AUDIT COMMITTEE

Minute No. 332 Review of the Hired Equipment Process

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee, in its capacity as the Audit Committee, received as information the Hired Equipment Process report dated June 2012, and submitted the matter to Council.

DECISION MAKING HISTORY:

Moved by Councillor Fielding,

That the recommendation of the City Auditor be concurred in and forwarded to Council.

Carried

While not identified in our audit plan, the Audit Department received a citizen inquiry into the hired equipment process and decided to conduct a limited scope review. The audit focused on two main objectives:

(1) Review and analyze a sample of hired equipment transactions for compliance with the terms and conditions of Bid Opportunity 150-2009.
(2) Determine whether adequate systems, practices and controls are in place and supported to properly administer the Hired Equipment Bid Opportunity.

This audit covered the period relating to Bid Opportunity No. 150-2009 Provision of Hourly Rates for Hired Equipment and Dump Trucks 2009-2010 Construction Season. The scope of our audit included the transactions, processes, policies and practices in place for the provision of hired equipment during the period April 12, 2009 to April 10, 2010

What was working well:

1. The execution of the Bid Opportunity, evaluation of the bid submissions and resulting contracts all appear to be operating as intended.
2. The majority of transactions are processed accurately and foremen within the City are able to hire the equipment needed in a timely manner.
3. The users of the equipment from across departments were consistently satisfied with the level of service they received from the administrators of this contract.

Areas for Improvement:

1. Controls in certain areas of the hired equipment process were insufficient. Access controls are required to limit the ability to edit the database that contains the hired equipment information. Preventive controls in data entry, such as a maximum of 24 billable hours per unit per day, should be implemented to reduce the potential for errors. Procedures around the approval of work tickets and payments also need to be improved.
2. Documentation of procedures, such as substitutions and replacements of equipment by contractors, was lacking. There was no documentation to ensure compliance with the bid opportunity and that all appropriate reviews were taking place.
3. The bid opportunity contains items such as overtime premiums and an age slotting advantages that should be reviewed to ensure that they are still consistent with industry practice.
4. The staff person in critical position in the process is eligible to retire. Currently there is no succession plan in place and the ability to automate aspects of the position should be evaluated.

What is recommended:

1. The controls within the process should be created or improved as necessary. Databases should have appropriate access controls to ensure unauthorized editing. Appropriate preventive controls should be implemented for data entry to prevent errors. Approval of work tickets should be performed by the appropriate individuals.
2. Adequate documentation of the process should be created including the process for substitution or replacement of equipment to ensure they are in compliance with the bid opportunity.
3. A review of the overtime premium and age slotting advantage items within the bid opportunity should be conducted to ensure they are obtaining the best value of the City.
4. A succession plan for the equipment coordinator be created and a consideration of the potential to automate certain functions to reduce the reliance on critical staff.

Management's Position

- Management was in agreement with all recommendations identified.

Policy

The report is being submitted in accordance with the City Organization By-law 7100/97 section 19(d)(iv) that the Audit Committee will "Receive and review audit reports, and table such reports with its recommendations at a regular meeting of Executive Policy Committee."

Recommendation:

That the Executive Policy Committee, in its capacity as the Audit Committee, receive as information the Hired Equipment Process report dated June 2012.

Winnipeg

Review of the Hired Equipment Process
June 2012

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Audit Department

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Executive Summary

A Bid Opportunity is issued annually to contract with hired equipment for the following construction season. The Hired Equipment process includes the annual review and posting of the Bid Opportunity, evaluation of the bid submissions, award of contracts to vendors, assignment of work to contractors and payment for services provided. Various types of equipment are available for hire including tandem trucks, semi-trailers, backhoes, excavators and loaders. Although the Bid Opportunity is available to all City departments, the main users of hired equipment are in the Public Works Department and the Water & Waste Department.

The execution of the Bid Opportunity, evaluation of the bid submissions and resulting contracts all appear to be operating as intended. However, we found some controls that should be enhanced and certain aspects of the hired equipment process where improvements could be made to increase accuracy of payments and compliance with the contract. We reviewed a sample of hired equipment transactions from the period of April 12, 2009 to April 10, 2010. While the majority of transactions did appear to be processed accurately we did identify transactions that were processed inaccurately and some transactions that may have resulted in a minor financial loss to the city. These transactions included double billings, continuous billing between job sites and payment of overtime outside of hours stated in the Bid Opportunity. It appears that the majority of the errors identified in our testing could be eliminated if the proper preventative controls are implemented into the Time Keeping Management Maintenance System (TKMMS). These controls would prevent such things as the same piece of equipment from being billed for more than one job at the same time and limiting the maximum number of billed hours to 24 per day. In addition, the hired equipment database which compiles the end results of the Bid Opportunity requires enhanced access controls.

