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INTERNAL AUDIT DIVISION

***Survey of Competitive Selection Methods and Cost
Methodologies for Professional Services and
Committee Recommendations***

Report Number: 2011-006

February 16, 2011

***Latona Thomas, CPA, Manager
Miranda Wang, CPA, Staff Auditor I
Barry Huff, Staff Auditor I***

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COBB COUNTY INTERNAL AUDIT


Latona Thomas, CPA

100 Cherokee Street, Suite 250
Marietta, Georgia 30090
phone: (770) 528-2559 • fax: (770) 528-2642
TDD/TTY: (678) 581-5429
latona.thomas@cobbcounty.org

Division Manager

February 16, 2011

MEMORANDUM TO COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** - Survey of Competitive Selection Methods and Cost Methodologies for Professional Services and Committee Recommendations

This report presents the results of our Survey of Competitive Selection Methods and Cost Methodologies for Professional Services and Committee Recommendations. Per your request, we facilitated a review of the *Policy for Procurement of Professional Services with specific emphasis on the Competitive Selection Process and Cost Methodology (the Policy)*. Our objective was to determine how departments use the selection methods, if there are potential benefits to eliminating any method, and if there are any best practices regarding cost methodologies that could be used consistently throughout the County.

In November 2010 and February 2011, we met with an advisory committee represented by individuals of the following departments/office: Sheriff's Office; Support Services Agency; Department of Transportation (DOT); Water System; Parks, Recreation and Cultural Affairs; Property Management; Finance; County Attorney, and Purchasing. The committee discussed the benefits, drawbacks, and uses of each competitive selection method and various cost methodologies used in the procurement of professional services. The committee determined that several changes and modifications were needed to maintain a consistent application of selection processes and cost methodologies.

Recommendations

The advisory committee made several recommendations to address the competitive selection process and cost methodologies currently used throughout the County. The committee recommended:

- A decrease in the number of available selection methods from five to three;
- Expanded language to the remaining three selection methods;
- Implementation of two primary cost methodologies;
- Modification to the range of acceptable weights available for evaluation criteria; and
- Clarification to other *Policy* provisions.

The details of these recommendations are provided in the attached report for your review and consideration. An amendment to *the Policy*, subject to Board approval, is required to implement the committee's recommendations. As such, subsequent to your review, a final copy of this survey will be forwarded to the Purchasing Department for further consideration, and to facilitate any proposed changes to the Board of Commissioners for approval.

Please contact me at extension 2559 with any questions.

Background

At the request of the County Manager, we facilitated a review of the *Policy for Procurement of Professional Services with specific emphasis on the Competitive Selection Process and Cost Methodology (the Policy)*. Our objective was to determine how departments use the selection methods; if there are potential benefits to eliminating any method; and if there are any best practices regarding cost methodologies that could be used consistently throughout the County. Per the most recent version of *the Policy* as amended on July 28, 2009, a professional service is defined as “a service provided in support of county operations and/or projects from an independent contractor or consultant in a professional occupation or field. A professional occupation is an occupation which requires exceptional qualifications by education and experience in a particular field or discipline to perform a specialized service.”

There are currently five recognized selection processes which may be used in the selection of professional services for Cobb County: Competitive Negotiations; Competitive Proposals; Prequalified Competitive Bidding; Competitive Proposals with Separate Sealed Bids; and Competitive Negotiation with Separate Sealed Proposals using Existing 2-Year Prequalified Lists. Per *the Policy*, “the type of competitive process used by Cobb County shall depend on the scope of work and other factors associated with the specific service being requested. When the scope of work **cannot** be well defined, the selection process should be one in which the development of the scope of work and the related fees occur **after** the finalist or top group of finalists have been determined. If the selection process being used requires bids or fees to be quoted, it is important that a detailed scope of work be developed and communicated to all firms which are to submit bids or fees.” See Appendix V from *the Policy* for more details regarding ‘Guidelines for Determining Selection Method.’

