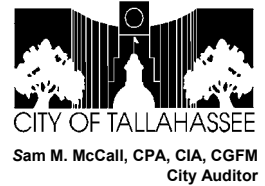


# Inquiry into

## Taltran Acquisition of Bulk Oil



Report # 0015

March 3, 2000

### Request for Inquiry

We are responding to a Commissioner request that we review the bidding process for bulk oil by Taltran in February - March of 1999 to determine compliance with City policies and procedures.

### Summary

We have reviewed the bidding practices of Taltran for compliance with the Taltran INVITATION TO BID BULK OIL and for compliance with City purchasing policy.

- 1) Based upon product information sheets reviewed, Coastal Petroleum products met the issued bid specifications relating to oil quality. As to whether Coastal met the bid specifications to be a "major manufacturers oil," we determined that Taltran had the authority to conclude that Coastal Petroleum was not a "major manufacturers oil" and had not submitted a valid bid. The Taltran Director's concern about using a lesser known product in Taltran equipment was reasonable.
- 2) Taltran's original estimate was to buy approximately \$8,000 in products from this INVITATION TO BID BULK OIL. From 4/7/99 to 1/10/2000, Taltran has spent over \$15,000 under this Bid. The Director of Taltran indicated that he had not issued another invitation to bid in hopes that Fleet Management Parts and Taltran would obtain a bulk oil annual price agreement through Procurement Services in the Department of Management and Administration. We concluded that Taltran and Fleet Management Parts should work with Procurement Services to establish a price agreement for lubricants for the City.

### Department Actions

On February 24, 1999, Taltran, faxed requests for bids on bulk oil to five vendors (Rainey Cawthon, McKenzie Service, Jim Hinton Chevron, Dixie Oil and Equipment Sales, and Hinson Oil). Procurement was not involved in this activity.

Bids were requested for four products:

- 1) 15W40 (API SPEC. CG-4)
- 2) 10W30 (FORD/API SPEC. ESE-M2C 153-E)
- 3) 40W (API SPEC. CF-2)
- 4) DEXTRON III ATF FLUID

The request for bids stated:

"The oil that is bid must be high quality, major manufacturers oil (Texaco URSA Super Plus,

Mobile Delvac 1300 Super, ETC.) Meeting the strict criteria of that manufacturer."

"Shipment will be to 555 Appleyard Drive, Tallahassee, Florida. Bids are to be returned to Taltran, 555 Appleyard Drive, Tallahassee, Florida 32304 or faxed to (850) 901-5073, no later than March 5, 1999. Purchase of oil from this bid will start March 15, 1999."

Vendors and their responses are listed as follows:

Item	Vendor			
	Jim Hinton Oil	Dixie Oil	Hinson Oil	McKenzie Service
1.15W40	\$3.18 Union 76	\$3.85 Pennzoil	\$3.20 Texaco	\$2.83 Coastal
2.10W30	\$3.05 Chevron	\$4.48 Pennzoil	\$3.89 Texaco	\$2.85 Coastal
3.40W	\$3.38 Union 76	\$3.70 Pennzoil	\$3.91 Texaco	\$2.67 Coastal
4.DEX-TRON III	\$3.77 Union 76	\$3.54 Pennzoil	\$3.35 Texaco	\$2.69 Coastal

Taltran requested the assistance of Mr. Jim DeMay, Fleet Management, in evaluating the responses. Mr. DeMay stated that Coastal is a "packaged" oil product that is normally sold as a "house" brand and is not a nationally recognized brand. Therefore, their bid was judged as not responsive to the bid requirement of "high quality, major manufacturer." Taltran management agreed with this determination.

### Current Policies

The Purchasing Policy Manual (Section 10) provides guidelines for the development and use of specifications.

The responsibility for establishing the technical specifications for purchasing supplies or services lies with the department. (Section 10.0.0.a)

The purchase description or specification should include the essential physical and functional characteristics necessary to express the minimum requirements of the City, such as (a) common nomenclature; (b) kind of material, i.e., type, grade, class, alternatives, etc. (Section 10.2.1)

Existing specifications of common or general use items must be used unless the department director determines it is not in the City's best interest. (Section 10.2.4)

Brand names or equivalent specifications may be used when:

- a) no other design or performance specifications or qualified product list is available;
- b) time does not permit the preparation or another form of purchase description;
- c) the nature of the product or the nature of the City's requirements makes use of the brand name or

equivalent specification suitable for the procurement;  
or

- d) the use of brand name or equivalent specifications is in the City's best interest. (Section 10.3.5)

