



April 26, 2017

Performance Audit

Ahern Rentals, Inc. (City Report)

Citywide Contract

Report No. 16-106



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
AHERN RENTALS, INC.
CITYWIDE
REPORT NO. 16-106

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City of Albuquerque - Office of Internal Audit
Ahern Rentals, Inc.

Performance Audit

4/26/2017

Audit #16-106
(City Report)

The purpose of this audit was to review and report on the accuracy of vendor billing rates, and compliance with insurance requirements.

Executive Summary

The City of Albuquerque (City) utilizes rental equipment to perform infrequent or specialized tasks such as using a skid steer with a trenching attachment to dig trenches for electrical or water pipes. In certain situations, using rental equipment is less expensive than purchasing equipment that will not be used regularly.

The City contracted with Ahern Rentals, Inc. (Ahern) for on-call equipment rental services. As more than one department may require rental equipment services, the contract is a citywide contract. Equipment billing rates are established in the contract's *Equipment Schedule* and must be inclusive of all taxes and fees.

The audit found that Ahern did not fully comply with contract billing and insurance requirements, and overcharged the City an estimated \$6,300. The following billing inaccuracies were identified in Ahern's invoices:

- Unallowable damage waiver and environmental fees,
- Charges for equipment not included in the *Equipment Schedule*, and
- Billing rates not in compliance with the *Equipment Schedule*.

In addition, the contract does not specifically address fuel, delivery, and pickup charges. As a result, the City paid above market rates for fuel, and it is unclear if the \$65 delivery and pickup charges are reasonable.

The CAO and the City departments accepted the findings and agreed to implement the recommendations.

Recommendations



The CAO Should:

- Request reimbursement of \$6,300 from Ahern for the estimated total of overcharges billed,
- Remind City departments to verify the accuracy of invoices prior to authorizing payment,
- Work with Ahern to amend the contract as needed to add or delete equipment to the *Equipment Schedule*, and
- Ensure future contracts with Ahern specifically address fuel, delivery, and pickup charges.



City of Albuquerque

Office of Internal Audit

April 26, 2017

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Ahern Rentals, Inc. (City Report)
Citywide
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FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the citywide contract with Ahern Rentals, Inc. (Ahern). City of Albuquerque (City) vendor audits are included in OIA's fiscal year 2016 audit plan, and Ahern was one of the vendors selected. Information pertaining to the audit objectives, scope, and methodology can be found in **Appendix A**.

On April 23, 2015, the City entered into a citywide contract with Ahern for on-call equipment rental services. The contract expired on December 19, 2016, with the option to extend for an additional 2-year period, or any part thereof, by mutual agreement. On March 13, 2017, a new contract was approved and is scheduled to begin on April 23, 2017, and will continue through December 20, 2018.

The City utilizes rental equipment to perform infrequent or specialized tasks such as using a skid steer with a trenching attachment to dig trenches for electrical or water pipes. Using rental equipment is less expensive than purchasing equipment that will not be regularly used. As more than one department may require rental equipment services, the contract with Ahern is a citywide contract. Over the 13-month audit period, May 1, 2015 through June 30, 2016, the City paid Ahern \$46,354 for equipment rental services.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. CITY DEPARTMENTS UTILIZING CITYWIDE CONTRACTS SHOULD ENSURE THE ACCURACY OF INVOICES PRIOR TO AUTHORIZING PAYMENT.

Of the 18 invoices sampled, all contained billing inaccuracies. Inaccuracies were identified for the following billing areas:

- Unallowable fees,
- Charges for equipment not recorded in the equipment schedule, and
- Inaccurate billing rates.

A statistical random sample of 18 invoices was selected for review from the 58 invoices paid to Ahern during the audit period. The following subsections provide detailed information regarding the inaccuracies identified during the audit.

Unallowable Fees

Unallowable damage waiver and environmental fees were identified on invoices sampled.

- The damage waiver fee is calculated as 12 percent of the gross rental amount. The fee is charged in the event a customer is unable to provide proof of general liability, property, and workers compensation insurance. These charges are not allowed by the contract since the City is self-insured and provides proof of coverage upon request.
- The environmental fee is charged by Ahern to offset costs associated with environmental safety and compliance. This fee is not allowed because the request for bid states that the vendor must submit unit (equipment) prices that are inclusive of all costs associated with providing rental services including all applicable fees.

