



June 27, 2018

Performance Audit

Fresh & Clean Portable Restrooms, Inc.

Citywide Contract Audit – City Report

Report No. 18-104



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
FRESH & CLEAN PORTABLE RESTROOMS, INC.
CITY REPORT
REPORT NO. 18-104

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The purpose of this audit was to review and report on Fresh & Clean Portable Restrooms, Inc.'s billing and insurance compliance for the period August 1, 2017 through March 23, 2018.

Executive Summary – City Report

The Office of Internal Audit (OIA) conducted a citywide vendor audit of Fresh & Clean Portable Restrooms, Inc. (Fresh & Clean). Vendor audits are included on OIA's fiscal year (FY) 2018 audit plan and Fresh & Clean was selected. The audit period addressed an eight-month period from the contract start date.

During the audit period, the City paid Fresh & Clean \$35,059 over 128 invoices.

City departments do not sufficiently review invoices from Fresh & Clean for accuracy prior to authorizing payment. From a statistical random sample of 21 invoices, net overcharges and mathematical inaccuracies were noted and amount to an estimated overcharge of \$1,192.

City departments also do not sufficiently review invoices from Fresh & Clean for contractual compliance. From the statistical random sample of invoices selected, the following issues were noted:

- Incorrect Unit Rates,
- Vague/Inaccurate Descriptions, and
- Incorrect Service Years.

Invoices containing inaccurate information are not in compliance with the contract and complicate the billing process.

In addition, the audit found that the Purchasing division had not retained documentation confirming that the vendor had obtained insurance upon execution of the contract.

The CAO concurred with the findings and will implement the recommendations.

Recommendations

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The CAO should:

- Instruct the Department of Finance & Administrative Services (DFAS) to issue an invoice to Fresh & Clean \$1,192 for the calculated overpayment during the audit period, and work with the vendor to calculate any net overbillings for the remaining contract period; and
- Emphasize to City departments the importance of reviewing invoices for billing accuracy and contract compliance prior to authorizing payment.

DFAS-Purchasing should:

- Verify and retain documentation to illustrate that vendors have obtained insurance upon execution of the contract.



City of Albuquerque

Office of Internal Audit

June 27, 2018

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

Audit: Vendor Audit - Citywide
Fresh & Clean Portable Restrooms, Inc.
Audit No. 18-104

FINAL – City Report

INTRODUCTION

The Office of Internal Audit (OIA) conducted a citywide vendor audit of Fresh & Clean Portable Restrooms, Inc. (Fresh & Clean). Vendor audits are included in OIA’s fiscal year (FY) 2018 audit plan and Fresh & Clean was selected. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

According to the vendor’s website, Fresh & Clean has been in operation for over 13 years; has the latest in portable restrooms and associate products in the market; offers luxury restroom trailers, hand washing stations with hot water, and double dual sinks; and considers itself “New Mexico’s sanitation leader”. Fresh & Clean is a returning vendor of the City, having last done business with the City in 2014. The contract in place at the time of the audit has a 12-month term from August 8, 2017 through August 1, 2018. The contract term may be extended for up to three additional years by mutual written agreement of both parties.

The City of Albuquerque (City) contracts with Fresh & Clean to provide portable restrooms for employees in the field and citizens attending the numerous City events throughout the year, including Summerfest and the Twinkle Light Parade.

Audit testwork involved selecting a statistical random sample from a total population of invoices. The total population was made up of 128 paid invoices totaling \$35,059. Eight City departments were represented by the sample and include:

1. Aviation
2. Cultural Services
3. Environmental Health
4. Municipal Development
5. Parks & Recreation
6. Police
7. Solid Waste Management
8. Transit

FINDINGS

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

1. THE CAO SHOULD REMIND USER DEPARTMENTS TO VERIFY THE ACCURACY OF BILLING RATES PRIOR TO AUTHORIZING PAYMENT.

City departments do not sufficiently review invoices from Fresh & Clean for accuracy prior to authorizing payment. From a statistical random sample of 21 invoices, net overcharges and mathematical inaccuracies were noted and amount to an estimated overcharge of \$1,192.