Results of Survey

In November 2010, the Internal Audit Division facilitated a meeting with an advisory committee represented by individuals of the following departments/office: Sheriff’s Office; Support Services Agency; Department of Transportation (DOT); Water System; Parks, Recreation and Cultural Affairs; Property Management; and Finance. Representatives from the County Attorney’s Office and Purchasing Department served as advisors. We discussed the benefits and drawbacks of each competitive selection method and various cost methodologies used during the procurement of professional services throughout the County. Departments expressed varying reasons for the use of different methods and cost methodologies, which are primarily based on their respective business environments. The advisory committee met again in February 2011 to finalize its recommendations. The following pages provide a detailed summary of those recommendations for consideration.

Competitive Selection Methods

Selection Method #1 – Competitive Negotiations

- Most often used with Request for Qualifications (RFQ)
- Used when scope cannot be well-defined
- Primarily used by DOT and Property Management (Parks uses on a limited basis only)
- Project budget/estimate **must be** determined in advance
- Qualitative factors are just as important as the Quantitative factor
- Departments are expected to negotiate both the scope **and** lowest price possible
- Selected Proposer may not be the lowest in all cases (depends solely on negotiations)
- Example: Architectural services, Road improvements, Intersection improvements, and Safety improvements

Committee Recommendation: Continue to use as needed

SPECIAL NOTES:

- Use this method **only** if the department can justify not using selection method #2. (Justification will be made to the County Manager)
- DOT will continue to use this as their primary selection method without further justification unless the estimated professional services costs exceed \$500,000

Selection Method #2 – Competitive Proposals

- Most often used with Request for Proposals (RFP)
- Primarily used by Water, Property Management, Sheriff's Office, Parks, and most departments
- Scope is specifically defined prior to request for bids
- Pricing is a selection criteria, but **is not** the final determinant
- Weight assigned to price can be critical
- Example: Most department RFPs

Committee Recommendation:

- Should be the preferred method used
 - Change the minimum weight applicable to price from zero to 25
 - Current available range for price is 'zero to 50 points'
 - Revised available range for price would be '25 to 50 points'
- Impact:** Proposed change would ensure that price is always at least 20 percent of the total criteria used to evaluate bids
- Allow best and final offers of top candidates if the selection committee chooses
(Note: RFP language will need to be revised to include the ability to request best and final offers)

Selection Method #3 – Prequalified Competitive Bidding

- Requires a combination of RFQ and RFP
- Primarily used by Property Management and DOT (rarely used by DOT in the past)
- Scope is generally defined initially in the RFQ and later specifically defined in the RFP
- Pricing is the final determinant
- Example: Old Parking Deck

Committee Recommendation: Continued use as needed

Selection Method #4 – Competitive Proposals with Separate Sealed Bids

- Most often used with Request for Proposals (RFP)
- Scope is specifically defined prior to request for bids
- Similar to selection method #2 except the bids are sealed until the top three qualified firms are determined
- Cannot negotiate pricing
- Used rarely to not at all

Committee Recommendation:

- Eliminate this selection method
Impact: Reduces the number of available methods

Selection Method #5 – Competitive Negotiation with Separate Sealed Proposals Using Existing 2-Year Prequalified Lists

- Most often used with Request for Proposals (RFP)
- Scope is specifically defined prior to request for bids
- DOT has used this method in the past to prequalify engineers (usually under \$100,000 only)
- Used rarely to not at all

Committee Recommendation:

- Eliminate this selection method
Impact: Reduces the number of available methods

Cost Methodologies

It is evident, through discussion with the advisory committee, that departments use varying cost methodologies to fit their respective business environment. Cost methodologies can be both simple or complex and yield different results, depending on the approach used. The overall goal is to remove the subjectivity from the cost evaluation process and to provide consistency. Below is a summary of two methodologies submitted for consideration by Finance and the Water System.

Finance

Most prevalent method used is probably the most simple:

- Award the maximum available points to the proposal with the lowest cost and award all other proposals on an inverse proportion basis
- (Lowest cost amount from all proposals **divided by** Fee proposal/cost amount being evaluated) **multiplied by** the Maximum weight/points allocated to price
- Formula: $p = (x/y) \times z$

Where: p = cost points awarded for the proposal being evaluated (rounded)

x = lowest cost amount from all proposals

y = fee proposal/cost amount being evaluated

z = maximum weight/points allocated to price

EXAMPLE

(Assumption: 25 points allocated to the price)

Firm	Fee Proposal	Lowest Cost divided by Fee Proposal being evaluated	Weight/Points allocated to Price	Cost Points Awarded (rounded)
A	\$ 1,250,000	70.00%	25	18
B	\$ 985,000	88.83%	25	22
C	\$ 1,125,000	77.78%	25	19
D	\$ 950,000	92.11%	25	23
E	\$ 875,000	100.00%	25	25

Future consideration of whether to use the lowest cost proposal, an average cost proposal amount, or an estimated budget will be decided in the final policy revision process.