Documentation surrounding the substitution or replacement of equipment needs to be improved to provide a proper audit trail to support equipment called out for work. The review of contractor payment information also needs to be improved and documented. There is no procedure to ensure that a review of pending payments occurs prior to upload into the PeopleSoft system or to properly document who has performed the review.

Further, we observed two clauses within the Bid Opportunity that warrant review to ensure the City receives the best value when retaining hired equipment. The current Bid Opportunity obligates the City to pay an overtime premium for the use of hired equipment, simply due to the day of the week which is inconsistent with other City practices. Secondly, the age slotting method used by the City is unsupported by a business case and is inconsistent with the Manitoba Heavy Construction Rental Rate Guide method and warrants further review.

Finally, it was clear that the Public Work's Department Equipment Coordinator position is important to the effective management of the process for the use of Hired Equipment and that the possible departure of the current employee in the position would result in a significant reduction in the efficiency and effectiveness of the process, because of the reliance placed on the knowledge and experience of the incumbent. The Public Work's Department needs to create a succession plan for this position and also identify opportunities to reduce the reliance on the Equipment Coordinator through a combination of system automation and expansion of access to enable foreman to execute certain call out duties.

Mandate of the City Auditor

The City Auditor is a statutory officer appointed by City Council under The City of Winnipeg Charter. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City's Public Service. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. Once an audit report has been communicated to Council, it becomes a public document.

Audit Background

While not identified in our audit plan, the Audit Department received a citizen inquiry into the hired equipment process and decided to conduct a limited scope review.

Audit Objectives

The objectives of this audit were to:

- Review and analyze a sample of hired equipment transactions for compliance with the terms and conditions of Bid Opportunity 150-2009.
- Determine whether adequate systems, practices and controls are in place and supported to properly administer the Hired Equipment Bid Opportunity.

Audit Approach

We have conducted the audit in accordance with generally accepted auditing standards. Our audit process included the following steps:

- We conducted interviews with the management and staff in the Public Works Department, the Water and Waste Department, and Corporate Finance Materials Management Branch to obtain an understanding of current processes and procedures.
- We obtained and reviewed the Hired Equipment Bid Opportunity 150-2009 and resulting Callout List.
- We contracted with KPMG who assisted us in reviewing hired equipment transactions for our scoped period and selecting a sample to test against the terms and conditions detailed within the Bid Opportunity.

Independence

Audit team members selected for the audit did not have any conflicts of interest.

Audit Scope

This audit covered the period relating to *Bid Opportunity No. 150-2009 Provision of Hourly Rates for Hired Equipment and Dump Trucks 2009-2010 Construction Season*. The scope of our audit included the transactions, processes, policies and practices in place for the provision of hired equipment during the period April 12, 2009 to April 10, 2010

This scope is in order to perform a limited review of the Request for Proposal (RFP) to identify control issues with this process. This RFP is issued annually, no significant changes to the process have occurred over the past few years.

Audit Conclusions

The audit work performed led us to the following conclusions:

- We reviewed a sample of hired equipment transactions from the period of April 12, 2009 to April 10, 2010. While the majority of transactions did appear to be processed accurately we did identify transactions that were processed inaccurately and some transactions that may have resulted in a financial loss to the city. These transactions included double billings, continuous billing between job sites and payment of overtime outside of hours stated in the Bid Opportunity.

- From our observations, interviews and analysis we identified several areas where improvements could be made. System functionality for the Equipment Scheduler needs to be enhanced to be able to track information changes and to create preventative controls to reduce data entry errors. Procedures need to be established for dealing with substitutions and replacements of equipment and the approval and review of payments to contractors. We also identified an opportunity to review certain Bid Opportunity items, such as the overtime premium, to ensure the City receives the best value when retaining hired equipment. Finally, the Equipment Coordinator position is important due to the wealth of knowledge and experience possessed by the incumbent. The Public Work's Department needs to create a succession plan and identify opportunities to improve software systems, thereby reducing the reliance on this position.