Overcharges

Seventeen of the twenty-one invoices sampled contained net overcharges or miscalculations totaling \$197. A detailed summary of the amounts can be found at **Appendix B**. The statistical random sample of 21 invoices totaled \$5,726, which equates to an overall error rate of 3.4 percent (\$197/\$5,726).

By applying the error rate to the audit period's total paid invoices, it can be estimated that the City was overcharged a total of \$1,192 (\$35,059 x .034).

Based on the review of invoices, the vendor consistently overcharges the City \$2.63 per portable restroom service. Fresh & Clean charges \$34.13 per service rather than the approved \$31.50 rate per service, as shown below.

Invoice Number 160440										
Line #	Your Part #	Description	Pricing Unit Size	Start Date	End Date	Unit Of Measure	Qty. Shipped	Price	Ext. Price	Total
1		High Tech WITHOUT HAND SANITIZER	1	10/9/2020	11/8/2020		1	32.00	\$32.00	\$32.00
2		Service Per month, in arrears	1	10/9/2020	10/31/2020		1	136.50	\$136.50	\$136.50
3		Service Per month, in arrears	1	10/9/2020	10/31/2020		3	34.13	\$102.39	\$102.39
4		Service Per month, in arrears	1	10/9/2020	10/31/2020		3	34.13	\$102.39	\$102.39
5		Handicap World Care Restroom WITHOUT HAND SANITIZER	1	10/9/2020	11/8/2020		1	62.00	\$62.00	\$62.00
6		Service Per month, in arrears	1	10/9/2020	10/31/2020		1	136.50	\$136.50	\$136.50
7		Service Per month, in arrears	1	10/9/2020	10/31/2020		3	34.13	\$102.39	\$102.39
8		Service Per month, in arrears	1	10/9/2020	10/31/2020		3	34.13	\$102.39	\$102.39

Source: Fresh & Clean Invoice #160440 (electronic submission)

In addition to overcharging for services to portable restrooms, on all invoices for which “High Tech, with Hand Sanitizer” was billed, the vendor charged for a more expensive unit as shown below.

From =>	To	Duration	Unit/Service Type	Quantity	Price/Per	Tax?	Extension
01-Jan-2018	> 31-Jan-2018	31	High Tech WITH HAND SANITIZER, THREE TIMES A WEEK SERVICE, STAKE DOWN	1	\$58.00		\$58.00

Source: Fresh & Clean Invoice #162815

City departments confirmed that the unit received was Unit 1 (\$32 contract rate), pictured below.



Source of Picture: Original Request for Bid documents

**Unit 1 – Standard Toilet without hand sanitizer dispenser
 (Model: High Tech, Maxim)**

A hand sanitizer dispenser is Item 7 of the contract, and may be added to any portable restroom for an additional charge of \$1.

Hand sanitizer dispensers were not listed on any invoice. Rather, it appears that if hand sanitizer was requested, the vendor incorrectly billed for Unit 4 (\$58 contract rate), pictured

below.



Source of Picture: Original Request for Bid documents

Unit 4 – Portable Toilet (Model: High Tech, Maxim)

By not reviewing invoices, City departments permitted incorrect rates to be charged and overpayments to be made.

Mathematical Inaccuracies

Four of the twenty-one invoices sampled contained mathematical inaccuracies. Two invoices contained inaccurate extension computations, one invoice contained unnecessary proration, and one invoice contained both an extension error and a prorated amount, as shown below.

