



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: Wednesday, January 5, 2011 **REPORT NO:** 11-004

ATTENTION: Honorable Council President Tony Young and Rules, Open Government, and Intergovernmental Relations Committee Members for agenda of **Wednesday, January 12, 2011**

SUBJECT: Overview of Quality Assurance Efforts under the Managed Competition Program

REFERENCE: Adopted Managed Competition Guide and Quality Assurance Surveillance Plan Guide

REQUESTED ACTION:

INFORMATIONAL ITEM ONLY

STAFF RECOMMENDATION:

Receive overview from the Assistant Chief Operating Officer (ACOO) on the quality assurance efforts planned as part of the Managed Competition program

SUMMARY:

THIS IS AN INFORMATIONAL ITEM ONLY. NO ACTION IS REQUIRED ON PART OF THE CITY COUNCIL.

Background

At a City Council Meeting held on Tuesday, December 7, 2010, during discussion on Item #335 ('Approving the Preliminary Statement of Work for Publishing Services'), the City Council inquired how quality assurance would be implemented and administered under Managed Competition.

In response to this request, we are providing all Council members with an overview of the quality assurance efforts being planned for contracts issued under Managed Competition.

About Managed Competition

Managed competition provides a structured, transparent process that allows an open and fair comparison of public sector employees and independent contractors in their ability to deliver

services to our citizens. This strategy recognizes the high quality and potential of public sector employees and seeks to tap their creativity, experience and resourcefulness by giving them the opportunity to structure organizations and processes in ways similar to best practices in competitive businesses.

About Quality Assurance

Quality assurance is a systematic process of monitoring and evaluating various aspects of a project or service to ensure that standards of quality are being met as specified by a contract's quality and quantity requirements. As such, it is considered to be a vital component of the Managed Competition process. It prescribes policies and procedures to ensure the government is getting what it is paying for under the terms of the contract.

Quality assurance efforts come into play during three phases of the Managed Competition Process – 'Phase II: Solicitation Development', 'Phase IV: Source Selection', and 'Phase V: Transition and Post-Competition Accountability'. Though the Managed Competition Guide makes specific reference to quality assurance in 'Task I: Develop Quality Assurance Surveillance Plan' (pages 14-15) and 'Task U: Monitor Service Provider Performance' (page 23), it is important to note that quality assurance is an ongoing process – one that needs to be done throughout the life of the contract (from pre-award to post-competition).

The City's quality assurance efforts will help determine whether the service provider is performing according to the requirements and performance standards outlined in the solicitation. The City is concerned with the service provided, not with the procedures used by the service provider to produce the services (unless the contract specifies certain procedural requirements).

Overall Quality Assurance Framework

There are various components that make up the overall Quality Assurance framework. These components include the Statement of Work (SOW), the Transition Plan, the Performance Bond, the evaluation and review by the Managed Competition Independent Review Board (MCIRB), the Quality Control Plan (QCP), the Quality Assurance Surveillance Plan (QASP), as well as various monitoring tools and methods (e.g. audits, surveys, etc). All of these things help incorporate quality assurance into almost every possible aspect of Managed Competition process. They are described below.

Statement of Work. The Statement of Work (SOW) is not only an important part of the RFP, but it also serves as a valuable tool in the quality assurance process. It specifically outlines the services to be provided. Without the Statement of Work, the service provider would not understand the performance expectations the City has of them related to the delivery of a function. It defines the requirements to which the Employee Proposal Team and independent service providers will respond. The SOW will be performance-based and will specify required service levels.

It is an important quality assurance tool because it outlines specific requirements for the selected contractor to follow in order to ensure the successful delivery of service. They require that the selected contractor do the following:

1. Has appropriate safety policies and procedures in place to protect the public and its employees in providing the service;
2. Designates qualified personnel to monitor contract compliance;
3. Employs in the service of its City contract only those who have the necessary technical qualifications to provide the services;
4. Maintains for its employees the same certification as will be required of City employees performing the same service;
5. Performs background checks on employees performing a particular service if background checks will be required of City employees performing that same particular service; and
6. Has provided the service satisfactorily for a sufficient period of time to demonstrate expertise.

Transition Plan. As part of the SOW, the City requires all bidders to include a transition plan as part of their technical proposals. Each service provider must provide a detailed transition plan outlining its approach for implementing their proposed organization to meet the requirements in the final SOW. Transition plans may include strategies for recruiting, training, procuring equipment, purchasing supplies and materials, developing standard operating procedures, and assuming full responsibility of the contract while minimizing service disruption. Having a transition plan helps ensure a well-organized transition to a new provider (or procedural changes by the current provider) takes place.

