
**Review of the Edmonton Police Service
Pawnshop & Second Hand Store Automated
Reporting System**

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1. Introduction

A Councillor provided the City Auditor with an information package in connection with the electronic reporting requirements and reporting fees for pawnshops and second hand stores as set out in Bylaw 13138 (*Business Licence Bylaw* consolidated on March 1, 2005, as amended). In the opinion of the OCA, the package contained sufficient information to warrant further review of the process. The OCA then met with representatives of the Alberta Pawnbrokers and Second Hand Dealers Association to hear the issues they believed the City needed to address. After this meeting, the City Auditor established a project with time being allocated from the Emerging Issues budget of the OCA's 2005 Annual Workplan.

2. Objectives

The objective of this project was to review the tendering process used to select and award a contract for a "Pawnshop & Second Hand Store Automated Reporting System for Edmonton Police Service (EPS)" and to determine whether the business case for using an "outsourced software solution" was sound.

3. Scope and Methodology

The scope of the OCA's review covered all information and documentation pertaining to the development of a business case, selection criteria, and the tendering process.

The OCA used the following methodology during the review:

1. Interviewed employees at the EPS, Planning & Development, Materials Management, and owners of pawnshops and second hand stores.
2. Examined documentation provided by the EPS, Planning & Development, Materials Management, and owners of pawnshops and second hand stores.
3. Listened to audio files of various Community Services Committee and City Council meetings.
4. Discussed the preliminary findings with the EPS, Planning & Development, Materials Management, and Law Branch to ensure that facts were accurate.

4. Observations

4.1. Background

EPS began to research the feasibility of an electronic reporting system of pawnshop and second hand store transactions as a partial response to one of the 35 opportunities identified in the 1998 KPMG/EPS Organizational Review. Over 120 recommendations for change were made under the umbrella of 35 “Best Value Opportunities.”

Opportunity # 11 – “Restructuring of the Second Hand Detail” included 5 recommendations. The two recommendations that related to this Opportunity were for EPS to “*Research the feasibility of an electronic pawn system*” and “*Upon approval of an electronic pawn system, amend the Bylaw accordingly.*”

4.2. Observations and Analysis – Edmonton Police Service

The pawnbroker and second hand store industry in Edmonton is made up of approximately fifty-five businesses. Because of the unwieldy nature of paper-based transaction reporting, the EPS decided to move toward an electronic reporting system. The following sections summarize the evolution that led to the selection of BWI as the third-party vendor for automated transaction reporting.

4.2.1. BWI and EPS Partnership

The EPS informed the OCA that in 1999 Business Watch International (BWI) partnered with the Regina Police Service and several other agencies across western Canada to develop and pilot an automated pawn reporting system. The system enabled these police agencies the capability to share real time intelligence to prevent and reduce crime with respect to cross-jurisdictional stolen property.

In February 2001 BWI contacted EPS with information about their electronic reporting system. On May 30, 2001, BWI made a presentation to EPS senior management about their electronic reporting system. The minutes of the Executive Officers Team meeting from May 30, 2001 highlighted three features of BWI’s system that appealed to EPS senior management. Those features were:

1. BWI was the only private agency approved by the Canadian Police Information Centre (CPIC) to provide this type of service.
2. The BWI system was able to provide EPS with stolen property information from other jurisdictions, since a number of pawnshops in Calgary, Winnipeg and Saskatchewan were on-line with BWI.
3. BWI indicated that their system could be implemented at no cost to EPS. There would be no cost to EPS as costs would be passed on to pawnshop and second hand business owners through a bylaw amendment, and ultimately to the customer in the form of a per transaction fee.

A partnering relationship between EPS and BWI was established shortly after BWI’s May 30, 2001 presentation to the EPS Executive Officers Team.

4.2.2. Alberta Provincial Pawnbrokers and Second Hand Dealers Industry & Automated Reporting

The Alberta Association of Chiefs of Police's (AACP) Provincial Working Sub Committee, chaired by an EPS Deputy Chief, issued a report in February 2002 entitled "Alberta Provincial Pawnbrokers and Second Hand Dealers Industry & Automated Reporting." This report was authored and compiled by EPS. This report was presented to the AACP and Solicitor General in May 2002.