From =>	To	Duration	Unit/Service Type	Quantity	Price/Per	Tax?	Extension
05-Nov-2017	> 30-Nov-2017	26	High Tech WITH HAND SANITIZER, THREE TIMES A WEEK SERVICE	1	\$58.00	<input type="checkbox"/>	★ \$50.27
			Per month, in arrears				
01-Nov-2017	> 30-Nov-2017	4	Service	1	\$136.50	<input type="checkbox"/>	\$136.50
			Per month, in arrears				
01-Nov-2017	> 30-Nov-2017	5	Service	1	\$136.50	<input type="checkbox"/>	★ \$170.63
			Per month, in arrears				
01-Nov-2017	> 30-Nov-2017	4	Service	1	\$136.50	<input type="checkbox"/>	\$136.50
			Per month, in arrears				

Source: Fresh & Clean Invoice #161234

★ Prorated amount. (Calculation: Unit price \$58.00/30 days in November x 26 day duration = \$50.27)

★ Inaccurate extension computation

Prorated billing is unnecessary, as the Request for Bid defines weekly and monthly rates as any period up to seven days; and one calendar month or any part of a calendar month, respectively.

By not reviewing invoices, City departments permitted mathematical inaccuracies to remain and overpayments to be made.

Administrative Instruction 3-4 states that department end-users are responsible for monitoring

the vendor's progress and performance to ensure that goods and services conform to the contractual requirements.

Interviews with key employees from the various user departments confirmed that verifying invoice rates may be periodic, based on assumptions that the rates have already been verified, or affected by e-procurement approval workflows.

RECOMMENDATIONS

The CAO should:

- Instruct the Department of Finance & Administrative Services to issue an invoice to Fresh & Clean for the calculated \$1,192 overpayment during the audit period, and work with the vendor to calculate any net overbillings for the remaining contract period.
- Emphasize to all user departments during the Purchasing Liaison User Group meetings the importance of verifying the accuracy of billing rates and invoice computations prior to authorizing payment.
 - Rates charged should match the approved contract rates.
 - Extension amounts should total the quantity ordered multiplied by the unit price.

RESPONSE FROM THE CAO

“The Department of Finance and Administrative Services agrees with the finding. The Purchasing Division will coordinate with the Accounting Division on obtaining a credit of \$1,192 from Fresh and Clean. The Purchasing Division will stress to City user departments the importance of reviewing and verifying billings rates and invoice computations. The Purchasing Division will also review the need for additional training on producing accurate purchase orders that will reduce the amount of errors in billing rates.”

ESTIMATED COMPLETION DATES

“The Purchasing Division will coordinate with the Accounting Division on obtaining a credit no later than the end of the fiscal year, June 30, 2018. The Purchasing Division will communicate the importance of reviewing rates at its next scheduled Purchase Liaison User Group meeting on July 26, 2018 9:30 a.m. in the City Council Chambers.”

2. THE CAO SHOULD REMIND USER DEPARTMENTS TO REVIEW VENDOR INVOICES FOR ACCURACY AND CONTRACTUAL COMPLIANCE.

City departments do not sufficiently review invoices from Fresh & Clean for contractual

compliance. From the statistical random sample of invoices selected, the following issues were noted:

- Incorrect Unit Rates,
- Vague/Inaccurate Descriptions, and
- Incorrect Service Years.

Invoices containing inaccurate information are not in compliance with the contract and complicate the billing process.

The following subsections provide detailed information for, and examples of, the issues noted.

Incorrect Unit Rates

Nineteen of the twenty-one invoices sampled contained incorrect “per unit” rates. For example, invoice #160450 lists a monthly per unit service rate at \$136.50 as shown below.

From =>	To	Duration	Unit/Service Type	Quantity	Price/Per	Tax?	Extension
04-Oct-2017	> 03-Nov-2017	31	High Tech NO HAND SANITIZER, ONCE A WEEK SERVICE (Reflects minimum due)	2	\$32.00	<input type="checkbox"/>	\$64.00
09-Oct-2017	> 31-Oct-2017	4	Service (New delivery pro-rated to current billing cycle close.)	2	\$136.50	<input type="checkbox"/>	\$273.00

Source: Fresh & Clean Invoice #160450

The contract does not contain a monthly rate for portable restroom service, only a per service rate of \$31.50.