The Audit Department wants to extend its appreciation to the management and staff of the Public Works Department, Corporate Finance Materials Management Branch, and the Water and Waste Department. We also want to thank KPMG for their assistance in performing data analysis on the sample of hired equipment transactions.

Members of the Audit Team

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City Auditor

June 2012
Date

Hired Equipment Process

Overview

The Hired Equipment Bid Opportunity was created as an alternative to the City owning and operating equipment such as dump trucks and backhoes. Contractors submit bids to the City annually with an hourly rate for their equipment to be hired by the City. Rental rates include all costs of any nature whatsoever associated with the supply and operation of the equipment and trucks. A callout list is then generated based primarily on price. As specified in the Bid Opportunity, the lowest priced equipment in each class will be called first for each shift. When a foreman requires a piece of equipment they will contact the Public Work's Equipment Coordinator who assigns them a piece of equipment based on the job requirements and the callout list.

The contractors operating hired equipment for the City will complete work tickets supplied by the City, at the end of each work shift or when work is completed. The work tickets must be signed by the project foreman or designate. A copy is retained by the City and the information is entered into TKMMS. TKMMS is an internally created software system used by the City of Winnipeg to track the use of hired equipment and is used to process payments. Every two weeks the work ticket information entered into TKMMS is automatically uploaded into the PeopleSoft Finance Module for payment.

Observations and Recommendations

The remainder of this report details our observations and recommendations. We believe the issues identified are important and implementing the recommendations will enhance the management and monitoring of the Hired Equipment process. A complete summary of our recommendations is attached as **Appendix 1**.

Controls

During our interviews, observations and testing of transactions it was noted that there were areas within the Hired Equipment process that require better controls.

Database Edit Controls

A crucial component of the hired equipment process is the Hired Equipment database that is used to create the Callout List. The Hired Equipment database maintains all the information related to each contractor including equipment details and hourly rates. This database is also used within the Equipment Scheduler and provides payment information to TKMMS.

From our observations and discussions with staff in the Public Works Department, it was noted that there are a significant number of users who have the ability to edit the information within the database. This would include the ability to change the rate that equipment is to be paid. Any changes made to the database are not tracked nor is there any form of approval. This creates an environment where human error or a potentially, fraudulent edit could be made to the database and go undetected. In order to prevent this risk, the number of users who have the right to process edits should be limited and all changes should require electronic approval and be tracked within the system.

Recommendation 1
We recommend that management limit the users that have access to edit the Hired Equipment database and that all changes are approved and tracked.

Management response
The existing Equipment Editor system provides access to authorized users only and all changes are logged automatically with a user-ID and timestamp. Public Works will extract this data and a report will be developed to review and approve all this information on a routine schedule. The Equipment Editor Users list and their access rights are being reviewed and will be updated immediately where needed. Public Works IS will create a regular report for sign-off by the Contract Administrator regarding any changes. It is estimated that the implementation of this recommendation will be completed by December 31, 2012.

Preventative Controls in the TKMMS System
KPMG was contracted by the Audit Department to assist in the review of Hired Equipment. They performed analytical reviews of all transactions for the top 20 contractors during the period of April 12, 2009 to April 10, 2010. There were approximately 8,000 hired equipment transactions, totaling $2,275,765, which were extracted from TKMMS and provided by the Public Works Department. The transactions represented the work tickets recorded in TKMMS. Analysis of trends between vendors, hours, foremen, and offices; comparison of rates paid to the Callout List; analysis of overtime; and the review of multiple shifts per equipment unit were performed. From the analysis, a sample of 97 was selected for testing by the Audit Department. The testing was performed by reviewing the source documentation which was the corresponding work ticket. These resulted in the following observations:

1. Continuous billing for a single piece of equipment - From the analysis of the 8,000 transactions, 106 instances, with a transactional value of approximately $39,000, of continuous billing were identified. This occurs when the work tickets for one unit shows no break between stopping work in one area and beginning in another area. An example of this could be a piece of equipment working from 0800 hours to 1500 hours for the Public Works Department and then from 1500 hours to 2200 hours for the Water and Waste Department in a different location. The Bid Opportunity procedures do not allow the contractor to charge for transportation to and from job sites. In most cases, there should be some break between the two work tickets relating to travel time, especially given that time can be entered in 15 minute increments. This may be the result of inaccurate information being reported on the work tickets. No further analysis could be conducted to validate or negate the accuracy of the work tickets that indicated continuous billing. Thus no consideration of financial loss could be calculated.

