



## **EXECUTIVE SUMMARY**

### **PURCHASE and INSTALLATION BUS WASH – METRO TRANSIT**

**OCTOBER 2010**

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**Note: The published version of this report omits some information which is of a sensitive nature to personal privacy, Halifax Regional Municipality, or other organizational security.**

#### **Background:**

The Office of the Auditor General (OAG) received a concern<sup>1</sup> from an unsuccessful proponent, who bid on a sub-component to RFP 08-360 (Design/Build Satellite Transit Garage - Ragged Lake Industrial Park) suggesting the process to qualify their equipment was flawed. The proponent also suggested the Municipality procured additional equipment for an alternate facility without following established tendering processes. The matter was brought forward to the OAG after, in the proponent's opinion, they were provided inadequate explanation through HRM Management as to why their product did not qualify or why a subsequent tender was not issued.

Specific concerns raised included:

1. The methodologies by which HRM selected the preferred manufacturer of equipment and for not approving other proposed alternatives for two bus wash systems to be acquired for the Design/Build Satellite Transit Garage - Ragged Lake Industrial Park.
2. The process HRM used to procure a bus wash for the Ilsley Ave. transit facility.

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<sup>1</sup> The concern was received by e-mail January 25, 2010 at the OAG.

## Scope:

Various documentation, including e-mails, the RFP itself and proponent responses were reviewed. Internal processes were also reviewed to gain an understanding of the specifics around the awarding of the initial contract for two bus wash systems for the Ragged Lake transit facility and the subsequent non-tendered acquisition of the additional bus wash for the Ilsley facility. During the course of the review the procurement of the third bus wash for Ilsley Ave. was the primary focus.

## Details:

### Selection of a [specific brand] or equivalent bus wash

The process by which HRM determined the criteria, and subsequently chose a specific brand as a measurement for acquiring bus washes was reviewed. The RFP document (RFP 08-360)<sup>2</sup> issued by HRM requested, among other things, the following equipment:

***“Bus Wash Apparatus (1): [specific brand named] or acceptable equal. Include for all electrical and plumbing. Equipment must recycle all wastewater.”***

Subsequent to the release of the original RFP on November 26, 2008, the following addendums were released relating to the bus wash. Addendums #1 & #2 were issued but did not mention or alter any wording from the original RFP in relation to the bus wash equipment:

**Addendum #3**, issued January 16, 2009. Increased the quantity from one to two units.

**Addendum #4**, issued January 23, 2009. **“Bus Wash Apparatus (2): Revision: [specific brand named] or approved equal. c/w roof mop, undercarriage wash and pre-rinse arch. Min 80% wastewater reclaim system with ozone generator. A 6-brush system is required to efficiently wash a bus with bicycle racks mounted on the front or back.”**

**Addendum #5**, issued January 28, 2009. **“Bus Wash Apparatus (2): [specific brand named] is not an approved equal”**

**Addendum #6**, issued February 4, 2009. **“General Note: Approval of equals must be by HRM [individual named with contact information]**

The successful proponent in their bid replied:

**“10.2.3 Supply and install two (2) [specific brand named] or approved equal; c/w/ roof mop, undercarriage wash and pre-rinse arch. Min 80% wastewater reclaim system with ozone generator. GC supplied trench drain to GC supplied cistern to provide water collection for reclaim system. All wiring and plumbing associated with water reclaim and bus wash apparatus by this contractor.”**

The award for the Design/Build Satellite Transit Garage - Ragged Lake Industrial Park was approved by Regional Council March 10, 2009. Included as part of the award package of RFP 08-360 were two bus wash systems.

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<sup>2</sup> RFP 08-360 – is assigned internally to capital project CB200427 – Ragged Lake Transit Centre

### **Procurement of third bus wash – Ilsley Ave.**

At the request of HRM staff, the contractor issued a Change Order Request (COR)<sup>3</sup> for two items:

1. Supply and install a bus wash system to match Ragged Lake Transit without water reclaim system.
2. Remove and dispose of existing bus wash system.

This change order request and the two items were in reference to the Ilsley Ave. transit facility. The change order request did not specify at which facility the third bus wash was to be installed; only the associated e-mail transmittals indicated Ilsley Ave.

These two items were quoted by the contractor's project manager at \$247,500 and \$6,000 respectively. The approval to proceed was issued July 16, 2009 by e-mail from HRM staff to the contractor's project manager. It is interesting to note the bus wash for Ilsley Ave. was contemplated in principle in the 2009/10 Capital Budget. It appears it was included as part of a separate (from the design/build RFP) capital project (CMX01129) – Ragged Lake Transit Centre FFE (furniture, fixtures and equipment). HRM Procurement added the third bus wash (for Ilsley Ave.) to the purchase order (for Ragged Lake) on November 26, 2009 after a request was made by HRM staff on October 30, 2009.

The Ilsley Ave. bus wash arrived on site December 1, 2009 and was installed during December 2009.