The report stated that:

“\$2,000,000 (retail value) in stolen property was seized from pawnshops and/or second hand stores in Edmonton and Calgary, in the year 2001. This represents less than 1% of the value of property that was sold to or pawned at the Edmonton and Calgary pawnshops and/or second hand stores in 2001.”

The report also stated that:

“The Alberta Provincial Working Committee found very few police agencies keep statistics regarding the value of stolen property seized from pawnshops and/or second hand stores. The below listed values represent the approximate retail value of the stolen goods that were recovered from Edmonton and Calgary stores in 2001: (1) Edmonton-\$900,000, and (2) Calgary-\$930,000.”

EPS was not able to provide the OCA with supporting documentation for the figures (\$2,000,000, \$900,000, and \$930,000) contained in the report.

4.2.3. City of Edmonton Pawnbrokers and Second Hand Dealers Industry and Automated Reporting

EPS issued a report in June 2002 entitled "City of Edmonton Pawnbrokers and Second Hand Dealers Industry & Automated Reporting." This report was a localized version of the AACP report referenced above and was presented to Community Services Committee by EPS in July 2002. Throughout this report, there are a number of statements made that indicate that EPS had narrowed their selection of a standardized automated reporting system for the collection, storage and transmission of pawnshops and second hand dealers' transactions to BWI:

“The Edmonton Police Service has identified a Canadian made automated reporting system that meets our needs for proper regulation of the industry. Business Watch International (BWI) produced an automated reporting system that provides Police Agencies with an effective and efficient investigative tool that fulfills our data management needs.”

“After a thorough review of many existing systems, EPS has endorsed the BWI system. Amendments must be passed in the Edmonton Licensing

Bylaw before compulsory use of this automated reporting system can be mandated.”

“The Edmonton Police Service is confident the BWI Automated Reporting System can provide the necessary components to make a legislated mandatory automated reporting regime a practical reality in Edmonton and the Province of Alberta. We are currently unaware of another product which provides the comprehensive package that the BWI system features.”

The report also stated that:

“In excess of \$1,000,000 retail value in stolen property was seized from pawnshops and/or second hand stores in Edmonton, in the year 2001. This represents approximately 1% of the value of property that was sold to or pawned at the Edmonton pawnshops and/or second hand stores in 2001.”

EPS was not able to provide the OCA with supporting documentation for the \$1,000,000 figure contained in the report.

This report was used by EPS as justification for their “business case” in support of the EPS endorsement of BWI. However it is the OCA’s opinion this “business case” was missing a key component, that being a “user needs analysis study,” which would have quantified the most-likely crime reduction and prevention benefits as a basis for choosing between systems hosted outside the EPS (BWI third-party vendor solution) compared to alternative solutions (such as a custom-designed solution using EPS in-house IT expertise or an in-house vendor-based solution).

4.2.4. Legal Opinion - Privacy

On August 19, 2003 EPS obtained a legal opinion in connection with privacy legislation regarding BWI’s data management system. The legal opinion focused solely on BWI. The opinion stated: *“The use of BWI may not result in a breach of privacy depending on how the EPS relationship to BWI is developed and how it is characterized.”*

On February 28, 2005 EPS obtained a second legal opinion with respect to the proposed form of pawn and second hand shop electronic reporting and related privacy law issues. The opinion stated: *“It is my opinion that the system of electronic reporting being proposed does not place pawn shops and second had stores in the position of being in breach of their privacy obligations under PIPA.”* The EPS also informed the OCA that the EPS is using a consent form to ensure the consumer is aware that their information is being forwarded to the EPS.