2. Unit working two shifts simultaneously – From the data we received it appeared that there were 66 instances of the same equipment unit working two shifts at once (ie, unit X was working from 8am to 4pm at two different locations on the same day.). We selected a sample of 28 to test; the sample was based on one instance from each contractor in every classification of equipment. This gave us coverage over all contractors and equipment types. It should be noted that another analysis showing pieces of equipment working more than 24 hours in a day was performed. All units identified in that analysis were all present in this group as well. In the majority of the incidences we reviewed, we noted that there was no financial loss to the City and there were three principal reasons for this issue occurring.

i. Data entry errors were found to be the most common occurrence (19 of 28). Data entry errors included the wrong date being entered or the wrong unit number entered as a result of missing information provided on the work ticket. This made it appear within TKMMS that a unit was working two shifts simultaneously but when the information on the work ticket was reviewed it was evident they were in fact not. There was no financial loss to the City in relation to these data entry errors.

ii. The next most common occurrence (7 of 28) resulted when two different pieces of equipment working in different areas were recorded under the same unit number in TKMMS. When reviewing the work ticket of the higher rate unit, a note was made to record it in TKMMS as the lower rate unit, thus there was no financial loss to the City. However, the contractors may have been undercompensated as a result. This would result in the same unit appearing to have worked on two separate jobs at the same time. In our discussions with the Public Works Department they stated that they felt this was a result of foremen attempting to record the lower cost equipment to reduce their costs.

iii. In the last 2 of the 28 instances reviewed, it appears that the City had been billed twice for the same piece of equipment. From the work tickets, the same operator for the same piece of equipment had submitted two work tickets for the same period of time. We brought these instances to the attention of the Public Works Department and they confirmed that they had been in fact double paid (the total amount between the two instances was 5 hours with a total financial loss to the City of $214). The explanation for the first instance was that one piece of equipment was called to a work site at 0700 hours but was laid off due to rain; when called, a contractor is entitled to a minimum of 4 hours, and thus 0700 -1100 hours was recorded on their work ticket. However, this piece of equipment was then hired by another area from 0800 hours to 1200 hours.

    The second instance had the first work ticket from 0700 – 1700 hours and the second work ticket from 1500 – 2300 hours. It appears that on one of these work tickets the hours worked had been inflated by two hours. As the system can record the same piece of equipment concurrently in TKMMS, none of these were detected and were subsequently paid.

3. Overtime premium - An overtime premium is granted for the hours worked from 1900 hours Friday to 1900 hours Sunday and on holidays. From our review of all 8,000 transactions we noted that there were three instances when the overtime premium was granted at incorrect times, for a total of 10 hours resulting in a $113 loss to the City. Errors can occur as overtime is manually entered into TKMMS.

It appears that the majority of the errors identified in our testing could be eliminated if the proper preventative controls are implemented into TKMMS. To eliminate the possibility of double billings TKMMS should prevent the same piece of equipment from working more than once at the same time and allow a maximum of 24 hours per unit per day. To eliminate any possible errors with overtime, TKMMS could automate the calculation.

Only trained and qualified individuals should have the responsibility of signing off on all work tickets to ensure the work tickets are accurate and that the information provided by the operator is complete (further addressed in Recommendation 3). This will further prevent errors from occurring in the system.

Recommendation 2
We recommend that changes to TKMMS be made to incorporate sufficient preventive controls in order to reduce the potential for errors. Specifically, these controls should include:

- displaying a notification when data for the same piece of equipment indicates continuous work at different locations
- prevent the same piece of equipment from being billed for more than one job at the same time
- allow a maximum of 24 billable hours per unit per day
- automate the calculation of the overtime premium