Performance Bond. Another important safeguard in the quality assurance process is the use of a performance bond. A performance bond is defined as a bond issued by a surety company which guarantees the client that if the contractor fails to complete the project in accordance with the terms of the contract or agreement, the surety company will either complete the contract itself, or arrange for a client-approved contractor to complete the contract. The surety company will pay the new contractor the amount required to finish the work, minus the unpaid amount under the original contract.

Requiring contractors procure performance bonds helps guarantee that the value of the work will not be lost in the case of non-performance or another unfortunate event (such as insolvency of the contractor). The use of a performance bond will depend upon a judgment of the risks involved and the feasibility of changing providers to ensure continuity of services in the event of non-performance.

Managed Competition Independent Review Board (MCIRB) Evaluation. The Managed Competition Independent Review Board (MCIRB) is an independent, seven-member board appointed by the Mayor. Its purpose is to advise the Mayor whether a City department's proposal or an independent contractor's proposal will provide the services to the City most economically and efficiently while maintaining service quality and protecting the public interest.

The MCIRB also serves an important quality assurance purpose in that it provides an independent evaluation of proposer credentials. This occurs during Phase IV ('Source Selection') in which the MCIRB evaluates the technical and cost proposals of all bidders and makes a recommendation to the Mayor on the service provider that offers the best overall value to the City. As part of its evaluation, the MCIRB considers the following factors:

1. Whether the proposals by the City department and the independent contractors are responsive to the solicitation and responsible;
2. Whether there is reliable information demonstrating that any of the independent contractors bidding on the work have engaged in unethical business practices that would warrant the rejection of their proposal;
3. Which independent contractor or City department can provide the best overall value to the City; and
4. The value of healthcare costs.

All of these factors help the MCIRB determine whether a proposal of an independent contractor or City department will provide a service to the City in the most economic and efficient manner while maintaining service quality and protecting the public interest. After considering all proposals, a recommendation is made to the Mayor on who to award the contract to and will include a written explanation on the rationale for its recommendation.

Quality Control versus Quality Assurance

Having an effective quality assurance process in place requires involvement of both the service provider and the City. While the service provider performs quality *control* activities; it is the City's responsibility to perform quality *assurance* activities. Both parties have to work together to ensure that all aspects of quality are being addressed. Having one without the other would create opportunities for service provider default resulting in poor customer service and possible risk to public welfare.

'Quality Control Plan' (QCP)

Quality control activities will be performed by the service provider. These activities are outlined in a document called a **'Quality Control Plan' (QCP)**. The QCP is a required element of the service provider's technical proposal. The QCP must address the following:

- Describe the methods of direct and indirect communications with the City regarding performance of the contract;
- Describe the means by which the service provider will ensure quality performance standards described in the solicitation are met;
- Describe the service provider's quality control system (e.g. services, inspection schedules, position(s) and qualifications for personnel performing the quality control inspections, provisions for recording the results of inspections and for recording corrective action taken, etc.);
- A customer complaint feedback system (it should describe how a customer or interested party can identify problems to the service provider);
- A plan for developing regular quality control inspection reports and performance indicator trends;
- Maintain a log which includes performance requirements and standards, description of discrepancies, correction action taken, and resolution date;
- Provisions to update and revise the QCP during the performance of the award; and

- A process for preventing, identifying, and resolving conflicts of interest and appearances of impropriety in the performance of the award.

Since this document is submitted as part of the bidder's technical proposal, it is evaluated by the Managed Competition Independent Review Board.

'Quality Assurance Surveillance Plan' (QASP)

While the QCP represents the way in which the service provider will internally ensure its quality and timeliness of services, the **'Quality Assurance Surveillance Plan' (QASP)** represents the mechanism by which the City will evaluate the service provider's performance.

The QASP focuses on examining the end products, services and outcomes provided by the service provider and not the processes and procedures used in producing them (unless the City specifies the process or procedure in the contract). The QASP describes the methodology that should be used to conduct both quantitative and qualitative evaluations of service provider performance under the contract and includes performance standards the service provider will be required to adhere to. In addition, it describes procedures that the City will use to measure the service provider's performance against the requirements and standards in the RFP.

The Managed Competition Guide states that the Business Office is responsible for developing the quality assurance surveillance procedures by which the City will monitor the selected service provider (City employees or external vendor) against performance standards described in the Statement of Work (SOW). These procedures are outlined in the Quality Assurance Surveillance Plan Guide which details different methods for quality assurance.