Water System

Historically, the Cobb County Water System has almost exclusively used the Competitive Proposal selection process and has applied a “dollars-per-point” approach for scoring costs. The Water System project manager assigns a point value, usually based on a fee estimate prepared prior to the receipt of proposals. A reasonable approach to calculate the total dollar value of the cost points would be to distribute the points over a range of “reasonable” prices for the project. For example, if it is assumed that the cost proposals should be within 25% of the estimate (-25% to +25%), then the total dollar value of the cost points could be spread over a range equal to 50% of the estimate.

Water System, continued...

The dollars-per-point would then be determined by dividing the total dollar value of cost points by the number of points assigned to cost, with the number of points selected based on the level of importance given to cost. See example below.

EXAMPLE

A possible scenario for application of this approach follows:

- Preliminary Fee Cost Estimate = \$1,000,000
- Range of reasonable costs = 50% (-25% on the low range side and +25% on the high range side)
- Cost point value range = 50%
- Total value of cost points = \$1,000,000 x 50% = \$500,000
- Number of cost points = 20 (which places a lower proportionate value on cost in the overall selection process)
- Dollars-per-point = \$500,000 / 20 = \$25,000

The table below shows this calculation for an assumed situation.

Firm	Fee Proposal	Cost Difference from Lowest	Difference divided by Dollars-per-point	Cost Points Awarded
A	\$ 1,250,000	\$ 375,000	15	5
B	\$ 985,000	\$ 110,000	4	16
C	\$ 1,125,000	\$ 250,000	10	10
D	\$ 950,000	\$ 75,000	3	17
E	\$ 875,000	\$ 0	0	20

If more weight were desired to be allocated to cost in the selection process, the number of cost points would be increased. The impact of this change is illustrated below, using the assumed values in the previous scenario.

- Total value of cost points = \$500,000
- Number of cost points = 50
- Dollars-per-point = \$500,000 / 50 = \$10,000

Firm	Fee Proposal	Cost Difference from Lowest	Difference divided by Dollars-per-point	Cost Points Awarded
A	\$ 1,250,000	\$ 375,000	37	13
B	\$ 985,000	\$ 110,000	11	39
C	\$ 1,125,000	\$ 250,000	25	25
D	\$ 950,000	\$ 75,000	7	43
E	\$ 875,000	\$ 0	0	50

Note: When DOT uses selection method #2, they use the Water System's cost methodology.

Committee Recommendation: Both methodologies presented for consideration should be accepted as the primary cost methodologies for the County. The County Manager should approve any deviation from these methodologies in advance.

Additional Committee Recommendations

During the committee discussions, several other items were considered for possible changes. The following is a summary of additional committee responses and/or recommendations in connection with their review of *the Policy*.

1. Should preference be given for Cobb County vendors?

Committee Response: Currently open, pending further research and analyses by the Purchasing Department

2. Should an option for bidders to present an alternative method for business practice be included in RFPs, when applicable?

Committee Recommendation: Yes, as long as any alternative method(s) presented is part of the overall award process and does not invalidate the selection process

3. Should pre-evaluation committee meetings be held in advance of preparing individual ratings?

Committee Recommendation: Yes, as long as a Purchasing Department staff member is present to monitor the process (additional modification and/or alternatives to be decided during the policy revision process)

4. Should Purchasing staff participate on all evaluation committees?

Committee Recommendation: Yes, with qualifications (to be decided during the policy revision process)

5. How should the Financial Stability criterion be evaluated, and should this be specific to the Finance Department staff?

Committee Recommendation: The Financial Stability criterion should be removed from the initial evaluation criteria and evaluated after the top proposal(s) are selected. The financial stability evaluation should be performed by Finance Department staff.