Management Response

1. ***Continuous work different locations*** *-This control will be developed to ensure that when a continuous time is determined for units working at different locations it will be flagged and reported to the equipment coordinator. Note some continuous payments with no break in between are legitimate and it is in the City's advantage to use them (for example a grader working continuous shifts out of the same work location). It is estimated that the implementation of this recommendation will be completed by December 31, 2013.*
2. ***Same Equipment / multiple billings*** *- We agree in principle however this practice is used sometimes to deal with equipment replacements – we're going to develop a methodology that will aid us in dealing with these replacement units. It should be noted that the majority of the exceptions Public Works was to review entailed multiple billings involving Streets Maintenance and Local Water & Waste. We see this as being a communication weakness between the two Departments and anticipate a joint effort to improve this gap. Meeting this requirement involves the Equipment Scheduler Recommendation #4 as it involves resolving issues regarding equipment replacements. See Recommendation #4 for estimated time.*
3. ***Maximum 24 billable hours*** *- This rule will be developed through an exception report. Legitimate business needs requires some units to be paid in excess of 24 hours (i.e. snow guarantee payments that can earn up to 30 hours based on the contract) It is estimated that the implementation of this recommendation will be completed by December 31, 2013.*
4. ***Overtime premium*** *- This process will be automated. Currently overtime is added to the hired equipment as a premium. We anticipate automating it based on the contract rules. It is estimated that the implementation of this recommendation will be completed by December 31, 2013.*

Approval of Work Tickets
In Section E9 of the Bid Opportunity it states that *"Work tickets must be signed by the project foreman or designate."* It was noted that if a foreman was not available, effectively any City employee at the job site could sign off on the work ticket. This creates a scenario where individuals with little experience or training can create a financial obligation for the City. The signing of a work ticket on behalf of the City creates a legal contract that obliges the City to pay a contractor an amount based on the information contained on that work ticket. An employee with no responsibility or accountability relating to work tickets has no incentive to scrutinize the accuracy of the information reported on the work tickets nor are they trained to understand the financial implications relating to the payment process. In addition to this, strong relationships form in the field with City staff and contractors, often with two groups working an entire construction season together. This close working relationship could make it even more difficult for junior or untrained staff to enforce a strict time recording process.

The lack of scrutiny can be evidenced through the analysis of the approximate 8000 hired equipment transactions provided by the Public Works Department for the period of April 2009 to April 2010. As noted earlier, 106 instances of continuous billing were identified. This occurs when the work tickets for one unit shows no break between stopping work in one area and beginning in another area. The analysis also identified 66 instances of the same equipment unit working two shifts at once. These types of potential transaction errors may be the result of inaccurate information being reported on the work tickets.

For each job site that uses hired equipment there needs to be an employee on site other than the foreman who is adequately trained to sign off on the work tickets. This training will inform staff of their role in the system and emphasize the need to carefully scrutinize and verify the accuracy of the information recorded on the work tickets. The work ticket would then be reviewed and approved by the foreman when it is entered in TKMMS. This improves the process as the individual signing off on the work ticket will be aware of their responsibility and their role in the process. They will understand that the foreman will also be reviewing any work tickets they sign off for reasonability of the information entered on the work ticket.



Given that the City of Winnipeg is publicly accountable for the funds it spends, there needs to be a more stringent process for recording contractor's time. A properly controlled payment process will result in fair and accurate payments to contractors and be transparent in the fiscal responsibility we have to the citizens. Externally the City needs to reinforce to the contractors that accurate time reporting is an expectation and failing to do so could result in suspension and removal from the Callout List as defined in Section E5 of the Bid Opportunity.

Recommendation 3
We recommend that management communicate to staff the importance of accurately reporting actual hours worked by contractors to ensure transparency over the use of public funds and that only trained and qualified individuals have the responsibility of signing off on work tickets and that a listing of these individuals is maintained and monitored.

Management response
Management will prepare a communication for all Hired Hourly Equipment user departments outlining the requirements for paying vendors based on the Construction Bid-Opportunity. A complete list of individuals from all user departments/divisions with work ticket sign-off responsibilities will be established and maintained. It is estimated that the implementation of this recommendation will be completed by December 31, 2012.

Equipment Scheduler and TKMMS Integration
Reconciliations to compare the units that were recorded as being hired within the Equipment Scheduler application, to the units that were actually recorded as being used from the work tickets entered in TKMMS are performed on an ad hoc basis and to varying degrees of completeness. This reconciliation is meant to identify instances when the Equipment Coordinator would hire one specific equipment unit but the contractor would send out another, more expensive unit to perform the work.

Currently, the Equipment Scheduler and TKMMS work as two independent applications.