Note: The per service rate of \$31.50 multiplied by 4 weeks in 1 month totals \$126.00, not \$136.50, which is a difference of \$10.50. The difference of \$10.50 per month service (or \$105 difference between the vendor's "monthly service rate" and the \$31.50 "approved contract rate") may be misleading.

In addition, the incorrect unit rates were not always due to the overcharged service rate. Occasionally, the unit rate listed was multiple service charges combined. For example, Invoice #160423 lists one service at a per unit rate of \$63.00, as shown below. The contracted service rate is \$31.50 per service (correct service rate \$31.50 x 2 services = \$63.00).

From =>	To	Duration	Unit/Service Type	Quantity	Price/Per	Tax?	Extension
02-Oct-2017	> 01-Nov-2017	31	High Tech NO HAND SANITIZER (Reflects minimum due)	1	\$32.00	<input type="checkbox"/>	\$32.00
02-Oct-2017	> 31-Oct-2017	2	Service (New delivery pro-rated to current billing cycle close.)	1	\$63.00	<input type="checkbox"/>	\$63.00

Source: Fresh & Clean Invoice #160423

Not requiring the vendor to bill in accordance with the contracted rates complicates each department’s abilities with to ensure the accuracy of invoices.

Vague/Inaccurate Descriptions

All of the 21 invoices sampled contained descriptions of portable restrooms that did not match the contract descriptions and did not include the unique unit/item numbers defined in the contract.

Vague descriptions, or descriptions that do not match the contract descriptions complicate the billing process. By not requiring that the vendor’s invoice descriptions match contract descriptions, City departments could not ensure the accuracy of invoices and improper rates were charged.

Inaccurate Service Years

The vendor submitted 11 of the 21 invoices sampled electronically. Each of the electronically submitted invoices listed the service year as the year 2020, as shown below.

Line #	Your Part #	Description	Pricing Unit Size	Start Date	End Date	Unit Of Measure	Qty. Shipped	Price	Ext. Price	Total
1		High Tech WITH HAND SANITIZER ONCE A WEEK SERVICE	1	10/26/2020	11/25/2020		1	58.00	\$58.00	\$58.00
2		Service(New delivery pro-rated to current billing cycle close.)	1	10/26/2020	10/31/2020		1	34.13	\$34.13	\$34.13

Source: Fresh & Clean Invoice #160442 (electronic submission)

Invoices that contain incorrect service years complicate each department’s ability to confirm that services were received.

As stated in Administrative Instruction 3-4 Vendor City and Relations and Responsibilities Relating to Vendor Performance. Item 3, End-User/Department Responsibilities Relating to Vendor Performance:

The goal of managing vendor performance is to ensure that contractual requirements are satisfactorily performed and the responsibilities of the Department End-User consist of the following:

- (E) Monitor the Vendor’s progress and performance to ensure that goods and services conform to the contractual requirements....,
- (H) Maintain proper records, and
- (J) Report deficiencies to the Purchasing Division.

Interviews with key employees from the various user departments confirmed that the review of invoices for contractual compliance may be periodic or based on assumptions that the

information has already been verified.

Each of the sampled invoices that contained billing issues was related to a blanket Purchase Order (POs). By issuing blanket POs for large amounts, the City's e-procurement matching process is bypassed and allowed overpayments to be made. Overall, the user departments reported that sufficient training has been provided for the City's e-procurement process; however, a review of certain workflows may be beneficial.

RECOMMENDATION

The CAO should:

- Emphasize to all user departments during the Purchasing Liaison User Group meetings the importance of:
 - Verifying the accuracy of vendor invoices prior to authorizing payment.
 - Rates charged should match the approved contract rates.
 - The "per unit" rate listed on the invoice should not require various mathematical calculations or assumptions.
 - Extension amounts should total the quantity ordered multiplied by the unit price.
 - Descriptions on invoices should match contract descriptions.
 - Determining whether a blanket PO is necessary or appropriate.