4.2.5. City Administration

On March 1, 2004, a meeting took place between senior management from the City and the EPS. The draft meeting minutes partially stated that:

1. *“EPS has deemed the BWI system to be their preferred choice for Pawn Shop recording and reporting,*
2. *The industry in Edmonton disagrees with a single-source supplier, as well as the increased “cost of doing business,”*
3. *There was a consensus regarding the value of an electronic reporting tool.”*

4.2.6. Edmonton Police Commission

On June 10, 2004, EPS made a presentation to the Edmonton Police Commission (the Commission) in connection with the Pawnshop and Second Hand Store Automated Reporting System. EPS advised the Commission that the following criteria would be used during the pre-qualification process for an electronic reporting software application: (1) Mandatory Requirements (Pass/Fail), and (2) Evaluation criteria with weighting of 35% for Technical, 35% for User, 10% for References, and 20% Total Cost of Ownership. The criteria used during the actual pre-qualification process were revised to: (1) Mandatory Requirements (Pass/Fail), and (2) Evaluation criteria weighting of 70% for Technical Capabilities/Features, 30% for Overall Ability & Capability. The weighting figures were revised in response to advice obtained from the City’s Materials Management Division that indicated that pricing should not be considered as part of the evaluation at the RFI/Pre-qualification stage and that only budgetary pricing should be requested. However, the EPS did not advise the Commission that the criteria and weighting were revised. The EPS informed the OCA that they did not believe that it was necessary to inform the Commission that the evaluation criteria were revised.

4.2.7. Pilot Project

In 2001, the EPS implemented a pilot project with BWI. Ten pawnshops and second hand stores were involved in the pilot project. The OCA noted that the pilot project had no specific time limitation, no specific objectives, and insufficient documentation to adequately plan, manage and conduct the pilot project.

The pawnshop and second hand store owners who participated in the pilot project were requested by the EPS and BWI to pay a per-transaction fee to BWI during the pilot. The EPS advised the OCA that of the ten store owners that participated in the pilot project: 4 continued to pay, 3 refused to pay, 1 paid for a limited period of time and then decided to stop paying, and 2 paid until they permanently closed their stores.

4.2.8. EPS Specifications & City’s Pre-Qualification (RFI) Package

In 2004 EPS developed specifications and sent them to the City’s Materials Management Division for use in the “Request for Information Pre-Qualification Opportunity for Pawnshop & Second Hand Store Automated Reporting System” Request for Information (RFI) package. The intent of the RFI was to conduct a preliminary assessment of the range of solutions that would be available to the City and

to pre-qualify potential vendors that submitted a complete response and that had proven solutions and capabilities.

The above-mentioned specifications were developed from information EPS obtained from a report on “Automated Reporting System Requirements” prepared by the National Police Advisory Group and the AACP Provincial Working Committee. Also the specifications were developed from experience gained by EPS through partnering with BWI during the pilot project. As a result, BWI gained a competitive advantage over other potential vendors because some of the specifications used in the tender package were specifically tailored as a direct result of the knowledge EPS gained during the pilot project. Examples of such limiting specifications included: (1) mandatory operational specifications such as *“Proponent’s application must be hosted at the proponent’s venue”*, and (2) technical criteria such as *“The system must be capable of managing photographic data of persons and property”* or, *“The system must be capable of recording and processing purchase, pawn, renewal, extension and redemption (claim) transactions.”*

4.2.9. Response to City’s Pre-Qualification (RFI) Package

Two potential vendors responded to the RFI by the October 13, 2004 deadline. On October 19, 2004, EPS assessed the RFI submissions by scoring the potential vendors using the specifications developed by EPS. BWI scored the highest percentage (BWI scored 79.8% compared to the other potential vendor who scored 50.8%). The OCA noted during interviews with EPS that there was a high likelihood the other potential vendor would not have been able to meet one of the mandatory specifications which stated: *“Proponent’s application must be hosted at the proponent’s venue.”* However, the EPS scored this question with a “qualified yes” in order to allow the other potential vendor to be evaluated.

4.2.10. Community Services Committee Meetings

On November 24, 2004 and January 31, 2005, EPS made presentations to the Community Services Committee. During these presentations, EPS did not advise the Councillors that the scoring assessment of the above-mentioned RFI package was performed on October 19, 2004 and that only one potential vendor (BWI) had been pre-qualified for the subsequent Request for Proposal process. The OCA believes this was an important piece of information the Councilors needed to know during their deliberations. The EPS informed the OCA that they were advised by the City’s Planning & Development not to discuss any information connected to the RFI process during the public portion of the Community Services Committee meeting.