Integrating the Equipment Scheduler with TKMMS would identify instances such as, a contractor sending out a more expensive piece of equipment and thereby over charging the City. When an equipment unit is selected in TKMMS by the foreman for payment, if the same equipment unit was not selected as 'hired' in the Equipment Scheduler, the transaction would be flagged for their attention. This would prompt the foreman to investigate and report on the discrepancy. The system could also be programmed to produce analysis reports to identify trends.

The Public Works Department agreed that the integration of the Equipment Scheduler application and TKMMS is possible and would be advantageous. The integration would assist in monitoring the use of hired equipment and ensuring that the process is being carried out in compliance with the Bid Opportunity. However, it was also noted this type of integration would require significant programming and staff resources.

Recommendation 4
We recommend that management investigate the feasibility of integrating the Equipment Scheduler and TKMMS applications.

Management response
We agree with exploring the feasibility of enhancing the Equipment Scheduler integration with TKMMS. It's recognized that a Central control aspect remains important in implementing fair and equitable hiring processes. This recommendation involves programming, training, current job and process changes and it is estimated that the implementation of this recommendation will be completed by March 31, 2014.

Review of Payments
After the work tickets are entered in TKMMS by the foreman, the information is forwarded to the senior foreman for a high level review as noted in the 'Processing of work tickets' section of the Hired Equipment Process. This review encompasses the use of City equipment as well as payments to City employees and hired equipment. However, per our discussions with The Public Works Department it was noted that the review primarily focuses on the operations of City staff.

After the review by the senior foreman, the work tickets are reviewed by the timekeepers in the Public Works Department who verify the accuracy of the information inputted in TKMMS from what is documented on the work tickets. Errors recorded on a work ticket, however, would not be detected during this review.

When the information entered in TKMMS is uploaded into the PeopleSoft Finance Module for processing a time payment report is generated and reviewed by the equipment clerical staff in The Public Works Department. This review only ensures the integrity of the data transfer between the two systems; any errors already in the system would not be detected.

The current process of review appears to lack adequate monitoring at the senior foreman level regarding hired equipment. Presently, it is the responsibility of the foreman to request hired equipment, sign the work ticket and enter the work ticket information in TKMMS to process the payment to the contractors. Consolidating all these steps with one individual results in a lack of segregation of duties and a second higher level of review needs to be in place to monitor the hired equipment system to detect potential errors or fraudulent claims. Regular trend analysis and exception reporting could be performed by the senior foreman, or other management, for the overall monitoring of the hired equipment process.

Recommendation 5
We recommend that management implement a process where the senior foreman would sign-off on a review of the hired equipment summary transactions and include regular trend analysis and exception reporting to detect potential errors or fraudulent work tickets.

Management response
An equipment report will be developed and approved by the area supervisor based on the payment cycle. This will ensure that the lines of segregation are maintained and analysis detection for anomalies occurs. This will include trend analysis and other tools to ensure accuracy of data. It is estimated that the implementation of this recommendation will be completed by December 31, 2013.

Documentation

During our review, we noted areas were improved documentation is required.

Documentation of Substitutions and Replacements
Section E10 of the Bid Opportunity defines specific rules relating to how contractors can perform substitutions and replacements. Due to situations such as equipment breakdowns, some equipment that has been bid will be substituted or replaced by the contractors. Any substitutions must be at least equal in all respects to the equipment for which it is being substituted. Substitutions will be allowed up to a maximum of one week. If in a period of 90 working days the quoted piece of equipment is not available on two separate occasions the unit may be deemed unreliable and may be removed from the Callout List.

If a contractor sells or otherwise disposes of a piece of equipment detailed on the Callout List, they will be allowed to replace that piece of equipment providing the replacement is at least equal in all respects to the equipment it is replacing. Additionally, the piece of equipment being replaced has to have worked a minimum of five working days in the current construction season.

From our review, there appears to be little documentation surrounding substitutions or replacements. There is no evidence or formal procedures in place to ensure that the rules defined in the Bid Opportunity are followed. To ensure that the Bid Opportunity and the Callout List is used as intended and in good faith, substitutions and replacements need to be properly documented and tracked. Ultimately, if contractors do not feel that the process is being conducted with integrity, and in a fair and equitable manner; they may chose not to deal with the City. This would reduce the competitiveness of the bid opportunity and potentially increase the costs for the City.

Recommendation 6
We recommend that formal procedures be created to manage substitutions and replacements as defined in the Bid Opportunity, and that the process is properly documented.

