



May 31, 2017

Performance Audit

Ahern Rentals, Inc. (Vendor 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

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Audit #16-106
(Vendor 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*.

Ahern generally complied with the insurance requirements but did not carry a required \$5,000 policy for medical payments.

Ahern accepted the findings, agreed to reimburse the City \$6,300, and is in the process of implementing the remaining recommendations.

Recommendations



Ahern Should:

- Reimburse the City \$6,300 for the estimated total of overcharges billed,
- Ensure it is not billing unallowable fees,
- Work with the City to amend the contract as needed to add or delete equipment to the *Equipment Schedule*,
- Ensure all billing rates are in accordance with the approved contract rates, and
- Obtain an insurance policy with \$5,000 in medical payments coverage.



City of Albuquerque

Office of Internal Audit

May 31, 2017

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

Audit: Ahern Rentals, Inc. (Vendor Report)
Citywide
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AMENDED 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.

Report Amendment

Ahern did not initially submit responses to the audit findings, which is a criminal violation of City Ordinance § 2-10-12 ROA 1994. Ahern submitted responses after the approval and

publication of the final audit report by the Accountability in Government Oversight Committee (AGO Committee). On May 31, 2017, the AGO Committee approved the amended final report, which includes Ahern's responses to the audit findings.

FINDINGS

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

1. AHERN SHOULD ENSURE THE ACCURACY OF BILLING RATES AND FEES.

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 submitted by 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 the vendor 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 charges for a damage waiver. The City was billed \$1,782 for damage waiver fees. The \$1,782 charged 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 period, it can be estimated that Ahern overcharged the City \$4,770 for damage waiver fees.

Of the 18 invoices reviewed, 16 contained environmental fees. Cumulatively, the City

was billed \$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 Ahern overcharged the City \$297 for environmental fees.

Charges for Equipment Not Listed in the Equipment Schedule

Of the 18 invoices reviewed, 4 contained charges for equipment not included in the equipment schedule. The total charged 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 invoices 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 overcharged 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 period, it can be estimated that Ahern overcharged the City \$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.*

As stated in the contract:

As consideration for the lease of equipment, Lessee agrees to pay to Lessor, for the Lease Term, the Rental Payment set out in the applicable Equipment Schedule....

By not ensuring the accuracy of billing rates and fees, it can be estimated that Ahern cumulatively overcharged the City an estimated \$6,300 (\$4,770 damage waiver fees, plus \$297 in environmental fees, plus \$1,233 for inaccurate billing rates). The errors contributing to the overcharges may be considered non-compliance, and could be valid cause for terminating the contract.

RECOMMENDATIONS

Ahern should:

- Reimburse the City \$6,300 for the estimated total of overcharges billed,
- Ensure it is not billing unallowable fees,
- Ensure all billing rates are in accordance with the approved contract rates, and
- Work with the City to amend the contract as needed to add or delete equipment to the equipment schedule or to change the billing rates of equipment.

RESPONSE FROM AHERN

1. *Reimburse the City \$6,300.00 for the estimated total of overcharges billed,*
2. *Ensure Ahern is not billing unallowable fee's – Damage Waiver and Environmental fees,*
3. *Ensure all billing rates are in accordance with approved contract rates,*
4. *Work with the City to amend the contract as needed to add or delete equipment to the equipment schedule or to change the billing rates of equipment, and*
5. *Ahern has received the City's insurance policy and the damage waiver has been removed from the account.*

ESTIMATED COMPLETION DATES

“Immediately”

2. AHERN SHOULD ENSURE IT IS IN COMPLIANCE WITH THE INSURANCE REQUIREMENTS OUTLINED IN THE CONTRACT.

Ahern was generally compliant with the contract with regard to the requirements for insurance. 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.

Ahern management stated the company is self-insured for the medical payments requirement. The City will waive this requirement if Ahern provides sufficient evidence of self-insurance that is acceptable to the City. Ahern has not provided sufficient evidence to the City. By not carrying the required insurance Ahern is not in compliance with the contract.

RECOMMENDATION

Ahern Should:

- Work with the City to determine if its self-insurance policy is sufficient to waive the requirement for medical payments insurance, or
- Obtain an insurance policy with \$5,000 in medical payments coverage.

RESPONSE FROM AHERN

Ahern is in the process of providing the City with the necessary insurance documentation and will ensure full compliance in the future.

ESTIMATED COMPLETION DATE

“Immediately”

CONCLUSION

Effective contract monitoring is an important aspect of ensuring compliance with contractual obligations. Through effective monitoring of contract requirements, Ahern will be able to ensure it:

- Submits accurate invoices, with no unallowable fees,
- Provides only equipment included in the equipment schedule,
- Submits invoices containing accurate billing rates, and
- Is compliant with the contract requirements for insurance.

We greatly appreciate the assistance, involvement and cooperation of Ahern management and are thankful for their engaged participation throughout the audit process.

Ahern Rentals, Inc. (Vendor Report)
Citywide
May 31, 2017

16-106

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 vendor invoices for payment, and
- Interviewing management from Ahern.