents

indicated shortcomings by the contractor or agency that led to less-than ideal products, while one contract was too early to tell what (if any) the major problem would be. The most commonly selected shortcoming was the lack of contractor oversight on the agency's part (17%). Unclear scope and the lack of the appropriate skillset (both for the contractor and agency) were issues seen in two outsourcing experiences. Finally, the contractor lacking initiative was the main problem in one contract (4%).

### **Recommendations for Outsourcing**

The nine states that provided feedback in the survey on their currently outsourced transit grant management tasks provided recommendations for other states aspiring to outsource tasks in the future. The recommendations from the follow-up interviews are also included. The recommendations are for procurement and evaluation methods, contractor rating systems, audits, and finally overall advice for managing contractors.

#### *Recommended Procurement Methods*

The survey results showed that the procurement methods that require more background information or are competition based on non-price factors are more highly recommended. This is due to the ability of the agency to filter prospective contractors based on their qualifications and technical merit as well as the price of the work. The methods that more often are not recommended are the two more price-focused procurement methods of sealed bids and informal quotes. Even where contracts are small enough for informal quotes, agencies find that more evaluation and better documentation is warranted for the work outsourced by state transit program offices. Sealed bids are used often for construction projects or off-the-shelf equipment and materials where the public agency is bound to use the lowest price. The work outsourced by state transit programs may not achieve the desired outcomes using the sealed bid method because price is the only criteria evaluated.

#### *Recommended Evaluation Methods*

There are three standard evaluation methods used to decide which bid or contractor to select for a task, including low-bid, qualifications-based, and weighted point evaluation with price included. The recommendations from the survey showed that the majority would not recommend using low-bid (82%), while they would recommend qualifications-based (83%) and weighted point evaluations (92%).

Agencies have indicated that the weighted point evaluation with price included method has been successful and is highly recommended. Overall, the qualifications-based and weighted point evaluation methods have been successful contract evaluation methods. Both methods consider past performance and the contractors' level of expertise.

#### *Contractor Rating Systems*

Contractor rating systems are used as ways to inform other DOT employees who may seek to outsource a future task of past experiences with a contractor. The ratings provide feedback for both the contractor and the agency as to how well the task was performed, the budget and schedule, and any other pertinent details about the contract or contractor. The rating of contractors and uses of these ratings can provide valuable information on how future contracts might progress based on past experiences. In the survey, 13 states responded when asked whether they use contractor rating systems and to provide their system or process. Seven of the 13 (54%) used some sort of contractor evaluation system (some using them only for certain contractors), while six (46%) had no system in use or did not use the results in future considerations.

A wide range of contractor rating systems are employed by the states that responded yes, with the possibilities ranging from a simple score of 1-5 based on management, quality of work, communication, and execution of work, to a detailed form analyzing individual tasks, contract personnel, schedule, and budgetary constraints. It is

recommended that each agency, particularly if certain contractors are used frequently, at least utilize simple rating systems that give some high-level feedback on the outsourced task. These systems can be useful in evaluating future contracts and give a good indication of contractors who performed well versus those that performed below expectations. It could thus remove some contractors from contending in future negotiations at all, if the experiences were poor enough. Finally, respondents were asked whether or not their rating results factor into future contractor selections and the majority (67%) indicated that they do.

The agencies provided open-ended comments of recommendations for how to successfully manage contractors. Their feedback is paraphrased below:

- Have good contract management skills and time built into the contract.
- Hire the most experienced expert in the field and develop a relationship with them.
- Require that deliverables be attached to payment invoices after each task.
- Outsource tasks that require on-site meetings or inspections of assets, as DOT staff are allowed only limited travel.
- Have a well-defined scope with milestones/incremental deliverables included in the contract.
- Contracts with large companies are easy to implement, but you lose control. The quality of the product will depend on the quality of oversight.
- Select contractors with high initiative, because communication, follow-up, and giving/receiving feedback become difficult if the contractor is not driven.
- Remember that the contractor is there to represent the DOT, so make sure they are representing the agency in the best way possible by overseeing their activities appropriately.

### **Potential Tasks for Outsourcing**

Whether or not states currently outsource tasks, the respondents felt that there were tasks that had both good and poor potential to be outsourced. The tasks that had good potential are often those that require field-work, have well-defined scopes, and require expertise that the agencies may not have in-house. Additionally, tasks that are new or developing such as those under the current surface transportation legislation Moving Ahead for Progress in the 21st Century (MAP-21) could have good potential, depending upon the regulations. In contrast to the tasks that have good potential, the agencies also indicated that there are a number of tasks that they felt had poor potential for outsourcing. The tasks that have poor potential are those with variable scopes, tasks that should be completed in-house to take advantage of staff expertise and project continuity, and those that would risk negative public opinion if completed by a contractor because they are seen as core agency tasks.

The survey respondents were presented with the list of transit grant management tasks and were asked which of the tasks they felt had good potential for outsourcing. Respondents were asked to select as many tasks as they preferred. Local transit training was the most popular task for good outsourcing potential, which is in line with the tasks that are currently outsourced. The tasks with the next highest potential were: drug and alcohol testing, MAP-21 safety plans and asset management plans, and research.

The tasks with the highest number of responses as poor tasks for outsourcing included: eligibility and selection of grant applications, funding and allocation, making grant awards and administration and reimbursement of grants, and receiving and reviewing grant applications. In general, the tasks that involve grants at all are deemed to be poor tasks to outsource. This is logical because these tasks are traditionally completed internally by an agency. There generally is no benefit to hiring an outside contractor to issue, review, and distribute grant funds, because the process is nuanced in agency qualifications that the contractor would not be privy to. As such, it would be recommended that these tasks remain internal for DOT staff to complete.

A small minority of states felt that the grant administration tasks were actually good tasks to outsource. The reasoning behind this is mostly due to the complexity of the responding state's grant administration program. Smaller state programs, it seems, are more likely to outsource tasks relating to finance, making federal grant applications, and overseeing grant awards and reimbursements. This may be because the smaller state programs are easier to understand, and as a result contractors are able to offer services for programs that they are familiar with. On the other hand, larger state programs have more layers of bureaucracy to understand, and as a result there are fewer contractors who can offer services to assist in these areas. Besides many states not feeling comfortable, overall, with outsourcing these tasks, another reason may be that there is a small pool of consultants who have the experience in those areas, and as a result these tasks must be completed in-house.

Overall, the tasks that were felt to have good or poor potential for outsourcing were not conflicting. The tasks with good potential were overwhelmingly good, while the tasks with poor potential were overwhelmingly poor. The tasks that are a good fit for outsourcing will vary by agency need, finances, and staff. However, there was at least one respondent who felt that administrative tasks, on the whole, were not a good fit for outsourcing for a number of reasons:

- The tasks are often repetitive and ongoing, and as a result are not appropriate to outsource.
- Consultants come and go, while state agencies have a lower turnover rate.
- Staff is expected to make relationships with stakeholders and transit agencies and maintain the knowledge.

### **Best Practices for Successful Contracts**

The success – or failure – of outsourcing does not lie solely on the shoulders of one party, but is borne equally by the contractor and contracting agency. It is important to remember that it is a partnership and, as pointed out by numerous agencies, the contractor directly represents the agency. As a result, it is in the best interest of the agency to communicate their needs efficiently with the contractor, and for the contractor to be cognizant of the greater agency they represent and the importance of a quality work product. Selecting the correct procurement and evaluation processes, contract terms, and oversight procedures contribute to the success of an outsourced task. Ultimately, however, it is the responsibility of the agency and contractor to ensure the product is acceptable to all parties involved.

### *Setting a Contract Duration*

In speaking with agencies, there are two schools of thought on contract durations.



- For “on call” contracts, where the agency hires a contractor for any variety of tasks that will be outlined as task orders as needed, the duration of the overall on-call contract is generally longer, or on the order of two to five years.
- For task-based contracts where the scope is well defined, the contract duration also tends to be well defined and shorter, typically less than one or two years.

As with other aspects of outsourcing, the contract duration depends on a number of factors besides the scope. Agencies need to consider whether the task is ongoing or will be a one-time occurrence. Ongoing tasks lend themselves to longer contract durations, with the caveat that there should be limitations or protections written into the contract to ensure proper contractor performance. Agencies have vocalized that in some instances with longer contract durations, contractors can get too comfortable and not perform as well as if they felt the pressure of an impending re-compete. While this “pressure” is somewhat the agency’s responsibility in oversight and contract management, the contractor should maintain a sense of urgency regarding the task.

In addition to the time needed to conduct the project, agencies must consider the length of time required to procure the contract. In some states the procurement process may be so laborious that it precludes the agency from reissuing the contract, and as a result the states may choose to either have longer contract durations or options to extend. These options protect the contractor’s project schedule and eliminate the need to go through procurement again on the same contract.

#### *Selecting a Successful Procurement Process*

The success of an outsourced task can be traced back directly to the procurement process, and the full weight of that responsibility lies on the agency. The agency seeking to outsource a task has the ability to secure a competent, experienced, and specialized contractor for the field of study needed. The agency also has the responsibility to the public to select the contractor that can do the best job, and ideally for the best price. The agency must request proposals from a wide range of contractors in order to have the highest likelihood of the selection pool containing the best contractor. The proposals submitted by contractors must then be thoroughly reviewed, prior experience must be validated, teams must be interviewed, and costs must be negotiated.

#### *Selecting a Successful Evaluation Process*

Overall, respondents indicated that low-bid is not an appropriate evaluation technique for getting a successful product. But besides this one nearly universal opinion, there are other, arguably more valuable, insights pertaining to successful evaluation processes. First, there is a wide range of practices and perceptions, and second, there is something to be learned about selecting good consultants.

To address the first point of a wide range of practices and perceptions, an example comes from one of the states interviewed as part of this research effort. The agency contact discussed its very positive experience with outsourcing grant administration tasks. The relationship between the contractor and the agency has been ongoing, as the contract continues to be won by the same contractor year after year. The agency could not be more pleased with the work product and would recommend to other states that they outsource the financing tasks because there are consultants who have this experience. The respondent acknowledged, however, that he may have had fewer procurement issues to work through, being from a smaller state program. That being said, grant administration tasks, such as funding, allocation, and eligibility and selection of grant applications, are seen to be an overwhelmingly poor choice of tasks to outsource, according to the survey results.

A word of caution when evaluating contracts is that, on occasion, consultants may embellish what their skills are. Please note that this sentiment is not universal. As a result, it is the agency's obligation to use the evaluation process to ensure that the applicants are fully capable of executing the contract. To select capable contractors requires questioning the possible embellishments a bit more critically. A key method to do that is to check references, which should always be required in supplemental materials, and the agency should go beyond general references by contacting those references of specific projects, particularly for those projects that are well-aligned with the task at hand. By questioning references, agencies are able to get an independent perspective on the contractor and their ability to complete the task.

Additionally, it is important not to be intimidated by the procurement process or administrators. Understanding that the procurement department represents the agency's interest through strict contractor requirements and administrative hurdles, the procurement department must also give contract administrators enough latitude to select a good consultant and give more leeway and flexibility in questions and evaluations. This will allow the agency some additional control over the potential contractors that they feel have a good fit to complete the task at hand.

It is important to keep in mind that one method will not work for all agencies and all contracts and projects. If evaluation methods cause problems or results in unintended consequences, then the agency should explore other evaluation techniques and work with procurement to find a method that better fits the individual situations and serves the best interest of the agency.

#### *Successful Contractor Oversight Procedures*

In order to monitor the progress and quality of work throughout a contract term, states have employed contractor oversight procedures. These procedures are cleared with the contractor prior to the contract commencing and are utilized in order to ensure the state is getting the product it paid for prior to the contract expiration. For small scopes of singular tasks, oversight may not be needed and may unduly extend the contract schedule or budget. However, for large projects over long time periods, oversight procedures can allow for periodic monitoring of the work products and budgets. This periodic monitoring provides an opportunity for the state DOT and contractor to verify that the scope, budget, and product are on target and to address any obstacles, outstanding needs, and potential issues along the way. As such, the oversight procedures protect both the agency and contractor by making sure that budget or schedule issues are addressed before they are exceeded.