As stated in the Managed Competition Guide, the City is responsible for developing a QASP for each competition, reviewing each QASP annually for continued appropriateness, and updating the QASP as needed to reflect the best practices in quality assurance and current realities within the City. The QASP should address the following:

- Communicate deficiencies to the service provider;
- Implement action plans to deal with the deficiencies;
- Take corrective action when the action plan is not followed and/or resolved.

Also, the QASP should outline a process for notifying Purchasing & Contracting if:

- The service provider fails to take corrective action in a timely manner;
- The contract manager deems the service provider to be in default or that default is imminent;
- The contract requires modifications or change orders.

The service provider's QCP and the QASP should be complementary programs to help ensure successful service provider performance.

Monitor Service Provider Performance

Another aspect of quality assurance efforts is monitoring service provider performance which is part of 'Task U: Monitor Service Provider Performance' found in the Managed Competition Guide (page 23). It states that the Mayor has sole responsibility for administering and monitoring any agreements with contractors. There are different ways to monitor service provider performance. Below are some of the methods that the Mayor will use to do this:

Contract Management and Quality Assurance Evaluators. For independent service provider performance, the City will appoint a Contract Manager who will be responsible for day-to-day contract administration. The Contract Manager is responsible for establishing a regular schedule and format for communicating the status and effectiveness of the contract. The Contract Manager can consult the Quality Assurance Surveillance Plan Guide on how to develop surveillance schedules and status reports for their function(s).

In addition, there is the position of Quality Assurance Evaluator (QAE) to help support the Contract Manager. For larger contracts, QAEs are the front line staff responsible for obtaining performance data and monitoring the service provider's performance on a day-to-day basis. They serve as onsite representatives for the Contract Manager. The QAEs perform the actual surveillance and reports the results to the Contract Manager and Department Director. Some of the key administration duties of QAEs include, but are not limited to, the following:

- Complete surveillance as required by the QASP and provide recommendations to the Contract Manager;
- Complete and submit inspection checklists and forms;
- Provide recommendations to the Contract Manager for the acceptance or rejection of completed work and for administrative actions based on unsatisfactory work or non-performed work;
- Assist the Contract Manager in identifying necessary changes to the contract, conduct quality assurance meetings, approve submittals of effort and/or reports, and maintain work files; and
- Promptly furnish the Contract Manager with any requests for changes, deviations, or waivers to the solicitation requirements, with justifications/rationale.

For small contracts, the Contract Manager responsibilities may be a part-time role assigned to an employee with other responsibilities. For medium-size contracts, the Contract Manager may be a full-time role, but without additional QAEs. In the event an independent contractor assumes all the services provided by a department, the superior of the former Department Director will designate a Contract Manager.

Contract Management Staffing Formula. To help departments determine how much contract management staff they need, the Management Competition Guide contains an exhibit entitled, 'Cost Comparison Guide' (Exhibit D). This section outlines how much contract staff should be allocated for each function by proposed staffing levels.

The table below illustrates the staffing formula at work. It shows the percent of contract administration personnel (Senior Management Analyst, Job Classification #1106) that will be allocated to all bids received from external service providers. The FTE factor will also include the NPE dedicated to contract administration. The FTE factor is based on providing 0.0125 FTE of contract administration personnel per position contained in a proposer’s bid. The Charter-required annual performance audit of Managed Competition will include an evaluation of whether contract oversight levels are sufficient.

| Minimum Staffing | Maximum Staffing | Contract Administration Personnel FTE |
|--|------------------|---------------------------------------|
| - | 5 | 0.05 |
| 6 | 10 | 0.125 |
| 11 | 20 | 0.25 |
| 21 | 40 | 0.50 |
| 41 | 80 | 1.00 |
| 81 | 120 | 1.50 |
| 121 | 160 | 2.00 |
| 161 | 200 | 2.50 |
| For contracts with staffing levels greater than 200 positions, use the following formula to determine the number of Contract Administration Personnel FTE: | | |
| 1 * 0.0125 | | |

Monitoring and Reporting Tools. There are various monitoring and reporting tools available for use by the Contract Manager and Quality Assurance Evaluator. The following tools can be used to monitor, track, and report performance results: surveillance activity checklists, service provider deficiency reports, and Quality Assurance Evaluator Reports. The Quality Assurance Surveillance Plan Guide provides samples of these forms (see ‘*Exhibit B: Monitoring and Reporting Tools and Forms*’).

Fiscal Oversight. The City is responsible for monitoring the costs of the Employee Proposal Team or independent service provider on a monthly basis. The Contract Manager is responsible for approving independent service provider’s invoices and notifying P&C of any discrepancies. The Business Office will receive quarterly updates on the cost performance of either the Employee Proposal Team or independent service provider to ensure that they are meeting the terms established in their cost proposal.