Management response
Management will review the current practice and prepare a procedure for managing substitutions and replacements to ensure that the proper documentation is in place. It is estimated that the implementation of this recommendation will be completed by March 31, 2013.

Documentation of Reviews

Within the payment process there are three points where information is intended to be reviewed: the senior foreman reviews the summary report of the work tickets, the timekeepers review the work tickets entered in TKMMS, and the equipment clerical staff compares the information uploaded into PeopleSoft to a report from the TKMMS system. There is, however, little documentation or formal tracking of any of these reviews.

We were informed that the review by the senior foreman is often minimal in regards to hired equipment and may not always happen. Additionally, when the review does take place there is no documentation of its occurrence. As we previously recommended, there should be formal documentation and clear guidelines for the senior foreman on what they are responsible to monitor.

The only evidence of the review by the time keepers may be a series of tick marks on the printouts attached to the work tickets. More importantly, it is possible for the upload of the work ticket information in TKMMS to PeopleSoft to occur without any review, as these reviews are not tracked in the system. This creates the potential risk that work tickets could be paid without an adequate review. There should be a record of which time keeper performed the review and when. There should also be some procedure in place to ensure that all work tickets have been reviewed prior to the upload into PeopleSoft.

The review by the equipment clerical staff compares the information uploaded to PeopleSoft to the time payment report from TKMMS. The only evidence of this review may be a series of tick marks on the report printout. At a minimum it should be initialed by the reviewer and dated. Again, the payment could potentially proceed without this review taking place.

Recommendation 7

We recommend that management improve documentation of the reviews and to create a procedure to ensure that all reviews take place prior to a transaction being processed for payment.

Management response

Management will conduct a thorough review of user department procedures and will develop a procedure to ensure that a final review takes place prior to a transaction being processed for payment by the Senior Foreman for Streets Maintenance Division, and the appropriate supervisory levels for other user departments and divisions. It is estimated that the implementation of this recommendation will be completed by December 31, 2012.

Other Opportunities

Through our review we noted clauses within the contract that should be reviewed and identified a potential issue with succession planning.

Contract Legacy Items

As a result of our review of the Bid Opportunity, we found two items that we believe should be reviewed to determine whether they should be included in future bid opportunities.

1. Overtime premium

An overtime premium of $11.25 per hour is paid to contractors for any equipment working from 1900 hours on Friday to 1900 hours on Sunday and from 0000 to 2400 on holidays. Through discussion with the Public Works Department staff it was determined that the overtime premium clause has remained in the Bid Opportunity but has not received any review to determine if it is still applicable in today's marketplace. The rationale the Public Works Department identified for maintaining the clause was that there are legitimate additional staffing costs for the contractors on the weekends and holidays. If this premium is not provided, the rental rates bid by contractors may increase to compensate for the overtime. Additionally, it could also be more difficult to hire equipment for the weekends and holidays.

In regards to the contractors incurring incremental costs for the provision of equipment on Statutory (or Public) Holidays, we agree that the payment of an overtime premium is considered to be an acceptable practice. However, we believe the requirement to pay an overtime premium for the provision of equipment on a Saturday or Sunday warrants further analysis.

The current wording of the Bid Opportunity requires the City to pay overtime premiums to contractors for the use of their equipment on Saturdays and Sundays whether or not the equipment was used in the days preceding. There is no requirement for hired equipment to work a maximum amount of hours before an overtime premium is paid.

Traditionally, and as defined in the CUPE agreement, an overtime premium is provided to *individuals* that have worked a maximum amount of hours within a given period or on a public holiday. With regards to hired equipment, the City is contracting and paying for the use of the equipment and not for the individual operators. Payment is made to the contractor who is responsible for providing an operator, and any single piece of equipment could have been staffed by several different qualified operators in a given time period.

Further, we note that staff and equipment from the Water and Waste Department operate seven days a week. Working on the weekend is considered to be part of their regular work schedule. An overtime premium would normally only be applied for time worked on Saturdays and Sundays if these days were the *employee's* regular days off and they exceeded the weekly maximum hours of work. In the event the City requires the use of hired equipment on a Saturday or Sunday, it would appear inconsistent to pay an overtime premium for the hired equipment.

Ultimately, the City is contracting with external vendors for the provision of additional equipment to supplement existing assets. Hired equipment is not governed by any Provincial or Federal labour laws and as such is not bound to a traditional regular work week. Every contractor is free to accept or deny work during any day of the week, be that a Wednesday or a Sunday. For the City to be obligated to pay an overtime premium for the use of hired equipment, simply due to

the day of the week, does not appear consistent with other City practices and may not provide the best value to the City.