RESPONSE FROM THE CAO

"The Department of Finance and Administrative Services agrees with the finding. The Purchasing Division will work in conjunction with the ERP Division to ensure communication and training is provided to user departments on how to set up purchase orders that will reduce the amount of errors in billing rates. The Purchasing Division will work with the Accounting Division to evaluate whether a blanket PO is necessary or appropriate in context of this particular vendor/services."

ESTIMATED COMPLETION DATE

"The Purchasing Division will communicate the important of reviewing invoices for accuracy and contractual compliance at its next scheduled Purchase Liaison User Group meeting on July 26, 2018 9:30 a.m. in the City Council Chambers."

3. THE DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES SHOULD ENSURE THE NECESSARY INSURANCE IS ON FILE UPON EXECUTION OF A VENDOR'S CONTRACT.

DFAS-Purchasing did not retain documentation confirming that Fresh & Clean had secured

the necessary insurance and was in compliance with the contract's insurance requirements upon execution of the contract. Rather, proof of insurance was obtained eight months into the contract term at OIA's request.

Section 28 of the City of Albuquerque's General Terms and Conditions states:

Insurance. Unless this requirement has been waived by the City's Risk Manager, the Contractor shall procure and maintain at its expense until final payment by the City for services covered by the Contract, insurance in the kinds and amounts listed below with insurance companies authorized to do business in the State of New Mexico, covering all operations under this Agreement, whether performed by it or its agents. Before commencing the services, the Contractor shall furnish to the City a certificate or certificates in form satisfactory to the City showing that is complied with this Section.

Without the necessary insurance in place and on-file, the vendor was not in compliance with the contract. Had events arisen that required a claim to be filed, the City would not have been covered by the vendor's insurance.

RECOMMENDATION

DFAS-Purchasing should verify and retain documentation to confirm that the vendor has obtained insurance upon execution of the contract.

RESPONSE FROM DFAS-PURCHASING

"The Department of Finance and Administrative Services agrees with the finding. General Terms and Conditions require the vendor to furnish a certificate before commencement of services, not upon execution of the contract. The Purchasing Division's practice is to reach out to the vendor to confirm coverage prior to publishing the contract, to ensure that the work does not commence without the insurance being in place. This is standard practice; but Purchasing management will remind staff of the need to obtain evidence of insurance at the contract processing time. Second, the absence of the insurance certificate in the file does not necessarily mean that the insurance was not verified, nor that the City would not be able to file an insurance claim under the vendor's policy. The contract processing flow is still very much a paper-driven manual process. This inevitably results in the occasional misplacing of documents meant to be directed to a file, which may or may not be the case here. However, this brings up a good discussion point about improving processes. Both Purchasing and Risk Management Division recognize the need to improve the process for obtaining and tracking of insurance certificates City-wide. The Purchasing Division, Risk Management and ERP are currently researching the functionality of the PeopleSoft to be able to track certificates, as well as possible third-party vendor solutions to this issue."

ESTIMATED COMPLETION DATE

“The Purchasing Division will work in conjunction with the ERP Division to use the current functionality of PeopleSoft to store insurance certificates electronically. The Purchasing Division estimates the determination of the functionality of PeopleSoft and the establishment of the appropriate business process of storing the certificates can be accomplished by July 31, 2018. This solution may or may not be a temporary solution as the Risk Division is contemporaneously reviewing 3rd-party software applications for the tracking and compliance of insurance certificates from the vendors. Once both options are evaluated, we anticipate either PeopleSoft functionality or the third-party vendor solution will be implemented within three (3) months from the determination of which option will work in the best interest of the City.”

CONCLUSION

Opportunities for improvement exist among the various City departments receiving portable restroom services from Fresh & Clean. The various issues identified throughout this report existed and remained unnoticed by the user departments illustrates that user departments are not verifying the accuracy of invoices prior to authorizing payment.

The review of an eight-month period of Fresh & Clean's invoices identified various billing and mathematical issues that resulted in calculated net overcharges to the City of \$1,192.

We greatly appreciate the assistance, involvement and cooperation of the various City departments interviewed throughout the audit process.