All 18 invoices reviewed contained payments for a damage waiver. The City was billed \$1,782 for damage waiver fees. The \$1,782 paid equates to a 10.29 percent error rate (total error \$1,782/\$17,317 total value of sampled invoices). By extrapolating the 10.29 percent error rate to the entire \$46,354 paid over the 13-month audit, it can be estimated that the City overpaid Ahern \$4,770 for damage waiver fees.

Of the 18 invoices reviewed, 16 contained environmental fees. Cumulatively, the City paid \$111 for environmental fees. The \$111 equates to a 0.64 percent error rate (total error rate \$111/\$17,317 total value of sampled invoices). By extrapolating the 0.64

percent error rate to the entire \$46,354 paid over the 13-month audit period, it can be estimated that the City overpaid Ahern \$297 for environmental fees.

Payments for Equipment Not Listed in the Equipment Schedule

Of the 18 invoices paid, 4 invoices contained charges for equipment not included in the equipment schedule. The total paid for the equipment was \$6,864. The terms and conditions of the contract state that the vendor will lease to the City the equipment included in the equipment schedule contained in the contract.

The equipment schedule specifically identifies the equipment to be leased and does not contain any language allowing for substitutions for any reason. However, the contract does allow the equipment schedule to be amended as long as there is mutual agreement.

Inaccurate Billing Rates

Of the 18 invoices reviewed, 13 contained inaccurate billing rates for leased equipment. A net \$229 overcharge was identified for the 13 invoices. Some of the rates were greater than those included in the equipment schedule while others were less than those included in the equipment schedule. The net \$229 overpayment equates to a 2.66 percent error rate (total error \$229/\$8,599 total value of the 14 sampled invoices*). By extrapolating the 2.66 percent error rate to the entire \$46,354 paid over the 13-month audit, it can be estimated that the City overpaid Ahern \$1,233 for inaccurate billing rates.

** Note: The four invoices with charges for equipment not included in the equipment schedule were omitted from the extrapolation calculation (previous subsection). Including equipment charges from these invoices would skew the extrapolation error rate and result in an unreasonable estimation of overcharges.*

City personnel responsible for approving invoices for payment are not verifying the accuracy of invoices and do not request or receive supporting documentation prior to approving invoices for payment. They are relying on staff to verify the accuracy of invoices instead of consulting the contract and the information provided by the vendor to support the charges documented on each invoice. For example:

- Equipment listed on the invoice can be compared to the “Rental Out Contract” issued to the receiving City employee. The “Rental Out Contract” includes a detailed list of the equipment received.
- Return date on the invoice can be confirmed as accurate by comparing it to the return tag issued to the City employee returning the equipment.

According to Administrative Instruction 3-4:

It is the responsibility of the receiving department to inspect works being performed on behalf of the City of Albuquerque to

ensure that it is being completed in accordance with contractual commitments.

and,

The City department accepting delivery or inspecting goods and services purchased will immediately notify the vendor of the discrepancy and request that such be corrected immediately at the expense of the vendor.

By not ensuring the accuracy of billing rates and fees, it can be estimated that the City cumulatively overpaid Ahern an estimated \$6,300 (\$4,770 damage waiver fees, plus \$297 in environmental fees, plus \$1,233 for inaccurate billing rates). By not verifying the equipment listed on each invoice and the amount of time they were used, the City could pay for equipment and fees not actually used and/or for inaccurate time frames.

RECOMMENDATIONS

The CAO should:

- Request reimbursement of \$6,300 from Ahern for overcharges stemming from charges and fees not in accordance with the contract,
- Remind City departments and fiscal staff to verify the accuracy of invoices prior to authorizing payment, and
- Work with Ahern to amend the contract as needed to add or delete equipment to the equipment schedule or to change pricing of equipment.

RESPONSE FROM THE CAO

“The DFAS Purchasing Division shall seek reimbursement of \$6,300 from Ahern for overcharges stemming from charges and fees not in accordance with the contract.

The e-Procurement system now requires a 3-way watch for the payment of invoices. If the Purchase Order, Receipt and Invoice do not match, a payment cannot be made. Departments must now receive all goods and verify that services have been rendered prior to payment. This system ensures that invoices are paid timely and accurately.

The Purchasing Division will review the Ahern contract to determine if any amendments can and/or should be made.”