#### **Conclusions**

Overall, the sentiment from state DOT personnel indicates that outsourcing is beneficial for a select set of tasks in certain situations. It is not, however, a guaranteed method of achieving successful task completion while saving money. Outsourcing transit grant management tasks ideally should be limited to tasks that do not require ongoing agency background, as consultants tend to pick up and drop off tasks as opposed to ensuring continuing analysis or involvement. Tasks that are a good fit are those that rely on personnel with specific expertise that a DOT could not afford to employ in-house. Further, as a result of the current economic situation and budget shortfalls over the past years, hiring freezes have forced many DOTs to outsource tasks in order to continue to meet federal compliance regulations. These situations may or may not result in cost savings, but they may provide increased flexibility for the agency in achieving compliance. Other tasks that require continued involvement with the agency and public may not be as appropriate to outsource, such as grant administration and management tasks pertaining to funding, selecting, reviewing, and awarding grant applications, and program legislative and policy support. If these tasks are chosen for outsourcing, the agency should ensure appropriate monitoring/management tools and processes are in place to provide a high degree of oversight.

## **CHAPTER 1 Background**

AECOM is supporting the Transportation Research Board (TRB) by conducting this study on the successful methods to acquire and oversee the outsourcing of tasks and projects related to state departments of transportation (DOTs) management of transit grant programs. As part of this study, AECOM conducted an internet survey of state DOTs, as well as follow-up interviews with a select group of state DOTs. The survey used multiple choice questions and provided opportunities for additional comments to help:

1. Determine the extent to which outsourcing has been utilized,
2. Understand tasks that have potential for outsourcing,
3. Identify procurement and evaluation processes and techniques that lead to the selection of competent and productive contractors, and
4. Identify processes and techniques for managing contractors.

This report incorporates the above information about outsourcing state transit grant management functions and programs so that state transit administrators considering outsourcing can base their recommendations and execution on actual experience. The information in this report was obtained through an online survey and follow-up interviews with state DOT personnel. Where appropriate, specifics about experiences or advice are noted, but the responses are not always attributed to a state in order to protect the privacy of both the DOT employees and contractors.

The structure of this report is as follows:

- State DOT Survey and Interviews – explanation of the surveys and interviews used to obtain the information described in subsequent sections
- Current Practices in Transit Grant Management Outsourcing –tasks that state DOTs currently outsource, their history of outsourcing, reasons for outsourcing, and lessons learned from past experiences
- Potential Tasks for Outsourcing – tasks that state DOTs have indicated would be a good fit for outsourcing or are currently considering
- Best Practices for Successful Contracts – contract duration specifications, procurement, evaluation, and oversight strategies used by state DOTs that have proved successful
- Conclusions

## CHAPTER 2 Research Approach

### 2.1 State DOT Survey

In order to learn about the current outsourcing practices of state DOTs, a survey was created and distributed to DOT officials. The survey covered a number of topics in an effort to get a comprehensive view of each state's individual experiences and opinions on outsourcing. The topics included current outsourcing practices, procurement and evaluation methods, contractor rating systems and oversight procedures, tasks that would be good or poor candidates for outsourcing, and opinions on the advantages and disadvantages of outsourcing.

The survey was created on SurveyMonkey.com, an online survey host site. Once the survey was created in SurveyMonkey.com, the draft survey was vetted with the committee twice in order to ensure that the topics and questions the committee felt were most important were adequately covered. After obtaining comments and suggestions from the committee about the draft survey, it was updated and deemed ready for distribution. An e-mail invitation describing the purpose of the study and the internet survey and providing a web link to the survey was sent to the American Association of State Highway and Transportation Officials (AASHTO) Multi-State Technical Assistance Program (MTAP) program contacts.<sup>a</sup> The web link could be forwarded to others within the agency for assistance with the survey; however, the link created a new survey response for each person.

After the initial e-mail distribution, two reminder e-mails were sent to participants asking for their help in completing the survey. The survey was sent to all 50 state DOTs and 21 surveys were completed by 19 states (one state had three representatives complete the survey). The following states completed the survey:

- Alabama
- California
- Florida
- Hawaii
- Massachusetts
- Michigan
- Minnesota
- Missouri
- Nevada
- New Hampshire
- New Mexico
- North Dakota
- Ohio
- Oregon
- Pennsylvania
- Texas
- Utah
- Virginia
- Wisconsin

---

<sup>a</sup> Some contacts listed in the Directory were out of date; the American Association of State Highway and Transportation Officials (AASHTO) helped with the out of date information.

The survey results were collected and exported from SurveyMonkey.com to Microsoft Excel to be further analyzed. Throughout this report, the survey results are discussed and quoted. Please note that the number of responses to each question varies, as some questions are repeated and some agencies answered partial surveys. Any survey responses or opinions are summarized in order to protect the identity of the state, the DOT official who completed the survey, and the state DOT contractors. The full survey with responses is included in Appendix A.

Based on the substance in the survey responses, an abbreviated list was created of states to follow-up with for a telephone interview.

## **2.2 State DOT Interviews**

A limited number of personalized telephone interviews were conducted after the survey results were analyzed. States were selected for interviews by investigating their online survey responses for detailed responses, situations that would offer interesting insights, or experiences that would be beneficial to share with other states. Certain situations or advice that resulted from a particularly good or bad contractor experience could be used as guidelines for best practices. The following states were contacted for follow-up interviews:

- Alabama
- Michigan
- Missouri
- New Mexico
- Ohio
- Oregon
- Pennsylvania
- Virginia

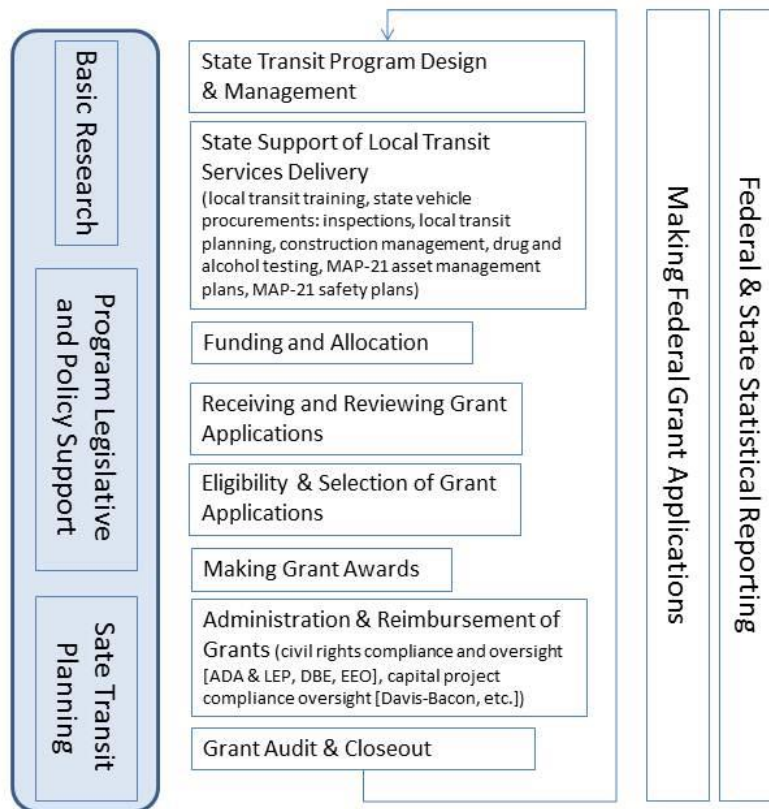
The feedback obtained in the interviews is dispersed within the remainder of this document and the respondents remain anonymous.

## CHAPTER 3 Findings and Applications

### 3.1 Current Practices in Transit Grant Management Outsourcing

Outsourcing is a common practice in both the public and private sectors. The potential risks and benefits must be weighed appropriately before deciding how to proceed. The purpose of this research is to understand whether and how state DOTs outsource transit grant management tasks, which are administrative tasks for DOTs that receive federal transit grants. The state DOT then distributes funds to subrecipients, usually through a funding formula, or retains them to fund projects at the state level. Some of these administrative tasks at the state level are listed in Figure 1.

Figure 1 – Possible Transit Grant Management Tasks



The list in Figure 1 was included in the survey in multiple instances in order to explore which tasks are currently outsourced and tasks that would have good or poor potential for outsourcing.

### 3.2 Reasons for Outsourcing

There are two general reasons reported for outsourcing; and in order to fully take advantage of the possible benefits of outsourcing, an agency would aim to achieve both criteria. In most cases, agencies choose to outsource in order to:

1. Save money and/or
2. Complete a task.

A common reason for outsourcing is to pay a contractor less than they would pay for the task to be completed by in-house staff. The reason that outsourcing can cost less is that contractors and consultants offer their services to a number of agencies, and as a result each agency only pays for a portion of the consultant's time. This portion of the consultant's time is ideally less than the cost of hiring additional agency staff to complete the task. In-house full-time staff is paid a salary and fringe benefits, whereas consultants build into their contract fees the costs of salaries, fringes, and overhead.

While in many cases it is true that consultants are paid a higher hourly wage than public employees, agencies employing consultants do not have to pay for an entire full-time equivalent (FTE) employee in order to complete a task. In many cases, paying the higher hourly wage for a consultant actually saves agencies money by avoiding the need to hire in-house, particularly if the FTE would not be fully utilized. As an example, if an agency hired a FTE for one federal compliance task that is estimated to take approximately 20 hours per week for one year, that FTE would be earning a salary worth 40 hours per week while theoretically completing only 20 hours of work. Even though the agency would realistically find some other work for those remaining 20 hours to reach "full time," the agency will have to compromise on the match of skills or the configuration of the work. In this case, the agency would be losing money in hiring this FTE, unless there are other tasks that the FTE is qualified to complete in order to be fully utilized for the year. On the other hand, if the agency outsources the task, they are likely to pay the contractor closer to the equivalent wage of 20 hours per week for a year. This situation also overlaps with the second general reason for outsourcing.

The other common reason for outsourcing is to complete a task. There are any number of secondary reasons for completing a task (including staff shortages, budget freezes, the need of specialized expertise, and others), but the primary reasons are to maintain federal compliance and to execute daily operations. In this economic climate, agencies are strained to complete the required tasks for federal compliance while still providing transit services to state residents. Many states have endured budget freezes for years, and as a result are not able to hire staff to complete the required tasks. The only feasible option, in many cases, is to outsource the task. Because of the necessity to complete the tasks and the inability to do the work in-house, the cost of the contract compared to completing the task in-house may not be the first priority; that being said, price always should be a consideration in the contract evaluation process, and agencies should seek multiple bidders in order to fairly compare proposals.