Additional Committee Recommendations, continued...

6. Are private companies able to opt out of this requirement?

Committee Response: No. This should no longer be an issue with the proposed change to the Financial Stability criterion.

7. Should County Attorney office staff evaluate litigation history?

Committee Recommendation: Yes, only after the top proposal(s) have been selected

8. Who should ultimately be responsible for evaluating cost?

Committee Recommendation: User department staff, along with a review by the evaluation committee for accuracy and agreement

9. Should committee members be required to sign off on final overall rankings?

Committee Recommendation: Only if an evaluation committee member does not agree with the overall ranking of the proposals

10. What other evaluation criteria need to be revised?

Committee Recommendation:

- The range of acceptable weights for the Availability criterion should be decreased from '10-20 points' to '5-10 points.'
- The range of acceptable weights for the Staffing and Experience/Performance criteria should be increased to accommodate a) the removal of the Financial Stability criterion, b) the decrease in the Availability criterion, and c) the increase in the Price criterion.

Detailed Objectives, Scope, and Methodology

Our objective was to determine how departments use the selection methods; if there are potential benefits to eliminating any method; and if there are any best practices regarding cost methodologies that could be used consistently throughout the County.

To accomplish our objective we:

- I. Obtained the names of advisory committee members as approved by the County Manager.
- II. Met with the advisory committee and discussed *the Policy* specifically regarding the competitive selection methods and cost methodologies used.
- III. Obtained various cost methodologies used by advisory committee members.
- IV. Met with the advisory committee a second time to finalize all committee recommendations.

Appendix II

Abbreviations and Glossary

RFQ	Request for Qualifications
RFP	Request for Proposals
DOT	Department of Transportation
<i>The Policy</i>	Cobb County's Policy for Procurement of Professional Services

Appendix III

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Division Manager
Advisory Committee Members

Final Survey Distribution List

David Hankerson, County Manager
Judy Skeel, Executive Assistant to the County Manager
Colonel Don Bartlett, Sheriff's Office
Virgil Moon, CPA, Support Services Agency Director
Steve McCullers, Water System Agency Director
Faye DiMassimo, Transportation Agency Director
Dan McDuff, Transportation Agency Deputy Director
Eddie Canon, Parks, Recreation and Cultural Affairs Director
John Reida, Property Management Director
Jim Pehrson, CPA, Finance Director/Comptroller
Kate Berry, Assistant County Attorney
Mark Kohntopp, Interim Purchasing Director
Internal Audit Division File

Appendix V

Guidelines for Determining Selection Method (taken from Page 13 of the *Policy for Procurement of Professional Services*)

ATTACHMENT ONE

Policy for the Procurement Of Professional Services Guidelines for Determining Selection Method

Selection Method	1. Competitive Negotiations	2. Competitive Proposals	3. Prequalified Competitive Bidding	4. Competitive Proposals w/ Separate Sealed Bids	5. Competitive Negotiation w/ Separate Sealed Proposal with Prequalified Lists A & B
Scope of Services	Generally defined scope of work	Specifically defined scope of work	Step 1 – RFQ for Qualifications Step 2 – RFP w. specifically defined scope of work	Specifically defined scope of work	Specifically defined scope of work
Evaluation Criteria	Qualitative factors	Qualitative factors & price	Step 1 – Qualitative factors Step 2 – Price is determining factor	Step 1 – Qualitative factors Step 2 – Price is determining factor	Qualitative factors of prequalified firms: Under \$50,000 – 1 firm Over \$50,000 – 10 firms Over \$100,000 – all prequalified firms
Evaluation Process	Firms rank ordered based on qualifications BOC approval of rankings required if fees are expected to exceed \$100,000 Negotiations of scope of work and fees w/ top ranked firm	All factors considered	Step 1 – RFQ Determine either all minimum qualified firms or top three qualified firms Step 2 – RFP Determine lowest responsive bid	Step 1 – Determine top three qualified firms Step 2 – Open top 3 qualified sealed bids & determine lowest. Return others unopened.	Step 1 – Determine top three qualified firms BOC approval of rankings required if fees are expected to exceed \$100,000 Step 2 – Negotiations of scope of work and fees with (firm submitting lowest price proposal)