4.2.11. City Council – Bylaw 13821 Amendment

On March 1, 2005 City Council amended Bylaw 13821 by third reading. The amendment stated:

- *“Pawn Shop and Second Hand Stores reporting fees in each category outlines in Section 6, subsections 32.1 and 40.16, be reduced by 50 % for one year and reporting fee payments be made in quarterly installments.*

- *That the wording of Section 12 be deleted and replaced with the following: ‘This bylaw comes into force on the day of signing.’”*

5. Conclusion

Based on the OCA’s review, it has the following conclusions regarding the decision-making process used to select an outsourced software solution for electronic reporting of pawnshop and second hand store transactions.

5.1. Edmonton Police Service

EPS decided to focus on BWI at an early stage of this initiative. While not a “sole source” contract, the close working relationship EPS had with BWI from May 2001 onward, the endorsement of BWI in February 2002, and the content of the specifications developed during the pilot project, other potential alternatives or vendors were not properly researched and evaluated. Such alternatives would have included: (1) a custom-designed solution using EPS in-house IT expertise, (2) A custom-designed solution using a combination of EPS in-house IT expertise and data-base mining vendor software, or (3) an in-house vendor-based solution.

The EPS was confident that their focus on BWI was sound. However, the OCA believes that the EPS could have obtained better insight if a “user needs analysis study” was performed in order to more clearly and comprehensively define their information requirements and expected operating benefits from an electronic reporting system. A business case would normally include a “user needs analysis study” to quantify likely crime reduction and prevention benefits and establish a sound basis for choosing among systems hosted outside the EPS (third-party vendor solution) and other alternatives.

For future projects similar to this, the OCA believes that a project charter (or similar document) should be prepared and formally approved by EPS senior management. The project charter should provide a framework and direction for an IT software application development and/or procurement project to proceed. Moreover, the project charter should not be approved until a user needs analysis is performed in order to determine the need for the particular application, including its associated information and privacy requirements. A steering committee (or similar working committee) should then be established after the project charter is approved. A steering committee would usually include representation from EPS senior management, Information Technology Section, Legal Advisors’ Section, Planning and Development Department, Materials Management, and the user community. Finally, minutes of the committee meetings should be kept in order to record and track the status of the project, including EPS senior management approval during each phase of the project.

A healthy relationship between EPS and the business owners is an important component in maintaining effective community policing. The working relationship between EPS and some pawnshop and second hand business owners has deteriorated

as these owners do not believe that EPS engaged in a meaningful consultation process about electronic reporting with pawnshop and second hand store owners. The OCA interviewed six business owners that made themselves available during this review. Four of the six owners are dissatisfied with the manner of EPS's consultation. Two of the six owners are satisfied with EPS's consultation. The OCA believes that the EPS needs to do more work to restore their relationship with the business owners.

The OCA noted during this review that information regarding the electronic reporting bylaw and the tendering process used to select and award the contract was not presented to Councillors in a clear and concise manner, resulting in confusion regarding the process. The OCA believes that EPS and Planning & Development need to provide the Councillors with a high-level overview of the purpose and function of electronic reporting and of the purpose and impact of the related bylaw. They also need to ensure that the Councillors have all the required information regarding the tendering process (including the RFI) used to select and award the contract for "Pawnshop & Second Hand Store Automated Reporting System for Edmonton Police Service."

5.2. Planning & Development

The OCA interviewed management of the Planning & Development – Development Compliance Branch and noted the following items:

1. Planning & Development relied on EPS's documentation to support the bylaw amendments.
2. Planning & Development conducted limited consultation about electronic reporting with pawnshop and second hand store owners in 2002 and 2003.

In the OCA's opinion, Planning & Development could have conducted more in-depth consultation with pawnshop and second hand store owners in 2003, 2004 and 2005. In particular, the consultation could have focused on how the proposed reporting fee would impact the store owners' business and allow the store owners adequate time to provide their feedback regarding the reporting fee in advance of Council deliberations.