ESTIMATED COMPLETION DATES

“May 15, 2017”

2. CITY CONTRACTS SHOULD SPECIFICALLY ADDRESS FUEL AND DELIVERY AND PICKUP CHARGES.

The absence of detailed billing information in the contract has left certain charges vague and open to interpretation. The City's contract with Ahern does not address the charges for fuel or delivery and pickup of equipment. When the contract was drafted, definitive language regarding charges for fuel and delivery of equipment was omitted. The current language states: “If equipment is delivered, the delivery charge will be added to the invoice”, and “Fuel charges shall be added to the invoice.” Contracts should include applicable rates for all charges so that each party to the contract understands and can fulfill the specified performance of the contract.

By not specifically addressing charges for fuel and charges for delivery and pickup of equipment, the City could be subject to exorbitant and inconsistent charges. Ahern billed \$8 per gallon for gasoline. The national average price per gallon of gasoline in 2015 and 2016 was \$2.39 per gallon. Ahern billed \$8.50 per gallon for diesel. The national average price per gallon for diesel in 2015 and 2016 was \$2.50 per gallon. In addition, Ahern charged \$65 for pickup and delivery. However, it is unclear and needs to be determined whether this is a reasonable delivery and pickup rate.

RECOMMENDATION

The CAO should ensure future contracts with Ahern specifically address fuel and delivery and pickup charges.

RESPONSE FROM THE CAO

“The Purchasing Division will incorporate this requirement to future lease solicitations or will ensure that this provision exists in other government or cooperative agreements when utilizing the “piggyback” method of procuring the lease and/or rental of heavy equipment.”

ESTIMATED COMPLETION DATE

“Immediately”

3. INSURANCE REQUIREMENTS SHOULD BE PERIODICALLY VERIFIED.

Ahern was generally compliant with the requirements for insurance outlined in the contract. However, Ahern did not carry a policy for medical payments as required in the contract. The contract requires Ahern to carry a minimum of \$5,000 of medical payments coverage. The City did not verify that Ahern carried an insurance policy for medical payments as required in the contract.

According to the General Instructions, Terms, and Conditions, the vendor must maintain coverage for \$5,000 in medical payments. According to the Risk Management Division this insurance is required in contracts because it effectively transfers risk from the City.

RECOMMENDATION

The CAO should ensure the Department of Finance and Administrative Services Risk Management Division periodically verifies Ahern's compliance with the insurance requirements outlined in the contract.

RESPONSE FROM THE CAO

"The Purchasing Division in concert with the Risk Management Division will ensure that Ahern is in compliance with the insurance requirements outlined in the contract.

The Risk Management Division will offer Ahern Rentals two options to mitigate this finding:

- 1. Submit a new certificate of insurance or letter of self-insurance that specifies the Medical payment coverage required in the contract.*
- 2. Request a waiver of the requirement for Medical Payment coverage and an amendment of the contract to reflect the same.*

The Risk Management Division will approve either method of mitigation."

ESTIMATED COMPLETION DATE

"Immediately"

CONCLUSION

Effective contract monitoring is important for ensuring contractual compliance, and will aid user departments to not pay for:

- Unallowable fees,
- Equipment not included in the equipment schedule, and
- Billing rates not established by the contract.

We greatly appreciate the assistance of the various City department employees that participated throughout this audit.

Principal Auditor

REVIEWED & APPROVED:

APPROVED FOR PUBLICATION:

Lawrence L. Davis, Acting City Auditor
Office of Internal Audit

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVE

The audit objectives were to determine whether:

1. Ahern's billings are accurate and in conformance with the contract.
2. Ahern is in compliance with the insurance requirements outlined in the contract.

SCOPE

Our audit did not include an examination of all functions and activities related to equipment rental services. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities from May 1, 2015 through the completion of fieldwork on January 23, 2017 and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to:

- Reviewing the contract and scope of service,
- Determining the population of paid invoices during the audit period,
- Generating a statistical, random sample using "The Number" sampling software to provide a 90 percent confidence level,
- Applying the statistical random sample generated to the total population of paid invoices to determine the sample,
- Comparing approved contract rates to billed rates,
- Testing for unallowable charges,

- Testing the mathematical accuracy of sampled invoices,
- Determining compliance with the insurance requirements outlined in the contract,
- Interviewing key employees from City departments that used equipment rental services from Ahern Rentals,
- Documenting the departments' processes for receiving and approving Ahern invoices for payment, and
- Interviewing management from Ahern.