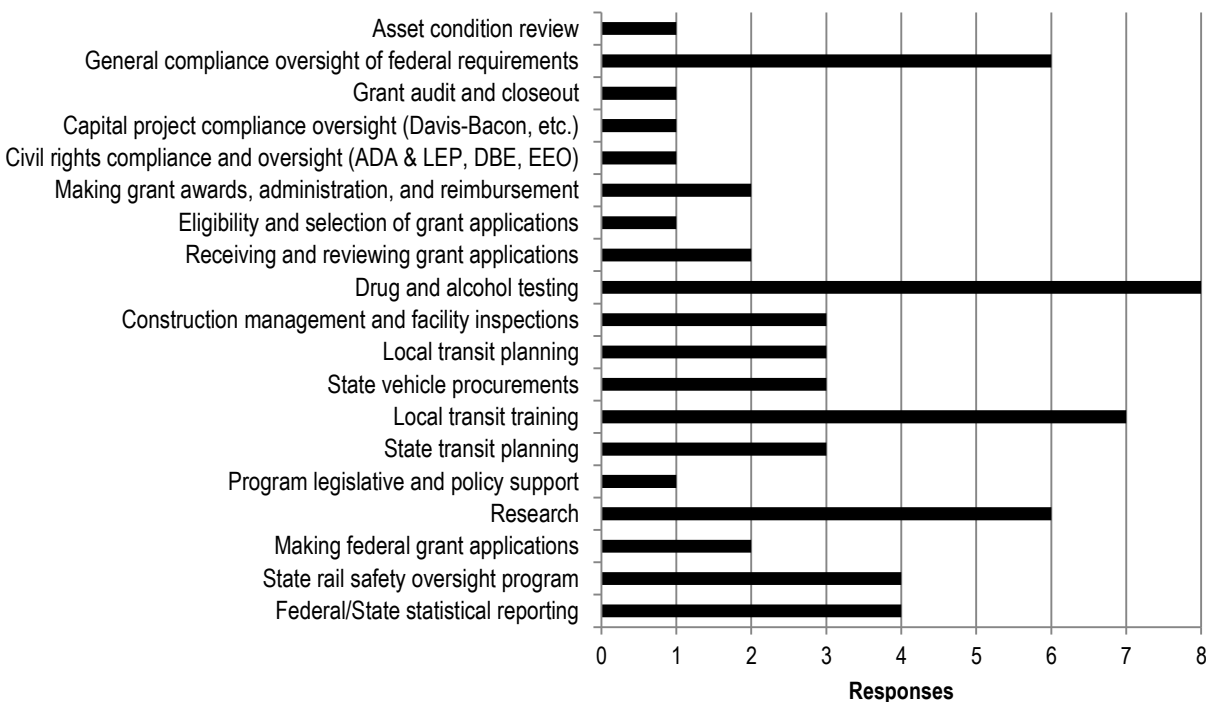
### **3.3 Tasks Currently Outsourced**

The survey asked responders which tasks listed in Figure 1 are currently being outsourced at their agency, if any. Of the 20 state DOT representatives who responded to the question in the survey, 11 (55%) currently outsource transit grant management tasks. Nine states provided an estimate of the portion of the state transit administrative costs that are currently outsourced, and the responses ranged between 0% and 70%, with the average being approximately 20%.

Asked what tasks they currently outsource, nine states provided up to five contracts that are underway, for a total of 31 current contracts. Most respondents had three or four current contracts. The most common tasks listed include: drug and alcohol testing (8), general compliance oversight of federal requirements (6), local transit training (7),

research (6), state rail safety oversight programs (4), and federal or state statistical reporting (4). See Figure 2 below for the full list of currently outsourced tasks.

**Figure 2 – Tasks that are Outsourced**



Source: DOT responses to survey question 14

The tasks currently outsourced cover a variety of topics. The most popular is drug and alcohol testing, followed by local transit training, research, and general compliance oversight of federal requirements. Some of the commonly outsourced tasks, particularly drug and alcohol testing and local transit training, are tasks that are the responsibility of local transit operating agencies for which the state DOT has offered assistance or undertakes on their behalf. For that reason, the state DOT is unlikely to be able to cost-effectively execute the task with in-house resources. Based on the survey responses and interview discussions, other possible reasons behind outsourcing the four most common tasks are described below:

**Drug and alcohol testing** is currently the most commonly outsourced task, and this is not a surprise. Drug and alcohol testing is a requirement of the Federal Transit Administration (FTA), and agencies that do not comply are barred from receiving funds from FTA. Under the regulation, safety-sensitive personnel are to be systematically and randomly drug and alcohol tested. Because this is a highly specialized task, it is a task particularly appropriate for outsourcing.

**Local transit training** is a task overseen by state DOTs where rural and urban transit operators are trained in workshop settings. Often, FTA provides funds to the state DOT and they coordinate the organization of the training courses. Because experts, industry professionals, and professional training institutes are used for these training tasks, agencies often outsource the training.



**Research** tasks often require expertise that in-house agency staff may not have. One of the benefits of outsourcing is the breadth of knowledge that agencies are able to access, and in certain instances they take advantage of someone else's experience to complete tasks that they otherwise would not have been able to do.

**General compliance oversight of federal requirements** is a broad range of tasks that cover the state DOT's responsibility to monitor and oversee that local agencies are compliant with federal requirements. Localities that do not comply are restricted from receiving FTA funding until they become compliant. Depending on the state, there can be a large number of local transit providers that need to be monitored for compliance, and in order for agency staff to do the task in-house, it would require a substantial amount of staff time out of the office and travel across the state. As a result, agencies are likely to hire a consultant to visit the individual sites and report on compliance because of the high percentage of travel that reduces productive working hours for many already short-staffed DOTs. Though the task is not as specialized or repetitive as drug testing, it shares a similar characteristic in that there are some consultants with specialized compliance knowledge, making it a good task for outsourcing.

### 3.4 Procurement Practices

The current procurement practices applied to outsourcing were surveyed and are discussed in four areas:

- **Type of Contract** refers to the contract structure and more specifically the method of computing the contractor's compensation,
- **Scope** refers to the way the contractor's work is defined in the contract,
- **Contract Procurement and Evaluation** refers to the steps used to solicit offers and select a contractor ("the procurement method"), and specifically the way that competing offers are compared in a negotiated (request for proposals) procurement method, and
- **Compensation Incentives** refers to contract clauses that adjust the contractor's pay based on performance.

#### 3.4.1 *Type of Contract*

There are three types of contract structures typically used for outsourcing. The type of contract describes how the agency will pay the contractor's fees for the work performed and can be a lump sum, hourly, or cost plus fixed fee contract.

**Lump sum** is a total "bottom line" amount of money based on the scope of work. The contract amount is agreed upon by both parties. In a lump sum contract, the hours that the contractor spends on the task do not matter; the lump sum contract guarantees only that the task will be completed under the set amount. Some lump sum contracts generally reduce design and contract administration costs and are well suited for small projects with well-defined scopes. This contract type tends to put more risk on the contractor than the agency and may reduce the agency's right to direct the work, but may encourage the contractor to complete the work faster (depending on the task) by maximizing production and performance.

**Hourly** contracts are negotiated based on an estimated volume of hours to complete the task, and the contractor is paid a contractually agreed hourly rate for each of the hours they charge. Some hourly contracts set a maximum or

minimum number of hours on each task or contract, while others provide payment for the actual number of hours worked. These contracts are flexible for the contractor, which can mean a longer schedule for completion, but it is also a way to “pay as you go,” where the agency only pays for the work done. The agency typically takes most of the risk for the time required and gains some right to direct the work, but the contractor retains the risk that the cost per hour may vary from the agreed rates (because of inflation, overhead changes, salary adjustments, or the actual rate of the people assigned to work relative to the agreed rate for a general classification). In addition, success has been found with “fully loaded” hourly rates that incorporate all project expenses inclusive of labor, travel, and overhead fees into the hourly rate, thereby increasing the burden of estimating total expenses to the consultant.

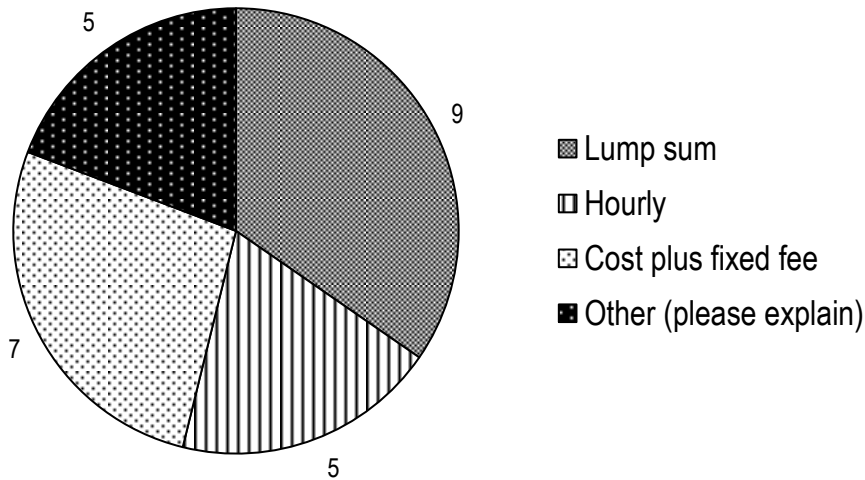
In a **cost plus fixed fee** (CPFF) contract, the contractor is reimbursed for all of its allowed expenses, up to a set limit, as well as a fee for profit. These contracts put more risk back on the agency and are often used in research tasks where the quality of the product is more important than the cost. There is less need for contingency in this type of contract (as opposed to a lump sum), so the total contract amount may end up being lower, but there still is uncertainty regarding the total cost. Cost plus fixed fee contracts tend to require more oversight to monitor costs that the contractor incurs, including verification of actual overhead rates and retroactive adjustment of overhead costs, and there is less incentive than in a lump sum contract for the contractor to finish the work for less than the estimated amount or contract value.

Some agencies have found success in parallel contracting. Parallel contracting is, in general, two or more contracts for the same or similar tasks given to separate contractors. Parallel contracts are often used for on-call work, where an agency can request a project or task on an as-needed basis. In the case of an agency using a parallel contract, they will proceed with a normal task order by requesting pricing and qualifications from two or more contractors, and selecting the contractor that they feel will best complete the task. The parallel contract enables the agency to request new tasks of any scale without having to go through the entire procurement process.

As part of parallel contracts, staggered terms can be used. A staggered term parallel contract is used to avoid the parallel contracts expiring at the same time. They provide some flexibility for the agency while ensuring that at least one experienced contractor is available as needed.

Of the 26 contracts that were described in the survey, 35% used lump sum contracts, 27% used cost plus fixed fee, and 19% used hourly or “other.” Approximately 19% of the contracts are parallel contracts, and of the parallel contracts, 40% used staggered terms.

**Figure 3 – The Contract Type Predominantly Utilized on Current Contracts**



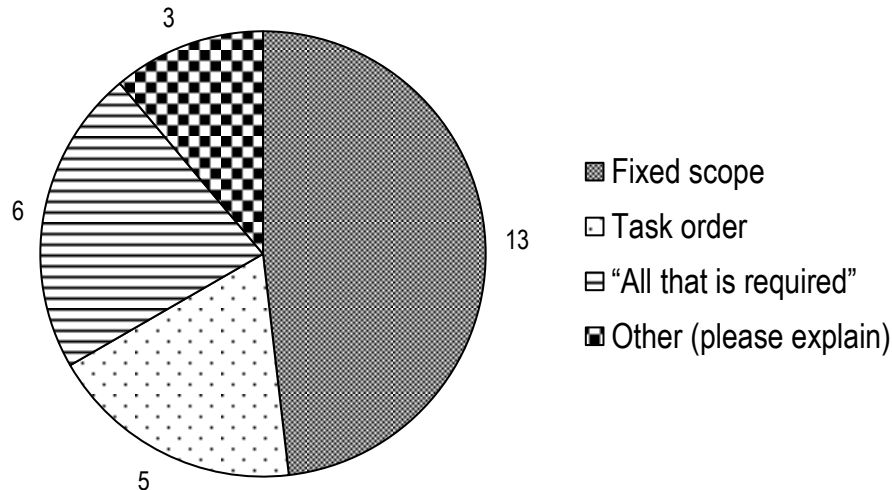
Source: DOT responses to survey questions 13, 27, 41, 55, and 69

Lump sum contracts are being used for fixed scope work, such as drug and alcohol testing or training. Lump sum contracts also can be used when the scope is for task orders (see 3.4.2 *Scope*) and separate task orders are awarded on a lump sum basis. The relatively extensive use of lump sum contracts reflects a preference for the simplicity and low agency risk associated with this contract type. However, hourly and CPFF contracts together outnumber lump sum contracts, reflecting the flexible scopes and greater agency control required by many agencies. It is surprising that CPFF contracts, with the significant complexity of cost monitoring and overhead adjustments, outnumber hourly-based contracts. Much of the choice of contract type corresponds to the degree of flexibility in the scope discussed in the following section.