Audits (Annual Performance Audits and Independent Audits). Audits will be conducted in pursuant to Charter section 117(c). The Mayor is required to produce annual performance audits for contracted services, the cost of which must be accounted for and considered during the bidding process. In addition, the Mayor will seek an independent audit every five (5) years to evaluate the City’s experience and performance audits.

In addition to the performing annual performance audits, the City Auditor will also be involved in Phase V ('Transition and Post-Competition Accountability) of the Managed Competition process. The Managed Competition Guide states that the City Auditor will be asked to review contract monitoring practices of the City department to offer suggestions for proper contract management. Within the term of a managed competition contract (for City workers or contractor), the City Auditor will conduct a performance evaluation of the service to determine whether cost efficiencies and performance standards have been achieved and to identify ways for the Department to improve contract management.

Conduct customer surveys. When appropriate for the service, the City will conduct a customer survey to establish a baseline for customer satisfaction and serve as a mechanism for customers to formally provide feedback on the quality of services received. In addition to performing regular inspections, the Contract Manager will investigate all complaints to determine whether they are valid. The customer feedback will be reviewed and summarized on a quarterly basis to determine whether customer expectations are being met. If complaints are made frequently on the same or similar issues, the Department will immediately initiate corrective action with the independent service provider.

Non-performance

Non-performance occurs when the service provider's performance does not meet or exceed the prescribed performance standard for a given requirement. Requirements may contain multiple performance elements, and therefore, deficiencies may occur in one of more aspects of performance (e.g. timeliness, accuracy, and completeness).

When the service provider's performance is not in compliance with contract requirements, the Contract Manager must determine whether the service provider or the City caused the deficiency. If the cause of the defects rests with the City, corrective action must be taken through City channels. If the cause of the defect is due to action (or inaction) by the service provider, the service provider is responsible for correction of the problem.

Documentation of work not performed (or poorly-performed work) is essential for tracking service provider performance throughout the term of the contract. The Contract Manager will document deficient work and develop documentation to substantiate non-conformance with the contract. The documentation, together with any recommendations, will be forwarded to the Department Director.

Corrective Action

If the City determines that costs, performance levels, outcomes, or customer satisfaction do not meet the committed levels (and the performance was the result of the service provider), the City may take remedial action permitted by the contract. Any non-conformance with contract requirements is considered a 'defect' and must be corrected.

Formal corrective action may be necessary if the issue(s) have not been resolved. Corrective action will be consistent with guidelines established under the terms and conditions of the

contract (which should include specific details regarding the basis for declaring non-compliance, notification methods for non-compliance, length of time to correct any deficiencies, and penalties involved). If corrective action does not work and the deficiency is not corrected, this could lead to termination of the contract.

Contract Termination

As stated in the Managed Competition Guide, “contracts with all service providers shall include consequences for non-performance, up to and including termination of the agreement with the service provider, including an independent contractor or City department. Should a contract be cancelled as a result of non-performance, the City may either re-take the delivery of the function that had been under contract or initiate actions to establish a new contract in accordance with the City’s purchasing and contracting guidelines. In the event that a contract is cancelled and costs will be borne by the City to either resume performance of the function or initiate actions to establish a new contract, it is assumed that a performance bond, (as stipulated in the RFP) would provide financial support for these actions.”

All of the above-mentioned policies, procedures, and activities are an integral part of the quality assurance framework established for Managed Competition. Each component is designed to help monitor, identify, and correct deficiencies as outlined in the contract. Performing quality assurance is meant to be an ongoing effort; one that is meant to be done before, during, and after the life of a contract. Effective quality assurance will ensure that the City gets the service and products it pays for, thereby, ensuring good, reliable service to the residents of the City of San Diego.

FISCAL CONSIDERATIONS:

None

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The managed competition program was initiated with the citizens of the City voting to approve Proposition C in November 2006. Staff has spent considerable time working with the labor unions (AFSCME Local 127 and MEA) to receive input on program plans. In addition, we have established a Labor Advisory Committee to facilitate continued work with the unions.

With the passage of Proposition C and the amendment/addition of subsection (c) to City Charter section 117, the Managed Competition Independent Review Board was established to advise the Mayor on whether the proposal of City employees or that of an independent contractor will provide services more economically and efficiently while maintaining service quality and protecting the public interest.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders in this process are bidders responding to Managed Competition-related RFPs, City employees, the City's recognized labor unions, and the residents and visitors of the City of San Diego.

A handwritten signature in cursive script that reads "Wally Hill". The signature is written in black ink and is positioned above a horizontal line.

Wally Hill
Assistant Chief Operating Officer