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Electronic bid bond verification for public agency bidding

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Summary

The use of online verification codes for bid bonds in public bidding has resulted in numerous benefits for all parties involved, including public agencies, bidders and surety agents. Submitting a paper bid bond is becoming an antiquated practice.

Introduction

The concept of a functioning surety can be traced back thousands of years. While the process may have been much simpler, the fact remains that a third party was recruited to ensure the performance of a second party, reassuring the first party that the agreed upon work would be satisfactorily completed. Since then, numerous rules and policies have been put into place to govern surety bonding and protect investment agencies against lack of performance or commitment.

By design, surety bonds ensure higher project completion rates by serving as a bidder prequalification, thus verifying that a bidder has the means to perform a job to completion. Additionally, the risk is shifted from the agency to the bonding agent. In the event that a bidder cannot meet his/her end of the deal, the agency can safely recoup its losses, while the bonding agent company seeks reimbursement from the bidder.

Digital methods emerge

As with many long-standing processes, surety bonding has been traditionally paper-based. In June of 2000, US President Bill Clinton signed the E-SIGN Act (Electronic Signatures in Global and National Commerce Act). With the passage of this bill, electronic signatures and on-line contracts gained legal acceptance. Electronic bid submission solutions blossomed quickly and coaxed the surety industry into the future with the development of electronic bond verification codes. Electronic bond verification has been in use since 2000 with state and federal agencies, and progressive local agencies have begun to make the switch from paper. Embracing this technology has benefits since electronic bond verification offers many safeguards against fraud and abuse, while reducing costs and saving time.

As more agencies implement electronic surety bond verification, it is important to understand how it actually ties into the electronic bidding process and to see the contrast between the paper bond process and electronic bond verification. Simply put, bidders can now have their bid bonds instantly verified via a participating surety clearinghouse, without the problems and hassle associated with paper bid bonds.

Electronic bond verification – some key benefits

When a contractor enters a valid bid bond verification code, he is indicating that he has satisfied the requirements of the bonding agent for submission of a bid. Typically, a valid bid bond verification code means that there is a bond on file that matches the bid amount, percentage, contractor name, project, and power of attorney. Thus, the agency does not need to take the time to check for under-covered bids and these validate basic items as they must do with a paper bond. Public agencies are able to contact the bonding agent to get any additional details about the bond or the specific requirements that were met for it to be issued.

Unlike paper bonds, electronic bond verification codes allow for instant updating. If changes need to be made to the bond amount, it can be done so immediately with just a few clicks and a new code can be issued. A surety agency estimates that the paper bond issuance process is about 15-30 minutes of work, while an online bond verification code can be issued in under two minutes. This can be a big difference when a bid is coming due.

Bonds are also inherent to typos and miscalculations – avoidable errors that can turn a simple project into a financial conundrum. Electronic bonds can be re-issued with just a click, so that any errors can be fixed quickly. Correcting a paper bond is obviously a more arduous task. Since the electronic bonds are tied to specific projects, reusing them on many different projects is impossible, whereas expired paper bonds can be scanned, manipulated and reused into looking like valid bonds. So with paper bonds, agencies must perform time consuming fraud detection efforts. These are virtually eliminated with electronic bond verification.

Bidders often state that providing a paper bid bond with their bid is inconvenient; it is yet one more piece of paper that they need to acquire and submit once they have an idea of the cost of the job. Driving by their agent's office to pick up the bond on the way to submit the bid is commonplace, and can be frustrating and stressful when a deadline is looming. By providing the option of electronic bond verification with an online bid, the process becomes paperless for the bidder and it can all be conducted while sitting at a desk in the office.

Conclusion

Bid bonds foster an environment of accountability and fairness among bidders, while ensuring that projects have a high rate of completion, saving agencies time and money. While paper bonds managed to cover the accountability portion, security and fraud potential detection relied heavily on tedious manual processes until the advent of electronic bid bond verification. Since then, agencies are speeding up the bidding process with secure and instant bid bond verification and seeing quick adoption by bidders.

About the author

Dr. Joseph Rowland has been actively engaged in the development and promotion of Internet bidding and bonding technologies since 2007. He works directly with public agencies who are researching and/or implementing Internet bidding services. Dr. Rowland works for Infotech, a company that has been providing Internet bidding and online bid bond verification services since 1999. Dr. Rowland is currently Director of the Infotech products team. In this capacity, he collects and manages product and service development input from various stakeholders and channels it to the development teams. He works closely with the development teams for Infotech's Internet bidding applications.

Prior to joining Infotech, Dr. Rowland worked as the Lead Instructional Designer for the V-22 Osprey Pilot Training Program. As a civilian contractor, he worked with United States Marine Corps, Air Force, and Navy pilots and trainers, graphic designers and subject matter experts to develop and maintain training courseware for incoming and transitioning pilots. He has also worked on a variety of instructional media projects and has experience as a university level educator and teacher trainer both in the United States and abroad.

Dr. Rowland holds a Ph.D. in Instructional Technology from the University of Texas at Austin. He specialized in Instructional Media and the integration of technology into curricula and instructional training programs.

About Infotech

Established in 1977 and based in Gainesville, Florida, Infotech provides software development, Internet bidding and systems integration services for infrastructure construction management, and also provides highly technical consulting and network communications services. Infotech' software products, services and professionals serve public agencies, consulting engineers, contractors and bidders. Infotech has a highly skilled workforce of more than 230 professionals, and maintains regional and project offices throughout the U.S.

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