### 3.4.2 *Scope*

The majority of the contracts were scoped using a fixed scope (48%), while 22% defined the scope as “all that is required,” and 19% issued individual task orders. The remainder used some combination of the three scoping techniques.

**Figure 4 – The Type of Scope Predominantly Utilized on Current Contracts**



Source: DOT responses to survey questions 14, 28, 42, 56, and 70

Fixed scopes are used for specific tasks that are usually well-understood in terms of the tasks involved, the time required, and the costs. Task order and "all that is required" scopes are more often used for projects that are less defined, but are covered under a standing contract.

A scope defined by task order was found to be successful with one state agency representative. It was mentioned that each standing contract (on-call contract) that was originally defined by an "all that is needed" scope was successful when the agency issued individual task orders. The task orders helped control some of the deficiencies that they had experienced in the past in regard to achieving a quality end product from the contractor. The task order sets a defined goal that the contractor creates based on input from the agency. Agency personnel then negotiate the price of the task to get the ideal mix of consultant staff with the appropriate experience, while balancing the hourly rates of that staff with the agency's budget. Working together to create the task keeps the scope concise and focused.

### 3.4.3 Contract Procurement and Evaluation

Procurement, which is the act of legally obtaining, securing, and purchasing the task through a contractor, is usually completed using one of five standard processes in terms of the actual contract structure. The five procurement methods usually used in outsourcing are listed here and briefly described as defined in FTA Circular 4220.1F. It is important to note that they are not necessarily mutually exclusive:

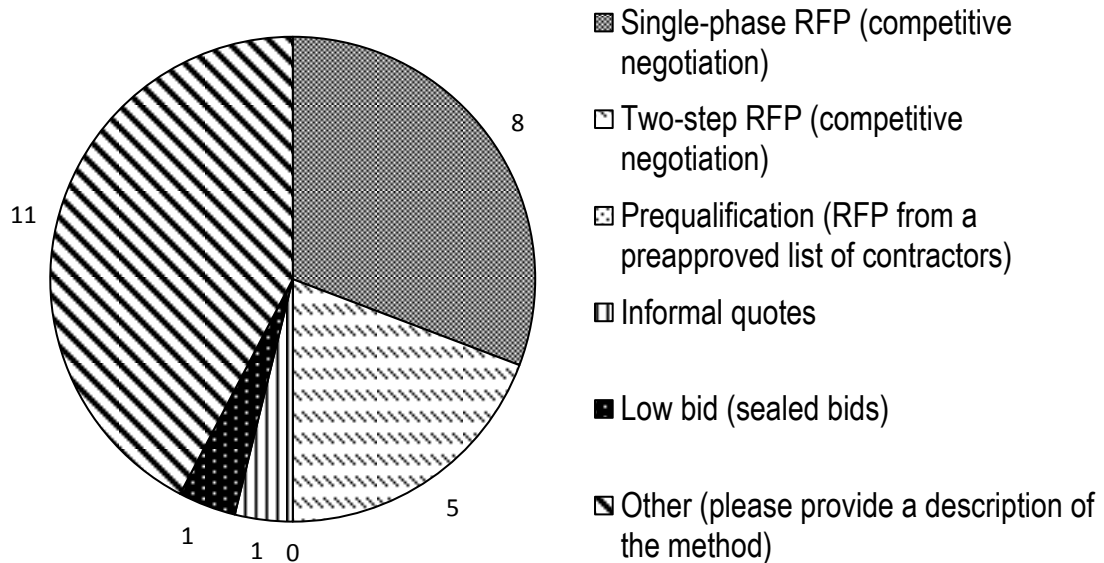
- Single-phase Request for Proposal (RFP): the agency requests proposals and negotiates with multiple contractors simultaneously with the goal of selecting the contractor who has the optimal mix of technical skill and best value.

- Two-step competitive negotiation: (also called the two-step best value approach) employs a screening system to first evaluate the qualifications (using a request for qualifications (RFQ), sometimes based on prequalification) and then a RFP followed by negotiation while considering price.
- Prequalification: the agency may require that bidders submit questionnaires and documentation in order to assess corporate and financial responsibility, demonstrated ability to perform certain types of work, the estimated labor supply for the project, performance reviews of previous work, civil judgments and criminal history, industry debarments or suspensions, revocations of licenses, bankruptcy files, and bonding ability. The agency then requests proposals from a preapproved list of contractors.
- Informal Quotes: when a contract is under a certain dollar threshold, quotes may be informally requested through RFPs or via telephone quotes.
- Sealed Bid: also called low-bid, this method promotes competition and a fair playing field, though there are concerns that it may not result in the best value or performance in the long run because it encourages contractors to employ cost-cutting measures. The final award decision is based on price.

In most agencies, procurement can be a lengthy process with numerous “hoops” to jump through and bureaucratic layers to traverse. As a result of the arduous process, securing a competent contractor becomes even more important.

According to the survey, 30% of states are not required by law to use a specific form of procurement and the other 70% are. One DOT must use low-bid, three must use negotiated RFPs, and the remaining states use a procurement form depending on the task. The most commonly used procurement method was the single-phase RFP (31%), followed by the two-step RFP (19%). Prequalification was not utilized on any of the contracts. Informal quotes and sealed bids (low-bid) were each used for one contract. Various other methods were used (42%) including Local Technical Assistance Program (LTAP), distribution of grants, and Requests for Qualifications.

**Figure 5 – The Type of Procurement Method Utilized on Current Contracts**



Source: DOT responses to survey questions 15, 29, 43, 57, and 71

Evaluation is the method used to compare and select the best bid and is usually completed using one of three methods. The three evaluation methods usually used in outsourcing are listed here and described.

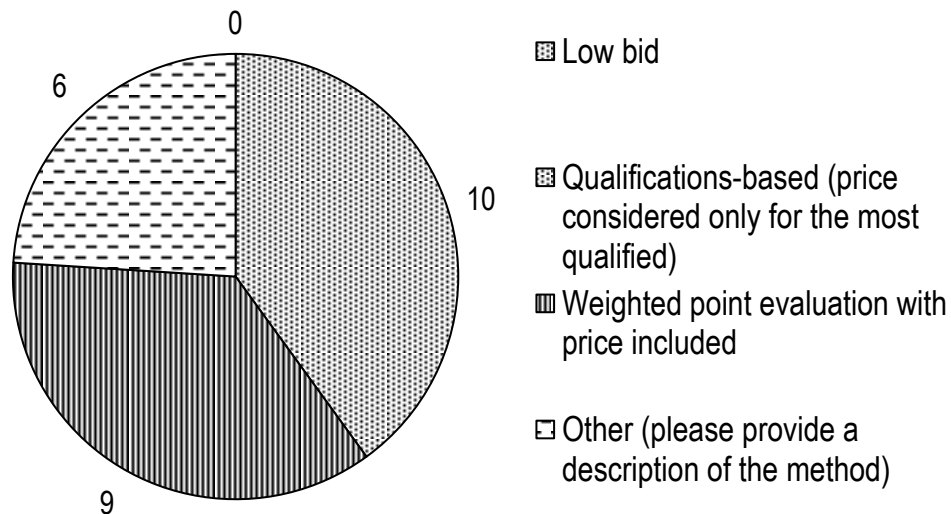
**Low-bid** compares bids based on the price, selecting the one with the lowest price. Unless a separate prequalification has taken place, the low-bid evaluation method ignores the contractor’s finances, prior work, evaluations, references, and any other information that would give an indicator of how well they may perform during the contract duration. This method places a high level of risk on the agency. Additionally, there is reason to suspect that the winning low-bid contract may not include all of the requirements that the agency intended to specify, particularly if the price is much lower than the others. The low-bid evaluation method is more likely to result in lower quality work products because the contractor’s only goal is to win the work and past performance does not contribute to the likelihood of being awarded the contract.

The **qualifications-based** evaluation method considers competitors based on each contractor’s corporate and financial responsibility, demonstrated ability to perform tasks, the estimated labor supply for the project, performance reviews of previous works, civil judgments and criminal history, industry disbarments or suspensions, revocations of licenses, bankruptcy files, and bonding ability; price is only considered for the most qualified competitor(s).

The **weighted point evaluation with price included** method is a detailed method to evaluate offers that involves assigning points to contract aspects (including price) and weighting them by importance. In general, agencies will indicate in the RFP the weights of the proposal items. This gives the contractors an indication of what is most important to the agency, and their proposal should be strongest in these principle areas. This evaluation method is similar to qualifications-based in that it does rely on past performance and references, but is less concerned with the contractor’s fiscal and legal history. The weighted point evaluation method does consider price as one of the aspects of the proposal.

The evaluation methods used were primarily (40% and 36%, respectively) qualifications-based (where the price is considered only for the most qualified applicant) or weighted point evaluations with price included. Both of these evaluation methods consider a contractor's previous experiences doing the task in question. The low-bid contract evaluation method was not used for any contracts discussed in this survey, although one DOT, which did not discuss specific contracts, is required to use the low-bid method when contracting. The write-in responses to contract evaluation included negotiated or none (as it was a direct grant).

**Figure 6 – The Type of Evaluation Method Utilized on Current Contracts**

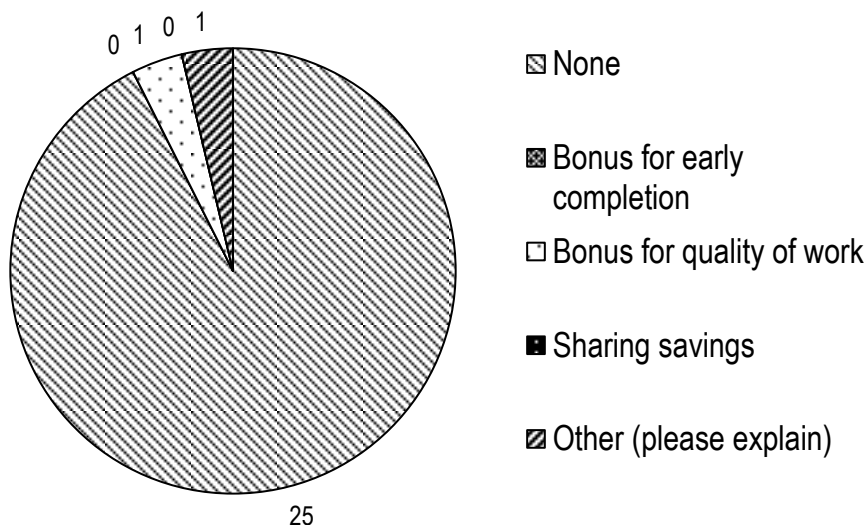


Source: DOT responses to survey questions 16, 30, 44, 58, and 72

#### 3.4.4 Compensation Initiatives

Compensation incentives are usually financial incentives offered to contractors in exchange for quality, on-time or early, or under budget services. There are three types of compensation incentives typically offered. Bonuses for early completion are offered to contractors who complete their work in a shorter amount of time than agreed-upon in the contract. Bonuses for quality of work are offered when the quality of the work product is considered to be above and beyond that included in the contract as evaluated by agency personnel most familiar with it. And finally, a share of the savings can be split with the contractor if the total costs come in below the contracted amount.