Contract Auditor

REVIEWED:

Senior Information Systems Auditor

APPROVED:

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

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

ACKNOWLEDGED:

Jim Thompson, City Auditor
Office of Internal Audit

APPENDIX A

OBJECTIVE

The audit objectives were to determine:

1. Are the vendor's billings accurate and in conformance with the contract?
2. Is the vendor in compliance with the insurance requirements of the contract?

SCOPE

Our audit did not include an examination of all functions and activities related to the Fresh & Clean Portable Restrooms, Inc. contract. 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 through the completion of fieldwork on May 16, 2018 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 the following:

- Reviewed procurement contract and corresponding General Instructions, Terms and Conditions;
- Determined the population of paid invoices during the audit period;
- Generated a statistical, random sample using "The Number" sampling software to provide a 90 percent confidence level;
- Selected a judgmental sample of all invoices over \$1,000.
- Tested the samples of invoices for billing compliance with the contract, rules and regulations, and policies and procedures;
- Recalculated invoices to verify that all are mathematically accurate;
- Interviewed key employees from City departments;
- Identified charges that are not included in the contract; and
- Other methodologies as needed.

APPENDIX B

Summary of Invoice Overcharges/(Undercharges)

#	Department	Invoice #	Date	Amount Billed	Correct Amount	Overcharge/(Undercharge)	Reason for overcharge
1	Solid Waste	160449	10/31/2017	\$134.39	\$126.50	\$7.89	Service rate overcharge on 3 services
2	Solid Waste	160451	10/31/2017	\$537.56	\$506.00	\$31.56	Service rate overcharge on 12 services
3	Solid Waste	106450	10/31/2017	\$337.00	\$316.00	\$21.00	Service rate overcharge on 8 services
4	Parks & Recreation	160440	10/31/2017	\$776.56	\$724.00	\$52.56	Service rate overcharge on 12 services & 2 extra service charges, duration undercharge
5	Municipal Development	160442	10/31/2017	\$92.13	\$64.50	\$27.63	Service rate overcharge on 1 service, incorrect item rate charged, undercharge
6	Cultural Services	161228	11/30/2017	\$992.60	\$1,131.00	(\$138.40)	Incorrect duration rate (undercharge), service rate overcharge on 24 services
7	Aviation	161241	11/30/2017	\$202.63	\$189.50	\$13.13	Service rate overcharge on 5 services
8	Parks & Recreation	161234	11/30/2017	\$493.90	\$442.50	\$51.40	Service rate overcharge on 13 services, incorrect item rate charged, unnecessary proration
9	Police	52012	12/1/2017	\$58.00	\$32.00	\$26.00	Incorrect item rate charged
10	Police	52021	12/29/2017	\$58.00	\$32.00	\$26.00	Incorrect item rate charged
11	Aviation	162050	12/31/2017	\$168.50	\$158.00	\$10.50	Service rate overcharge on 4 services
12	Aviation	162049	12/31/2017	\$168.50	\$158.00	\$10.50	Service rate overcharge on 4 services
13	Municipal Development	162045	12/31/2017	\$190.76	\$159.00	\$31.76	Service rate overcharge on 4 services, unnecessary proration, incorrect item rate charged
14	Cultural Services	162039	12/31/2017	\$198.50	\$251.00	(\$52.50)	Service rate overcharge on 4 services, incorrect duration rate (undercharge)

Summary of Invoice Overcharges/(Undercharges)

#	Department	Invoice #	Date	Amount Billed	Correct Amount	Overcharge/(Undercharge)	Reason for overcharge
15	Aviation	162810	1/31/2018	\$168.50	\$158.00	\$10.50	Service rate overcharge on 4 services
16	Transit	162815	1/31/2018	\$467.50	\$411.00	\$56.50	Service rate overcharge on 12 services, incorrect item rate charged, undercharge
17	Municipal Development	162793	1/31/2018	\$301.50	\$291.00	\$10.50	Service rate overcharge on 4 services
Total Overcharges:						\$196.53	

Source: Fresh & Clean invoices