Brand name or equivalent specifications should designate three different brands, or as many as are practicable, as "or equivalent" references and must state that substantially equivalent products to those designated will be considered for award. (Section 10.3.6)

Departmental purchase orders are used for purchases from \$500 to \$10,000. (Section 6.2)

It is the responsibility of Procurement to establish price agreements (annual, semiannual, biennial, triennial, etc.) as will ensure the most effective use of a centralized purchasing function. The need for a price agreement shall be based on the number of repetitive purchases made of the same commodity over a period of time. (Section 6.8)

Proposals for purchases of \$5,000 and over may be solicited through Request for Proposals. (section 4.3.1)

For small purchases (under \$5,000) and those purchases not covered by a contractual agreement, the buyer is responsible for obtaining at least three quotations for supplies that are expected to exceed \$500. (Section 4.4)

In no case shall a department director approve contracts in excess of \$10,000 for a total aggregate of expenditures pursuant to such contract, unless provided for under emergency purchases. (Section 1.2.7.c)

Written requests for quotations may be sent to vendors under the following conditions: (a) when purchasing capital equipment; (b) when purchasing items with nonstandard conditions, requirements, or instructions; or (c) when more permanent documentation is advisable. Written quotes should be typed using, whenever possible, the request for quotations form. Complete information should be provided, including, but not limited to: description, quantity, delivery requirements, special conditions, drawings, specifications, the date information is required, etc. (Section 4.4.2)

**Issues, Responses, and Recommendations**

**Issue 1** - Did Coastal products meet the requirement that its product "must be high quality...oil"?

**Response 1** - Based upon product information sheets provided, Coastal met the specifications call for in the INVITATION TO BID BULK OIL. We have had further discussion with the Director of Taltran in which he expressed the opinion that Coastal products did not meet more detailed specifications relating to the use of Coastal 15W40 oil in Allison transmissions. (Note that these more detailed specifications were not in the INVITATION TO BID BULK OIL.) As to use in Allison transmissions, there

is conflicting information on whether one of the listed brand names, as well as Coastal, met the more detailed specifications for use in Allison transmissions.

**Issue 2 - Did Coastal products meet the requirement that its product must be.. "major manufacturer oil (Texaco URSA Super Plus, Mobil Delvac 1300 Super, ETC.)"?**

**Response 2** - The term "major manufacturer" was not defined by Taltran in the INVITATION TO BID BULK OIL. Also, the basis for deciding at what point a product is determined to be a "major manufacturers oil" was not conclusively documented by Taltran in support of its actions. We concluded that Taltran as the purchaser had the authority to determine if Coastal Petroleum was a "major manufacturer" of oil and that Taltran concluded that Coastal was not a major manufacturer. Our limited research tends to support Taltran's position that the Coastal product name is not as recognizable as Texaco or Mobil. Our research indicates that Coastal Corporation is listed in the Oil & Gas Pipeline industry on the New York Stock Exchange and not in the Major Integrated Oil/Gas industry.

**Issue 3 - Did the bidding practices of Taltran for bulk oil lubricants comply with City purchasing policy?**

**Response 3** - The purchasing manual provides that when a name brand is sought, three or more name brands should be listed as equivalent. The Taltran INVITATION TO BID BULK OIL only listed two brand names as examples. Also, Taltran's original estimate of need for bulk oil was approximately \$8,000. From 4/7/99 to 1/10/00 Taltran has spent over \$15,000 under this bid. In retrospect and given the volume actually purchased, these oil purchases should have been on an annual price agreement issued by Procurement. This would have allowed Fleet Management Parts to also secure oil under this agreement. We should note that Fleet Management Parts has been purchasing similar oil products from the same vendor at higher prices when compared to Taltran (\$4.09 vs. \$3.18 per gallon for 15W40 oil).

Based upon the above issues and responses, we have the following recommendations:

**Recommendation 1** - In the future, Requests for Bid should include specifications to ensure that lubricants requested meet all requirements for the purposes intended. In this instance, the 15W40 oil was intended to be used in both engines and transmissions.

**Recommendation 2** - Prior to rebidding oil needs, and if a "major manufacturers oil" continues to be desired, TALTRAN and Fleet Management Parts need to work together to better define what is meant by "major manufacturers oil."

**Recommendation 3** - Taltran and Fleet Management Parts should work with Procurement Services to establish a price agreement for lubricant needs (bulk, gallon, quart) for the City.

Conducted by:  
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