**Figure 7 – Compensation Incentives Utilized on Current Contracts**



Source: DOT responses to survey questions 17, 31, 45, 59, and 73

In the survey, only two of the 27 contracts offered any type of compensation incentives. One contractor was offered a bonus for quality of work and another was offered the incentive of good work leading to another phase of the contract. Overall, however, it appears that compensation incentives are not widely used. The most likely reason for this is that the contract is fair in terms of schedule and rates for the expected product, so there is no need for incentives. Additionally, a bonus for the quality of work would be highly subjective, while a bonus for early completion is more easily defined. Finally, some states may be precluded from offering any incentives.

### 3.5 Reflections on the Outsourcing Experience

The survey respondents were asked about each of the current contracts that they oversee in regards to the generally-perceived advantages and disadvantages of outsourcing. They were asked to numerically rank each outsourced task to compare whether they feel a task was completed (or is currently being conducted) well through outsourcing (+3) or if it would have been completed (or is currently being conducted) with better results in-house (-3). A zero (0) would indicate that the outsourced task was completed (or is being conducted) by the contractor to the same standard as would be done in-house, indicating no advantage or disadvantage to outsourcing the task. The agencies were asked to rank the following aspects of the contract:

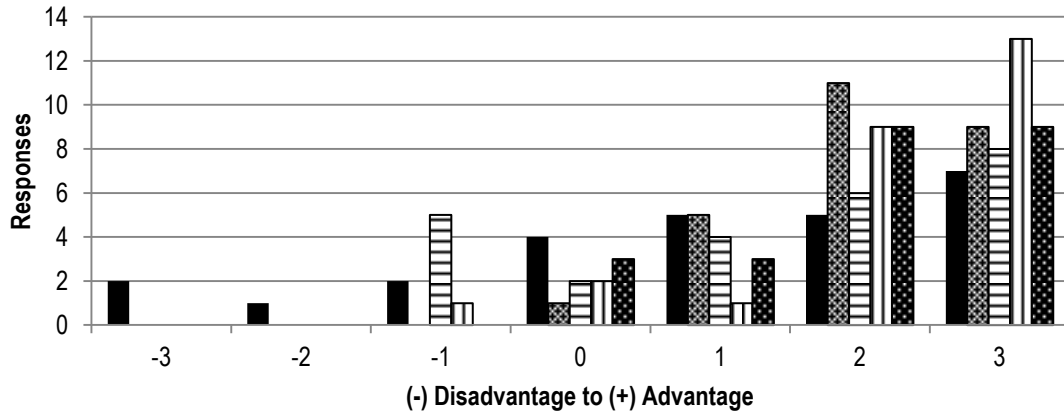
- Net cost or savings (taking into account contractor procurement and oversight costs),
- Quality of work,
- Level of control,
- Flexibility, and
- Overall experience.



Between 24 and 26 responses were provided for each of the aspects. Overall, agencies felt that the tasks were being completed well through outsourcing as indicated by 75% of the tasks receiving a +2 or +3 ranking. Only 13% of respondents felt that the task would have been completed the same in-house as indicated by a ranking of zero (0). The same sentiment was seen for the quality of work, level of control, and flexibility aspects, but there were more negative sentiments for outsourcing in terms of net cost or savings. The results of these aspects are briefly described here:

- Quality of work: 96% felt that the contractor provided a higher quality of work (+1 to +3) than could be achieved in-house, and the remaining 4% felt that it was the same quality that would have resulted from the task being completed in-house.
- Level of control: 72% felt that they had a higher level of control through outsourcing (+1 to +3) than if they had conducted the task in-house. A high proportion (20%), however, indicated that they lost a small amount of control (-1) through outsourcing. The remaining 8% felt it was the same level of control as would have occurred in-house.
- Flexibility: 88% responded that there was a greater degree of flexibility in the outsourced task (+1 to +3), while 4% felt that they lost some flexibility (-1), and 8% thought the flexibility of the contractor was the same as completing the task in-house.
- Net cost or savings: most respondents (65%) felt like the cost or savings were an advantage (+1 to +3) of using a contractor for the task, but 19% felt that the task would have provided a cost savings if conducted in-house. Finally, 15% felt there was no difference.

**Figure 8 – Rating the Advantages and Disadvantages of Outsourcing Compared to Providing the Services with In-House State Resources**

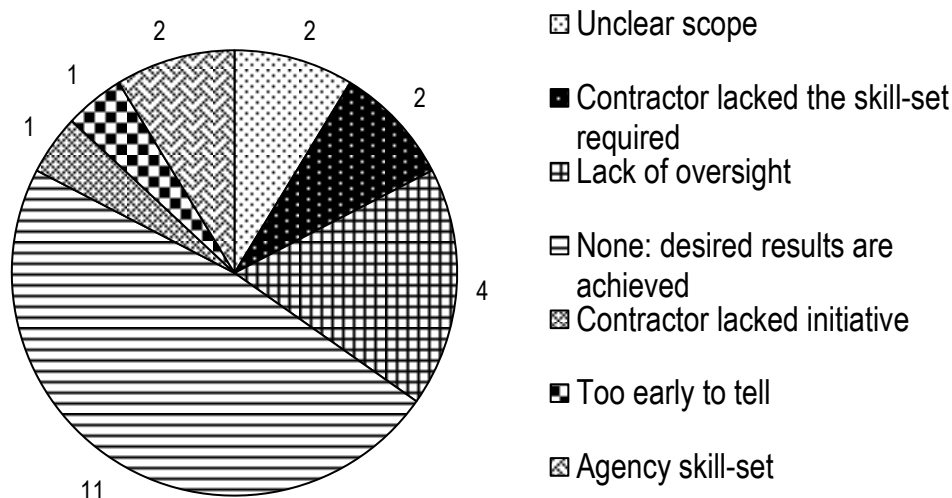


- Net Cost or Savings (taking into account contractor procurement and oversight costs)
- ▨ Quality of work
- ▤ Level of control
- ▥ Flexibility
- ▧ Overall

Source: DOT responses to survey questions 19, 33, 47, 61, and 75

There is a range of outcomes experienced by the agencies that outsourced tasks. The survey asked state DOTs what they felt was the major issue keeping them from achieving the desired results from their contractor (if any). A high percentage – 48% – said that they had adequately achieved their desired results. The remaining respondents indicated shortcomings by the contractor or agency that led to less than ideal products, while one contract was too early to tell what the major problem (if any) would be. The most commonly selected shortcoming was the lack of contractor oversight on the agency’s part (17%). Unclear scope and the lack of the appropriate skillset (both for the contractor and agency) were issues seen in two outsourcing experiences. Finally, the contractor lacking initiative was the main problem in one contract (4%).

**Figure 9 – Biggest Obstacle in Getting the Desired Results from a Contract**



Source: DOT responses to survey questions 20, 34, 48, 62, and 76

Figure 9 suggests that agencies believe the outsourcing contracts they have decided to undertake are producing good results in terms of work quality, agency control, and flexibility. However, it is noteworthy that almost a fifth (19%) of the outsourcing contracts that have been undertaken are judged to be costing more than the work would have cost in-house, a material indication of concern. When contracts are judged to result in cost savings, a significant savings is perceived (a +3 rating). Further, even though the contracts may be producing good results overall, Figure 9 indicates that there is room for improvement in most of the cases.

### 3.6 Recommendations for Outsourcing

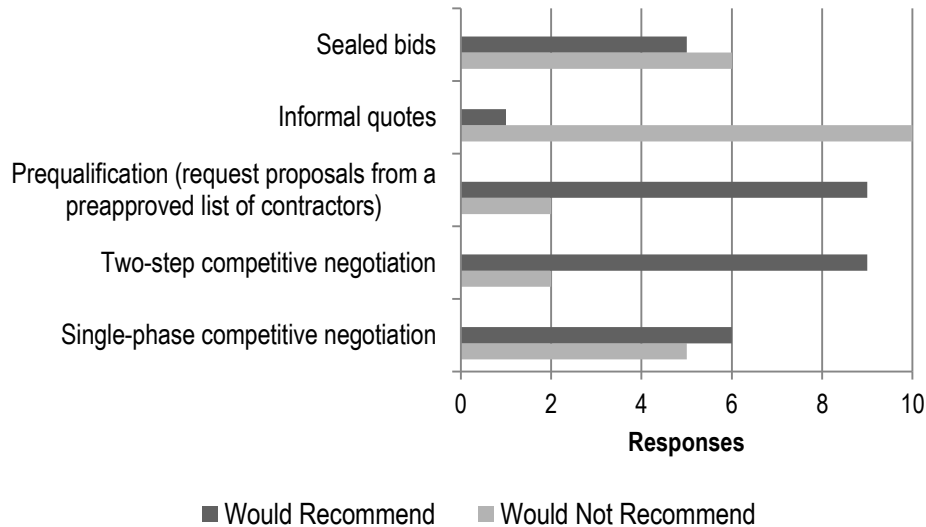
The nine states that provided feedback in the survey on their currently outsourced transit grant management tasks provided recommendations for other states aspiring to outsource tasks in the future. The recommendations from the follow-up interviews are also included in this section. The recommendations are for procurement and evaluation methods, contractor rating systems, audits, and finally overall advice for managing contractors.

#### 3.6.1 Recommended Procurement Methods

Five procurement methods are typically used in contracts: single-phase competitive negotiation, two-step competitive negotiation, prequalification, informal quotes, and sealed bids. For descriptions of each procurement method, see 3.4.3 *Contract Procurement and Evaluation* above.

The results of the survey were mixed for single-phase competitive negotiation, with 55% recommending it and 45% not recommending it as a procurement method. The same was found with sealed bids, where 55% would not recommend it and 45% would. Two-step competitive negotiation and prequalification were recommended by 82%. Finally, 91% of respondents would not recommend informal quotes, which is logical as most of these contracts exceed the size for which informal quotes are appropriate.

**Figure 10 – Procurement Methods that States Would and Would Not Recommend**



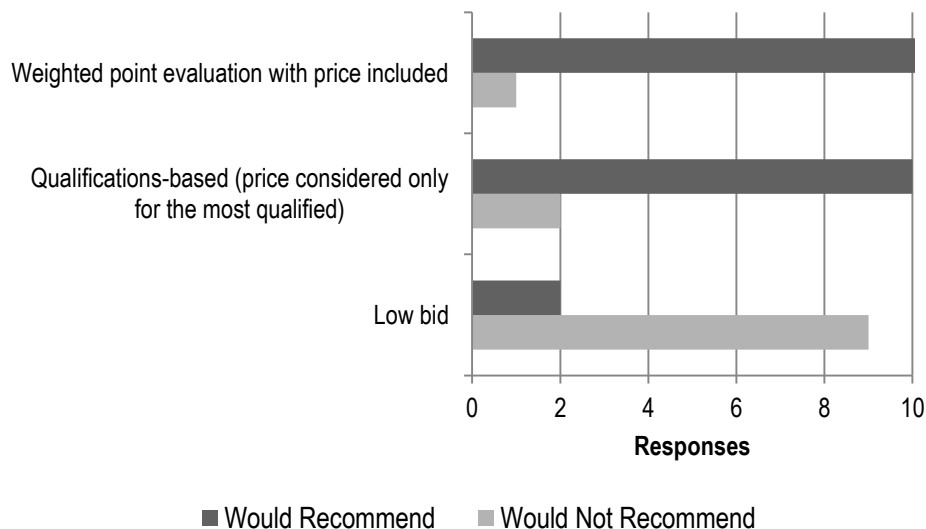
Source: DOT responses to survey question 77

The survey results showed that the procurement methods that require more background information or competition based on non-price factors are more highly recommended. This is due to the ability of the agency to filter prospective contractors based on their qualifications and technical merit as well as the price of the work. The methods that more often are not recommended are the two more price-focused procurement methods of sealed bids and informal quotes. Even where contracts are small enough for informal quotes, agencies find that more evaluation and better documentation is warranted for the work outsourced by state transit program offices. Sealed bids are used often for construction projects or off-the-shelf equipment and materials where the public agency is bound to use the lowest price. The work outsourced by state transit programs may not achieve the desired outcomes using the sealed bid method because price is the only criteria evaluated.

