

FOLLOW-UP

A Review of Competition for the Department of Transportation's Road Paving Contracts (December 2001)

AUDIT BACKGROUND

The Department of Transportation's (DOT's) mission is to provide a safe and efficient transportation system. South Carolina has the fourth largest state-maintained highway system in the nation. Our audit focused on DOT's procedures for awarding road paving contracts to private companies. The federal Sherman Act and South Carolina law generally prohibit agreement among competitors to fix prices, rig bids, or engage in other forms of anti-competitive behavior.

June 2003



IMPROVEMENTS IN DOT'S BIDDING PROCESS

The Department of Transportation has taken steps to implement the recommendations contained in our 2001 report. DOT has implemented or is in the process of implementing all six recommendations. DOT has revised or is in the process of revising several policies dealing with the bidding out of construction projects. DOT also is in the process of implementing a system for conducting regular analysis of bidding patterns for evidence of anti-competitive behavior.

2001 AUDIT FINDINGS

In the 2001 audit, we reviewed the level of competition among contractors for DOT's road paving contracts and its internal controls for detecting bid-rigging or other forms of anti-competitive behavior. We found that the level of competition for some road paving contracts was less than optimal in certain geographic areas. This was not necessarily the result of anti-competitive practices by contractors. However, we found that DOT did not conduct a regular analysis of bidding patterns to ensure that the state's bidding process for road paving and road construction is open and competitive. We recommended DOT conduct regular analysis of bidding patterns and that it report any evidence of bid-rigging or other forms of anti-competitive behavior to the appropriate authorities.

We found DOT had not met federal guidelines concerning the accuracy of its engineers' estimates of project costs. Prior to requesting bids, DOT's engineers develop an estimate of what a project will cost. According to the Federal Highway Administration, (FHWA) this estimate can be used as a guide in reviewing bids. The FHWA recommends that, for at least 50% of all projects, the low bid should be within 10% of the engineers' estimate. In FY 00-01, 43% of DOT's low bids were within 10% of the engineers' estimate.

We found that DOT did not have a written policy requiring that cost estimates of road paving projects be kept confidential until after contracts are awarded. In addition, DOT did not have a written policy specifying when a bid is to be reviewed for possible rejection. We recommended that DOT develop a written policy.

Finally, we found that DOT was holding bid openings at a Columbia hotel which could create an atmosphere conducive to bid-rigging. We recommended that DOT discontinue this practice.

NEW POLICIES

The department adopted a policy prohibiting the release of cost estimates of road paving projects prior to the awarding of a contract. Access to the estimates is limited to the employees that require this information to perform their duties.

The DOT no longer holds its bid opening at a hotel in Columbia. In February 2002, the department started holding bid openings in government facilities. In July 2002, the department started requiring all bids to be submitted electronically.

DOT is currently working with the FHWA to develop a policy specifying when a bid is to be reviewed or rejected.

METHODOLOGY

We received information from the Department of Transportation regarding the implementation of the audit's recommendations. We reviewed this and other information and interviewed DOT personnel as needed.

FOR MORE INFORMATION

Our full report, its summary, and this document are published on the Internet at

www.state.sc.us/sclac

LEGISLATIVE AUDIT COUNCIL
1331 Elmwood Ave., Suite 315
Columbia, SC 29201
(803) 253-7612

George L. Schroeder
Director

ENGINEERS' ESTIMATES

The accuracy of DOT's engineers' estimates declined following the audit in FY 01-02. However, for the eight months in FY 02-03 for which data is available, DOT met the FHWA's suggested guideline of 50%.

PERCENTAGE OF DOT'S ENGINEERS' ESTIMATE WITHIN 10% OF LOWEST BID			
FY 99-00	FY 00-01	FY 01-02	FY 02-03*
45%	43%	41%	50%

*July 2002 through February 2003.

COMPETITION

In our 2001 report we found that almost one half of DOT's projects had two or fewer bidders. These numbers were about the same in FY 02-03.

Almost half (48%) of the resurfacing projects had two or fewer bidders and 14% of the projects had only 1 bidder.

NUMBER OF BIDS PER RESURFACING PROJECT FY 02-03*		
NUMBER OF BIDS	NUMBER OF PROJECTS	PERCENTAGE OF TOTAL PROJECTS
1	18	14%
2	44	34%
3	39	30%
4	21	16%
5	7	5%
6	1	1%
Total	130	100%

* July 2002 through February 2003.

DOT plans to begin regular analysis of bidding patterns for evidence of anti-competitive behavior in 2003. The department stated that it will report any evidence of anti-competitive behavior to the Federal Highway Administration, the Federal Bureau of Investigation, and the State Law Enforcement Division.

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