### **Findings:**

#### **Selection of the [specific brand] or equivalent bus wash**

The criteria used in the selection of the [specific brand] or equivalent bus wash which included research into various manufactures and types of bus washes along with the experiences from the currently installed bus wash appeared reasonable. Various concerns were identified by HRM with respect to the characteristics of the new systems for the Ragged Lake facility including:

- a. Concerns around using a high pressure wash system, including using a hybrid wash system of brushes and pressure. To minimize water penetration to the interior of the bus, high pressure water systems to clean the front and/or rear of the bus were not considered.
- b. A concern in the selection of a product was also how the unit would deal with front mounted bicycle racks. The system in use at the time could cause damage to the bicycle racks.

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<sup>3</sup> COR issued July 7, 2009

Two manufacturers stated through their literature there are sensors on motors to reduce the pressure on the brushes for obstacles such as mirrors; however, it would appear HRM could not determine in the short research window available how this would handle bicycle racks. The [specific brand] unit addressed the bicycle rack issue by using a six-brush system with two short brushes above the bicycle racks.

#### **Procurement of third bus wash – Ilsley Ave.**

The purchase of the third bus wash for Ilsley Ave. did not appear to be handled in an appropriate or open manner as called for in approved procurement policies. The following are some – but not all - relevant details surrounding the purchase of the Ilsley Ave. bus wash:

- a. HRM made an initial verbal request to the contractor to obtain a third bus wash for Ilsley Ave. (a purchase in the order of \$247,500) without the benefit of a tender. Additionally HRM was also quoted an untendered price of \$6,000 for the removal of the existing unit.
- b. HRM gave the contractor written approval to proceed with the purchase via e-mail on or about July 16, 2009.
- c. A request to have the bus wash for the Ilsley Ave facility, added to the purchase order for the Ragged Lake facility was initiated October 30, 2009, some 3 ½ months after the approval to proceed was given.
- d. HRM Finance stated because this is within the “Director’s 15%” they could approve the change; however, Finance felt “there should have been a report as there was no tender and the value was above \$100,000”. (The Ilsley bus wash installation project does not relate to the design build project for Ragged Lake thus the \$253,500 value of the third bus wash does not relate to the budget for Ragged Lake Design Build. The “Director’s 15%” contingency is for use within one project, not across projects.)
- e. HRM Procurement has advised this matter had been reported after the fact to both the Director of Finance and the Director of Infrastructure and Asset Management.

## Recommendations:

1. HRM should consider initiating a process to not tender specific products, but rather use identified specifications, except where HRM has established standards. If HRM is establishing a standard or specific product (through an initial tender) to be used as the basis for future tenders, the original tender should alert potential bidders that a standard is being set. Should the awarding of a tender place HRM into a sole source or sole product purchasing arrangement with respect to possible subsequent tenders, HRM Regional Council should be advised of this likelihood during the awarding of the original tender.
2. HRM should utilize its own procurement resources and not rely on third party contractors for procurement services, unless they are, for example, part of a design build project as was the case with the Ragged Lake project.
3. Clear guidelines should be established surrounding the use of the “Director’s 15% discretion” to ensure there is total clarity on the part of all HRM business units and personnel (particularly in Finance) as to the policies allowing the application of the discretion and to what it exactly applies.
4. Through our own experiences and in discussions with Management, it is clear the use of change orders is an important component of all construction projects. Given the magnitude of the transaction which is the focus of this review, and the fact no change order had been issued, we would recommend a formal review around the issuance of change orders be undertaken by Management. We would also recommend - in addition to the recommendation around ongoing training (see Recommendation 7 below) - the question of signing authorities and limits as to the dollar amounts of change orders be reviewed.
5. We would recommend Management consider greater clarity and simplicity in the use of naming provisions and contents of capital accounts, particularly around the budgetary process. We are advised by Management the capital account which was named Ragged Lake - Furniture, Fixtures and Equipment contained anticipated capital expenditures for both Ragged Lake and Isley Ave. facilities. The use of this type of practice has the clear possibility of resulting in a lack of clarity as to included items and in this particular situation with the unintended consequence of leaving the appearance of an attempt to circumvent controls. We are pleased to report Finance noted this situation prior to entries being posted. To eliminate this type of situation from occurring in the future, one alternative might be for capital budgets to be presented in a format similar to the following:

Bus washes - Ragged Lake	\$xxx
Bus wash - Isley Ave.	\$xxx
Ongoing capital needs with respect to current infrastructure	<u>\$xxx</u>
Total	\$xxx

6. The purchase of the third bus wash installed at Ilsley Ave., although approved in principle through the capital budget process (see Recommendation 5 above), did not comply with procurement policy sections 7(d), 9(4)(b) and 9(4)(g), thus this purchase for \$253,500 should be appropriately reported to the CAO. We would also recommend consideration be given to a more formal and improved process to report all policy violations to the CAO and the Auditor General.
7. As a result of many of the findings contained in this report and the situations which arose, we would recommend a review be undertaken immediately of onboarding and ongoing training of project managers as to signing authorities, the importance of adherence to all procurement and other related policies, and the intended spirit of controls in place around projects.
8. To assist Finance with the proper coding of all change orders, we would recommend signed change orders be attached to requisitions used by Finance to enter changes to procurements in the SAP system.

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**Management Response:**

*Management is in complete agreement with all recommendations.*