### 3.6.2 Recommended Evaluation Methods

There are three standard evaluation methods used to decide which bid or contractor to select for a task, including low-bid, qualifications-based, and weighted point evaluation with price included. The recommendations from the survey showed that the majority would not recommend using low-bid (82%), while they would recommend qualifications-based (83%) and weighted point evaluations (92%).

**Figure 11 – Evaluation Methods that States Would and Would Not Recommend**



Source: DOT responses to survey question 78

The low-bid evaluation method, where a contractor is selected based on the lowest price, is more likely to result in lower quality work products because the contractor's only goal is to win the work and past performance does not contribute to the likelihood of being awarded the contract. The contract type in a low-bid contract is generally lump sum, and the recommendation against low-bid evaluation methods echoes the recommendation against sealed bid procurement method.

As indicated by the survey responses, the qualifications-based method (where price is only considered for the most qualified) has had favorable results. It is often used in architectural and engineering services procurements. For local grantees and where the detailed provisions of FTA Circular 4220 apply, there are both requirements and restrictions on the use of the qualifications-based method, and there are often state law restrictions even on the state transit program offices. In the qualifications-based method, no pricing information is requested or permitted in the initial competitive submission of qualifications statements. Once the submissions have been evaluated, pricing information and a full proposal is requested from the most qualified firm and negotiations may be undertaken. If the agency concludes that negotiations will be unsuccessful, the agency may proceed to request a full, priced proposal from the second-most qualified firm, and may negotiate with that firm. It may go on to the third and fourth most qualified firms if it chooses.

The weighted point evaluation method with price included is used in negotiated procurements or requests for proposals (RFPs). In this method, proposals submitted in response to an RFP are evaluated (usually by a committee) based on published criteria; the score for each criterion is weighted and the weighted scores are summed (or averaged) to calculate the overall scores and select the winning proposal. Price is included as a criterion and sometimes evaluated on a formula basis rather than by committee judgment.

One potential drawback to requesting qualifications in conjunction with an RFP is that the agency runs the risk of receiving proposals from bidders who are not qualified. A two-step RFP method involves requesting qualifications

first (without price) and short-listing qualified firms. The second step is to request full proposals from the qualified firms and then to apply the weighted point evaluation method to the small group of proposals.

As a result of using the weighted point evaluation method, the agency may not secure the contract for a price as low as they would with a low-bid evaluation, but the agency can be assured that the past performance of the contractor is conducive to the task at hand, whereas there is no guarantee of the contractor's ability when evaluating by the low-bid method.

Agencies have indicated that the weighted point evaluation with price included method has been successful and is highly recommended. Overall, the qualifications-based and weighted point evaluation methods have been successful contract evaluation methods. Both methods consider past performance and the contractors' level of expertise.

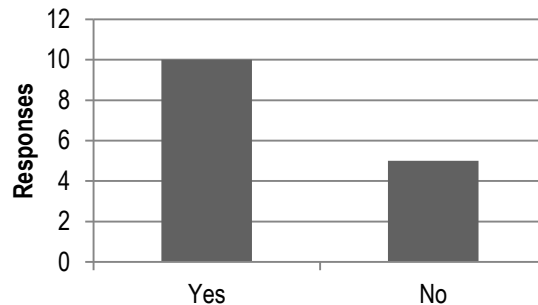
### 3.6.3 *Contractor Rating Systems*

Contractor rating systems are used as ways to inform other DOT employees who may seek to outsource a future task of past experiences with a contractor. The ratings provide feedback for both the contractor and the agency as to how well the task was performed, the budget and schedule, and any other pertinent details about the contract or contractor. The rating of contractors and uses of these ratings can provide valuable information on how future contracts might progress based on past experiences. In the survey, 13 states responded when asked whether they use contractor rating systems and to provide their system or process. Seven of the 13 (54%) used some sort of contractor evaluation system (some using them only for certain contractors), while six (46%) had no system in use or did not use the results in future considerations.

A wide range of contractor rating systems are employed by the states that responded yes, with the possibilities ranging from a simple score of one to five based on management, quality of work, communication, and execution of work, to a detailed form analyzing individual tasks, contract personnel, schedule, and budgetary constraints. It is recommended that each agency, particularly if certain contractors are used frequently, at least utilize simple rating systems that give some high-level feedback on the outsourced task. These systems can be useful in evaluating future contracts and give a good indication of contractors who performed well versus those that performed below expectations. It could thus remove some contractors from contending in future negotiations at all, if the experiences were poor enough.

Finally, respondents were asked whether or not their rating results factor into future contractor selections, and the majority (67%) indicated that they do. In support of the above recommendation that each state that outsources at least includes a high-level contractor rating system, it would be recommended to utilize the results of these systems in future considerations. Otherwise, there is no reason to conduct a rating in the first place and a poor result from a contractor could be repeated in the future.

**Figure 12 – Do Audit or Contractor Rating Results Factor into Future Contractor Selections?**



Source: DOT responses to survey question 80

#### 3.6.4 Advice for Successfully Managing Contractors

The agencies provided open-ended comments of recommendations for how to successfully manage contractors. Their feedback is paraphrased below:

- Have good contract management skills and time built into the contract.
- Hire the most experienced expert in the field and develop a relationship with them.
- Require that deliverables be attached to payment invoices after each task.
- Outsource tasks that require on-site meetings or inspections of assets, as DOT staff are allowed only limited travel.
- Have a well-defined scope with milestones/incremental deliverables included in the contract.
- Contracts with large companies are easy to implement, but you lose control. The quality of the product will depend on the quality of oversight.
- Select contractors with high initiative, because communication, follow-up, and giving/receiving feedback become difficult if the contractor is not driven.
- Remember that the contractor is there to represent the DOT, so make sure they are representing the agency in the best way possible by overseeing their activities appropriately.

In follow-up interviews to the surveys, a potentially valuable recommendation in managing contractors was investigated. One state DOT has implemented, under its own direction and not that of the state, the use of a rigorous evaluation process in the form of a detailed checklist that is integrated with the task order sign-off. The evaluation process requires deliverables to be 99% error free, among other performance requirements for all work orders. Before the consultant gets paid, the contract administrator must sign off that all of the criteria have been adequately met. The criteria include on-time performance and four quality products. An example of the evaluation checklist is included in Table 1.

**Table 1 – Example Evaluation Checklist for Deliverables**

Performance Metric	Contractor Goal	Performance Target	Calculation
On-Time Performance	All deliverables submitted on or before scheduled date	90% or higher	Number of deliveries met / Total number of deliverables
Quality Products	All deliverables must be error-free (spelling, grammar, punctuation)	No more than 3 errors on a single page or 10 errors per deliverable.	Number of errors on a page and/or total errors per deliverable.
Quality Products	All deliverables must correspond to the scope of work	No factors of the task may be omitted	Number of times tasks were omitted
Quality Products	All deliverables must demonstrate a sound approach to data collection and analysis used to make recommendations for further action	No more than one occurrence per deliverable of a less-than-sound approach.	Number of major revisions related to data collection and analysis per deliverable
Quality Products	All deliverables will present accurate source data and calculations	90% or higher	Number of source data collection errors per deliverable

DOT personnel are required to evaluate and score each of the performance metrics to determine whether the deliverable passes or fails. A signature is required, and comments may be included. The checklist is rather tedious, but there is a general perception that the quality requirements are so well-defined that the performance overall has been good on the work orders. In reality, however, it varies how rigorous the evaluation is (based on the state contract evaluator), but because the checklist is so detailed and explicit compared to what other state DOTs do, it has been shown to be successful. Even at the times where the individuals overseeing contracts are not as rigorous in certifying that the requirements are met, the fact that the requirements exist and are used creates an incentive for the consultant to stay vigilant in completing the work product because there is always the chance that they will be evaluated at that level. As a result, deliverables are of higher quality showing that the checklist has worked reasonably well.

### 3.7 Potential Tasks for Outsourcing

Whether or not states currently outsource tasks, the respondents felt that there were tasks that had both good and poor potential to be outsourced. The tasks identified as having good potential are often those that require field-work, have well-defined scopes, and require expertise that the agencies may not have in-house. Additionally, tasks that are new or developing such as those under the current surface transportation legislation Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) could have good potential. In contrast to the tasks that have good potential, the agencies also indicated that there are a number of tasks that they felt had poor potential for outsourcing. The tasks that have poor potential are those with variable scopes, tasks that should be completed in-house to take advantage of staff expertise and project continuity, and those that would risk negative public opinion if completed by a contractor because they are seen as core agency tasks.

The survey respondents were presented with the list of transit grant management tasks and were asked which of the tasks they felt had good potential for outsourcing. Respondents were asked to select as many tasks as they preferred. Local transit training was the most popular task to have good potential for outsourcing, which is in line with



the tasks that are currently outsourced (see 3.3 *Tasks Currently Outsourced*). The tasks with the next highest potential were: drug and alcohol testing, MAP-21 safety plans and asset management plans, and research. The tasks with good potential for outsourcing are in dark grey in Figure 13 below, and the tasks with eight or more votes are described below, with an emphasis on why they have good potential.

- **Local transit training** is a task overseen by state DOTs to train rural and urban transit operators in workshop settings. FTA provides funds to the state DOT and the DOTs coordinate the organization of the training courses. Because the trainings are usually conducted by experts, industry professionals, and professional training institutes that have specialized expertise, the task has good potential for outsourcing.
- **Drug and alcohol testing** is the most popular task that is currently outsourced, and agencies also felt that it had good potential for outsourcing. State DOTs oversee the random testing and reporting processes, and because this is a specialized task with a well-defined scope and periodic site visits, it is a task particularly appropriate for outsourcing.
- **MAP-21 safety plans** are new requirements as part of the MAP-21 legislation. Specific plan requirements have not been released, but states are anticipating that these plans would be ideal tasks to outsource, particularly because of the short turnaround time for submission.
- **MAP-21 asset management plans** are another new requirement under MAP-21. The regulation has not yet been released, but again states are anticipating that these plans could be outsourced because of short timetables expected to maintain compliance. Each grantee and sub-grantee will be required to have a plan, but the extent of the plan will be scaled to the entity's size and capabilities.
- **Research** tasks often require expertise that in-house agency staff may not have. These tasks are attractive to outsource because they take advantage of the breadth of knowledge that consultants have, and by contracting out these tasks, agencies are able to take advantage of experience that may not be available in-house.
- **Construction management and facility inspections** are required periodically to maintain compliance with FTA. This task has good potential for outsourcing because the construction management and inspections are off-site and require travel for agency staff. Travel expenses are harder to get approved and traveling results in reduced productive working hours for many already short-staffed DOTs. Additionally, there are often a number of locations where inspections or management activities need to be done, so the task has the potential to take up many staff hours. Both are costs to state DOTs that are already budget-constrained and short-staffed, so outsourcing may place less strain on the agency while maintaining compliance for funds.
- **State vehicle procurement** is the process of purchasing vehicles on behalf of transit agencies. Because the state is responsible for distributing funds from FTA to local transit agencies, the state DOT will often take on the responsibility of purchasing the vehicles for the smaller agencies. The task is appropriate for outsourcing because the process is well-defined, routine, and can take a large amount of staff time depending on the size of the state and scale of the purchases.

