FEDERAL CONSTRUCTION
SUBCONTRACTING

Insight into Subcontractor Selection Is Limited, but Agencies Use Oversight Tools to Monitor Performance

What GAO Found

GAO was not able to determine if bid shopping occurs or does not occur when prime contractors select subcontractors on federal construction projects, but found that the selection process could lead to subcontractors’ perceptions of bid shopping. GAO’s review of selected contract files did not reveal evidence of bid shopping. Further, officials at the agencies GAO reviewed stated they were not aware of bid shopping occurring on their contracts. Many of the construction contractors that GAO spoke with said that bid shopping occurs, but could not furnish evidence of specific instances. Negotiation procedures between prime contractors and subcontractors may create the impression of bid shopping among subcontractors that submit bids. Specifically, prime contractors explained that they receive multiple subcontractor’s bids for each trade (e.g., electrical, plumbing) up to minutes before their proposal is submitted to the government; and they typically do not use a specific subcontractor’s price in their proposal, but a price informed by the subcontractors’ bids. After award, the prime contractor negotiates and selects a subcontractor for each trade during the “buyout process,” as shown below.

Construction Prime Contractor’s Buyout Process

To hold the prime contractor accountable for a project’s work quality and progress, selected agencies use oversight tools such as

- agency representatives deployed on site,
- daily progress reports, and
- periodic inspections.

When performance is unsatisfactory, agencies use a number of methods to address or correct deficiencies. For example, agencies can withhold progress payments to the prime contractor or report poor contractor performance in government databases. Further, the government can be protected from poor quality construction if it appropriately uses the oversight tools at its disposal. To address bid shopping, some states are using bid listing, which requires the prime contractor to name certain subcontractors in its proposal to the state government. But the benefit of requiring bid listing in the proposal solely for the prevention of bid shopping is not certain, as past analyses of its use in the federal government have found it adversely affects the timeliness and cost of contract performance, and increases the government's administrative expenses.