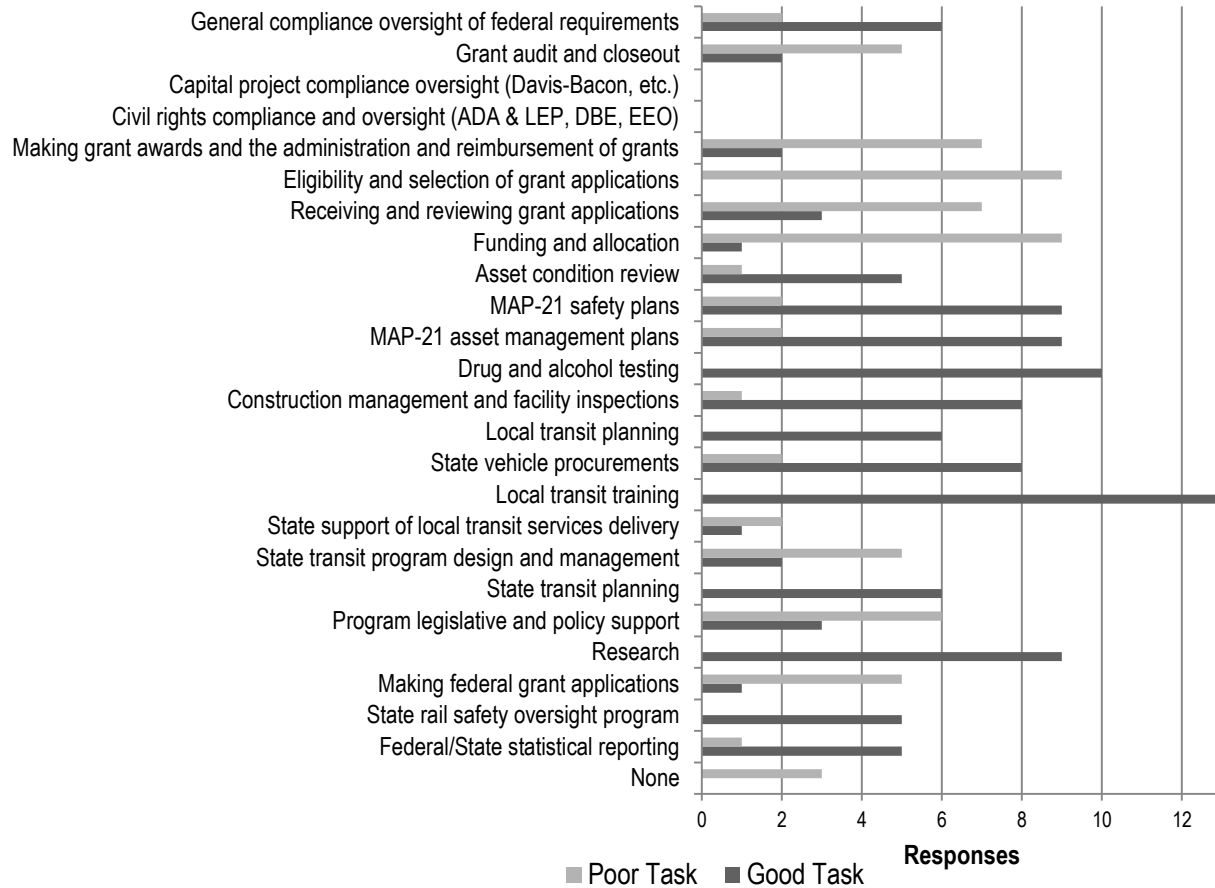
In addition to the tasks with good potential for outsourcing, the tasks with poor potential for outsourcing are displayed in light grey in Figure 13 below. The tasks with the highest number of responses as poor tasks for outsourcing

included: eligibility and selection of grant applications, funding and allocation, making grant awards and administration and reimbursement of grants, and receiving and reviewing grant applications. In general, the tasks that involve grants at all are deemed to be poor tasks to outsource. This is logical because these tasks traditionally are completed internally by the agency. There is generally no benefit to hiring an outside contractor to issue, review, and distribute grant funds, because the process is nuanced in agency qualifications that the contractor would not be privy to. As such, it would be recommended that these tasks remain internal for DOT staff to complete.

A small minority of responding states felt that the grant administration tasks were actually good tasks to outsource. The reasoning behind this is mostly due to the complexity of the state's grant administration program. Smaller state programs, it seems, are more likely to outsource tasks relating to finance, making federal grant applications, and overseeing grant awards and reimbursements. This may be because the smaller state programs are easier to understand, and as a result contractors are able to offer services for programs that they are familiar with. On the other hand, larger state programs have more layers of bureaucracy to understand, and as a result there are fewer contractors who can offer services to assist in these areas. Besides many states not feeling comfortable, overall, with outsourcing these tasks, another reason may be that there is a small pool of consultants who have the experience in those areas, and as a result these tasks must be completed in-house.

Overall, the tasks that were felt to have good or poor potential for outsourcing were not conflicting. The tasks with good potential were overwhelmingly good, while the tasks with poor potential were overwhelmingly poor. There are a few exceptions, of course, such as state support of local transit services delivery (2 good, 1 poor) and program legislative and policy support (6 poor, 3 good), where the responses were particularly conflicting. These results show that states may feel differently about certain tasks, or that perhaps they do not have enough experience with the task to know whether it would be a good or poor task for outsourcing.

**Figure 13 – Potential Tasks for Outsourcing, Good and Poor**



Source: DOT responses to survey questions 82 and 85

To illustrate the top five potentially good and poor tasks, Table 2 and Table 3 show these tasks with the number of corresponding votes.

**Table 2 – Top 5 Potentially Good Tasks for Outsourcing**

	Good Task	Poor Task
Local transit training	13	0
Drug and alcohol testing	10	0
Research	9	0
MAP-21 asset management plans	9	2
MAP-21 safety plans	9	2

Source: DOT responses to survey questions 82 and 85

**Table 3 – Top 5 Potentially Poor Tasks for Outsourcing**

	Good Task	Poor Task
Funding and allocation	1	9
Eligibility and selection of grant applications	0	9
Receiving and reviewing grant applications	3	7
Making grant awards and the administration and reimbursement of grants	2	7
Program legislative and policy support	3	6

Source: DOT responses to survey questions 82 and 85

Overall, the tasks that are a good fit for outsourcing will vary by agency need, finances, and staff. However, there was at least one respondent who felt that administrative tasks, on the whole, were not a good fit for outsourcing for a number of reasons:

- The tasks are often repetitive and ongoing, and as a result are not appropriate to outsource.
- Consultants come and go, while state agencies have a lower turnover rate.
- Staff is expected to make relationships with stakeholders and transit agencies and maintain the knowledge.

## **CHAPTER 4 Conclusions and Suggested Research**

### **4.1 Best Practices for Successful Contracts**

The success – or failure – of outsourcing does not lie solely on the shoulders of one party, but is borne equally by the contractor and contracting agency. It is important to remember that it is a partnership and, as pointed out by numerous agencies, the contractor directly represents the agency. As a result, it is in the best interest of the agency to communicate their needs effectively with the contractor, and for the contractor to be cognizant of the greater agency they represent and the importance of a quality work product.

There are other aspects to outsourcing that agencies can employ in order to ensure a higher level of oversight and greater control over tasks. Selecting the correct procurement and evaluation processes, contract terms, and oversight procedures contribute to the success of an outsourced task. Ultimately, however, it is the responsibility of the agency and contractor to ensure the product is acceptable to all parties involved.

#### *4.1.1 Setting a Contract Duration*

In speaking with agencies, there are two schools of thought on contract durations.

- For “on call” contracts, where the agency hires a contractor for any variety of tasks that will be outlined as task orders as needed, the duration of the overall on-call contract is generally longer, or on the order of two to five years.
- For task-based contracts where the scope is well defined, the contract duration also tends to be well defined and shorter, typically less than one or two years.

As with other aspects of outsourcing, the contract duration depends on a number of factors besides the scope. Agencies need to consider whether the task is ongoing or will be a one-time occurrence. Ongoing tasks lend themselves to longer contract durations, with the caveat that there should be limitations or protections written into the contract to ensure proper contractor performance. Agencies have vocalized that in some instances with longer contract durations, contractors can get too comfortable and not perform as well as if they felt the pressure of an impending re-compete. While this “pressure” is somewhat the agency’s responsibility in oversight and contract management, the contractor should maintain a sense of urgency regarding the task.

In order to keep contractors vigilant, agencies have found it beneficial to write the contract with definitive periods or phases of work. In these contracts, the agencies define a period (or number of periods) after which the contract is reevaluated and the decision is made to either continue with the current contractor or to re-bid the work. In this type of contract, the agency builds in an incentive for the contractor to perform the first phase(s) well. If the agency is not satisfied with the contractor’s work, they have the option to end the contract after the first phase; if the agency is satisfied with the work, and the contractor wants to continue to the next phase, then the contract continues. The bidding contractors are aware of the phasing approach from the RFP and understand that the subsequent phases of the project are not guaranteed without satisfactory completion of prior phases.

Contracts defined in this way may prevent a contractor from losing their sense of urgency on a task with the reminder that the project will be evaluated at the end of the phase. The length of time for the phases will vary based on the type of project, but aligning the end of a phase with a deliverable is most appropriate. At that point, the contractor and deliverable are reviewed and the decision is made by the agency to continue or end the contract. Subsequent phases of work also should be distinct tasks, as there is the possibility that a second contractor will need to build-

upon the first contractor's work from prior phases. There is some risk to losing productivity in using a contract of this type should the phases be completed by different contractors, but the agency does benefit by keeping the first contractor focused on the end result and demonstrating to future contractors that their contract is always at risk.

In addition to the time needed to conduct the project, agencies must consider the length of time required to procure the contract. In some states the procurement process may be so laborious that it precludes the agency from reissuing the contract; and as a result, the states may choose to either have longer contract durations or options to extend. These options protect the contractor's project schedule and eliminate the need to go through procurement again on the same contract.

#### *4.1.2 Selecting a Successful Procurement Process*

The success of an outsourced task can be traced back directly to the procurement process, and the full weight of that responsibility lies on the agency. The agency seeking to outsource a task has the ability to secure a competent, experienced, and specialized contractor for the field of study needed. The agency also has the responsibility to the public to select the contractor that can do the best job, and ideally for the best price. The agency must request proposals from a wide range of contractors in order to have the highest likelihood of the selection pool containing the best contractor. The proposals submitted by contractors must then be thoroughly reviewed, prior experience must be validated, teams must be interviewed, and costs must be negotiated.

#### *4.1.3 Selecting a Successful Evaluation Process*

Overall, the respondents indicated that low-bid is not an appropriate evaluation technique for getting a successful product for transit grant management tasks. But besides this one nearly universal opinion, there are other, arguably more valuable, insights pertaining to successful evaluation processes. First, there is a wide range of practices and perceptions, and second, there is something to be learned about selecting good consultants.

To address the first point of a wide range of practices and perceptions with outsourcing, an example comes from one of the states interviewed as part of this research effort. The agency contact discussed its very positive experience with outsourcing grant administration tasks. The relationship between the contractor and the agency is ongoing, as the contract continues to be won by the same contractor year after year. The agency could not be more pleased with the work product and would recommend to other states that they outsource the financing tasks, because there are consultants who have this experience. He acknowledged, however, that he may have had fewer procurement issues to work through, being from a smaller state program. That being said, grant administration tasks, such as funding, allocation, and eligibility and selection of grant applications are seen to be an overwhelmingly poor choice of tasks to outsource, according to the survey results (see Figure 13 and Table 3).

Other states indicated that outsourcing grant administration tasks were difficult due to the procurement process that ties them down with numerous rules to the extent that the agency does not know what sort of contractor they will be able to get. This procurement issue is more likely due to the larger state's extra bureaucratic layers. As such, the use of a contractor for a task that has typically been completed in-house, such as the grant administration tasks outsourced by the smaller state described above, there is a very slim chance that the larger state would endure the tedious and difficult procurement process for a task that has had success being completed in-house. The result is that the larger states tend to be unaware of consultants, whether or not they exist, in the field of tasks that traditionally have been completed in-house. A more streamlined procurement process could allow these states that feel constrained by their current processes to explore greater contracting opportunities in a wider breadth of topics.

A word of caution expressed by respondents when evaluating contracts is that, on occasion, consultants may embellish what their skills are. Please note that this sentiment is not universal. As a result, it is the agency's

obligation to use the evaluation process to ensure that the applicants are fully capable of executing the contract. Selecting capable contractors requires questioning the possible embellishments a bit more critically. A key method to do that is to check references, which should always be required in supplemental materials. The agency should go beyond general references by contacting those references of specific projects, particularly for those projects that are well-aligned with the task at hand. By questioning references, agencies are able to get an independent perspective on the contractor and their ability to complete the task.

Additionally, it is important not to be intimidated by the procurement process or administrators. Understanding that the procurement department represents the agency's interest through strict contractor requirements and administrative hurdles, the procurement department must also give contract administrators enough latitude to select a good consultant and give more leeway and flexibility in questions and evaluations. This will allow the agency some additional control over the potential contractors that they feel have a good fit to complete the task at hand.

FTA rules dictate that the initial RFP should clearly state the list of criteria that will be used to select the consultant as well as the relative importance of each criterion. The relative importance can be delineated simply by listing the criterion in the order of importance or by specifying weights of each. In most cases, once the proposals have been received, a committee is formed to review them, as no single person wants to bear the entire responsibility or the criticisms that come with selecting the contractor. In the committee, each member should read and score each proposal, perhaps from one to ten on each criterion. Adding and, if appropriate, weighting the scores yields the supposed winning proposal. However, this evaluation process can be flawed. This method can result in unintended consequences, by inadvertently weighting a proposal more heavily than it comparatively deserves. As an illustration, suppose the RFP says that price will be weighted 50%, 20% on approach, and 30% on qualifications. Perhaps three proposals are received with substantially different qualifications, but they are all within 1% of each other on price. If all scorers give the most expensive proposal a low score and the least expensive a high score on price, the least qualified proposal with the lowest price can appear to be the best option. Subsequently, the procurement process locks these results, and the contractor has been selected. If using this methodology, it is important to keep in mind that the weights assigned by the agency in the RFP are assigned without knowing the kinds of proposals that will be received; as a result there is no flexibility with procurement once the apparent winning proposal has been scored.

Instead, there is method of selecting a consultant in an RFP through a rank-order pair-wise comparison. After identifying a short-list of competitive RFPs (ideally six or fewer), the proposals are evaluated on price by listing them from best (lowest) to worst (highest) based on price. The evaluator (or committee) then looks at the best (ranked first) priced proposal and compares it to the next best (ranked second) proposal and considers whether it is worth paying for the more expensive one or not. If it is determined that the second proposal is not worth the extra price, continue comparing the first proposal to the rest of the others, considering which in each pair is worth the price. If any subsequent proposal is considered better, continue comparing it with the higher-priced proposals until there is a winner. This evaluation method allows for only the proposals with the best qualifications to advance to be considered by price, effectively considering the quality of the proposal by other factors first before considering price. Other factors can be used to compare the proposals if price is not preferred. Normally, if the price ranking is objective enough, everyone will agree with the result, and procurement is then easier to work with. If using the rank-order pair-wise comparison, when issuing the RFP the criteria should be given relative importance in a list and not given specific percentages. However, if the agency has specific needs that may not be apparent to proposers and the agency thinks it would be valuable to proposers to know the relative importance that the agency would assign to that criterion, it would be worth providing the weights.

It is important to keep in mind that one evaluation method will not work for all agencies and all contracts and projects. If the rank-order pair-wise comparison method of evaluation causes problems or results in unintended consequences, then the agency should explore other evaluation techniques and work with procurement to find a method that better fits the individual situation and serves in the best interest of the agency. The rank-order pair-wise comparison is a common method, but can be constricting.

#### 4.1.4 *Successful Contractor Oversight Procedures*

In order to monitor the progress and quality of work throughout a contract term, states have employed contractor oversight procedures. These procedures are cleared with the contractor prior to the contract commencing and are utilized in order to ensure the state is getting the product it paid for prior to the contract expiration. For small scopes of singular tasks, oversight may not be needed and may unduly extend the contract schedule or budget. However, for large projects over long time periods, oversight procedures can allow for periodic monitoring of the work products and budgets. This periodic monitoring provides an opportunity for the state DOT and contractor to verify that the scope, budget, and product are on target and to address any obstacles, outstanding needs, and potential issues along the way. As such, the oversight procedures protect both the agency and contractor by making sure that budget or schedule issues are addressed before they are exceeded.

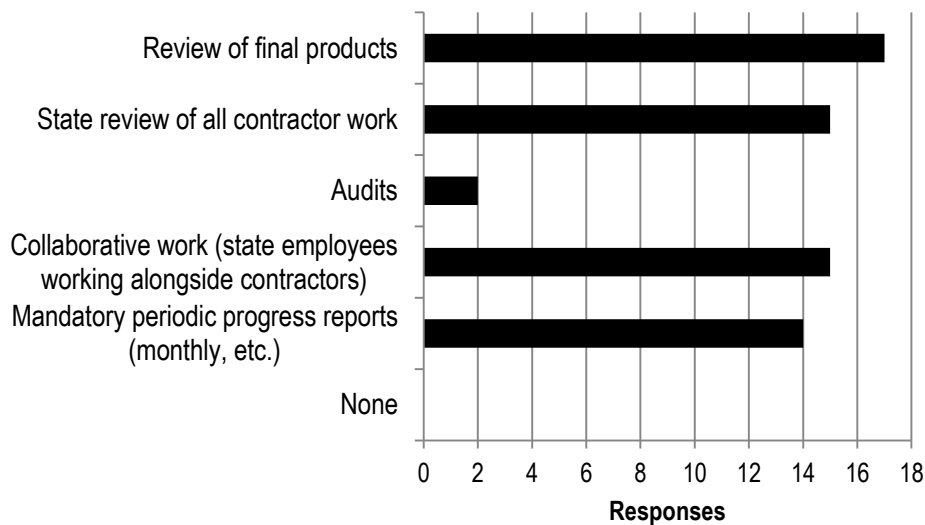
There are a number of contractor oversight procedures that are typically used in outsourcing. Some of the most prominent include:

- **Mandatory periodic progress reports** can be weekly, monthly, quarterly, or annually. The progress report can be formal, through written documentation and in-person reviews, or through a casual weekly conference call,
- **Collaborative work**, where the contractor and state employees work side by side with some frequency (whether it be daily, weekly, or as needed),
- **Audits**, and
- **Reviews**, ranging from reviews and approvals of all interim steps to only deliverables.

In the survey, respondents were asked which oversight procedures were used. Of the 68 responses, the majority employed the use of mandatory periodic progress reports (14), collaborative work (15), state review of all contractor work (15), and review of final products (17). All agencies used some sort of oversight procedure, while only two used audits. Further, one state commented that only requiring progress reports resulted in inadequate work products. Other options for oversight included monthly meetings, narrative reports of all compliance reviews or vehicles inspected, and collaboration through committee participation and state DOT personnel attendance at contractor-led training events.



**Figure 14 – Contractor Oversight Procedures, If Any**



Source: DOT responses to survey questions 18, 32, 46, 60, and 74

An agency reported that breaking-up tasks as much as possible resulted in two positive outcomes:

- Improved the cash flow for contractors whose invoices are tied to deliverables, and
- Allowed the agency to monitor multiple smaller work products along the way instead of upon substantial completion. At substantial completion, problems or issues are less likely to be successfully addressed.

Contractor oversight should be maintained throughout a contractual relationship, starting from the procurement process and ending, presumably, with the final deliverable. The continued oversight is particularly important on the agency's side because consultant staff may change over the contract's duration. As such, the agency has the responsibility to perform due diligence in the procurement process to select a competent contractor, and likewise the contractor has a responsibility to perform to the agreed-upon contract. At the time of award, the agency presumably understands and approves of the consultant's skill level and expertise. This level of expertise is directly tied to the breadth of staff that the consultant has access to. Because the contract is signed assuming a certain level of consultant ability, it is the consultant's responsibility to maintain that level of ability over time. It is understood that the nature of the consulting industry lends itself to periodic movements of personnel both internally within the ranks of the firm and externally between firms. Because the agency expects a certain level of skill and ability, there should be some provision in the contract that requests or requires the consultant to maintain the same number of positions, to the extent possible, that were agreed upon in the original contract.

In all likelihood, the consultant staff will change over the course of the contract. When and if this happens, the contract should state that the staff that will complete the task must be approved by the agency. It is then the responsibility of the agency to determine whether the new staff assigned to the task has the ability and expertise necessary to complete the task. If the agency agrees to the staffing changes on the consulting team, then the task should move ahead with business as usual. However, if the agency does not feel the consultant team can conduct the task to the same level of quality as originally described in the contract, one of two scenarios should unfold. First,

the agency and consultant should work together to secure a consultant team that the agency does approve of. If that arrangement is not possible, then the task's scope – and possibly budget – should be adjusted to fit the expertise of the consultant. Finally, if no staffing changes or scope adjustments are deemed appropriate, the contract should be revisited and the task issued to another contractor, if possible.

#### 4.1.5 *Samples Provided*

In order to provide a starting place for agencies considering outsourcing, some states provided samples of contracts, RFPs used to solicit proposals, weighted evaluation methodologies used to select proposals, and evaluation tools used by states to assess the performance of the contractor. These samples are provided in the Appendices:

- Appendix B: Sample Contract, provided by the Ohio Department of Transportation.
- Appendix C: Sample RFPs, provided by the New Mexico and Michigan Departments of Transportation. Examples of weights given to proposal factors are provided.
- Appendix D: Sample RFQ and Advertisement, provided by the Ohio and Pennsylvania Departments of Transportation. Examples of the weighted evaluation criteria are provided.
- Appendix E: Weighted Evaluation Methodologies, provided by the Ohio Department of Transportation.

Appendix F: Evaluation Tool, provided by the Pennsylvania Department of Transportation. An abbreviated version of the tool is shown in Table 1.

## 4.2 **Conclusions**

Overall, the sentiment from state DOT personnel indicates that outsourcing is beneficial for a select set of tasks in certain situations. It is not, however, a guaranteed method of achieving successful task completion while saving money. Outsourcing transit grant management tasks ideally should be limited to tasks that do not require ongoing agency background, as consultants tend to pick-up and drop off tasks as opposed to ensuring continuing analysis or involvement. Tasks that are a good fit are those that rely on personnel with specific expertise that a DOT could not afford to employ in-house. Further, as a result of the current economic situation and budget shortfalls over the past years, hiring freezes have forced many DOTs to outsource tasks in order to continue to meet federal compliance regulations. These situations may or may not result in cost savings, but they may provide for increased flexibility for the agency in achieving compliance. Other tasks that require continued involvement with the agency and public may not be as appropriate to outsource, such as grant administration and management tasks pertaining to funding, selecting, reviewing, and awarding grant applications, and program legislative and policy support. If these tasks are chosen for outsourcing, the agency should ensure appropriate monitoring/management tools and processes are in place to provide a high degree of oversight.

## **ABBREVIATIONS, ACRONYMS, INITIALISMS, AND SYMBOLS**

AASHTO	American Association of State Highway and Transportation Officials
ADA	Americans with Disabilities Act of 1990
CPFF	Cost Plus Fixed Fee
DBE	Disadvantaged Business Enterprise
DOT	Department of Transportation
EEO	Equal Employment Opportunity
FTA	Federal Transit Administration
FTE	Full-Time Employee
LEP	Limited English Proficiency
LTAP	Local Technical Assistance Program
MAP-21	Moving Ahead for Progress in the 21 <sup>st</sup> Century
MTAP	Multi-State Technical Assistance Program
NCHRP	National Cooperative Highway Research Program
RFP	Request for Proposal
RFQ	Request for Qualifications
TRB	Transportation Research Board
US	United States