2. Age slotting advantage

Within the Bid Opportunity there is an age adjustment for specific classes of equipment. It should be noted that this excludes dump trucks, a significant portion of the hired equipment. What this does is allows for newer equipment to be placed higher on the Callout List. For example, if a contractor bids a piece of equipment that is less than five years old, its position on the Callout List is based by giving a 25% slotting price per hour advantage. The percent price advantage decreases as the equipment age increases as illustrated in the chart. The Public Works Department noted that age has an effect on the efficiency and reliability of certain classes of equipment but was unable to provide any support for this assumption or to explain how the advantage percentage is determined. From the City's perspective, it does not matter how old the equipment is as long as it is able to perform the required task. Specifications are in place within the Bid Opportunity to ensure that hired equipment is deemed reliable and that the equipment is in good working order to perform the required tasks.

Age of Equipment	% Price Advantage
< 5 years old	25%
<10 & >5 years old	20%
<15 & >10 years old	15%
<20 & >15 years old	10%
>20 years old	No adjustment

Utilizing this methodology creates a scenario where the City will pay a premium for newer equipment, potentially resulting in higher costs. For example, two pieces of equipment within the same class could result in the following ranking.

Equipment Year	Bid	Slotting Price	Advantage	Callout List Rank
2007	$40.00	$30.00	25%	1
2000	$37.00	$31.45	15%	2

On the final Callout List, the 2007 piece of equipment will be called first, ahead of the equally functional cheaper older equipment, and paid the higher $40/hour rate.

When reviewing the 2010 Manitoba Heavy Construction Rental Rate Guide, they place equipment into three categories – current (2005-2010), non-current (a model that is no longer current, but is commonly found on sites), and previous (older equipment that is generally past its prime and, in most cases, no longer used for high production work). This guide prescribes the rate to be paid and is not based on contractors submitting bids, but will result in a tier of rates dependent upon the type and age of equipment.

Overall, it appeared that the overtime and age slotting advantage items have continued from year to year and it would be beneficial to reevaluate these items against current industry practices and the City's experience with hired equipment to determine how best to maximize the value to the City.

Recommendation 8
We recommend that management review the necessity for including the overtime premium and age adjustment conditions in the Bid Opportunity with respect to obtaining the best value for the City.

Management response
The Contract Administrator will conduct a thorough review of the overtime premium and age adjustment conditions in the Construction Bid Opportunity. It is estimated that the implementation of this recommendation will be completed by March 31, 2013.

Succession Planning
When meeting with individuals who use the Hired Equipment process managed by the Public Works Department, they all commented on the high level of service provided to them by the Equipment Coordinator. The Equipment Coordinator is involved in the annual review of the Bid Opportunity which has enabled him to have a complete understanding of all aspects of the Hired Equipment process. Over time the Equipment Coordinator has also developed a wealth of knowledge regarding specific contractors, so when he receives multiple requests for a specific type of equipment (e.g. backhoe) he assigns contractors to jobs where they have demonstrated expertise, while still abiding by the Callout List provisions. He has also made it normal practice to be available outside of normal business hours, often fielding requests for equipment in the evenings and on weekends.

This extent of reliance on the Equipment Coordinator requires the development of a succession plan. While the knowledge of contractors could be documented, the requirement to respond to requests after hours, including evenings, weekends and on holidays may require additional resources or an automated process. A succession plan should be developed to ensure the Hired Equipment process can operate as efficiently and effectively in the future.

As part of the development of a succession plan, alternate methods need to be identified to reduce the reliance on the Equipment Coordinator through automation. For example, the Equipment Scheduler could be modified to provide access for the foremen to hire equipment and maintain sufficient documentation to meet the requirements of the bid opportunity. Additionally, expanded access could result in increased efficiency of the process.

Recommendation 9
We recommend that management create a succession plan for the Equipment Coordinator position and consider the potential to automate certain functions of this position to reduce the reliance on this position.

Management response
The Contract Administrator is hiring an Equipment Coordinator trainee in June 2012 to job shadow with the current Equipment Coordinator, and a review of options for maximizing the Equipment Scheduler and Editor systems will be undertaken, including exploring other automation options such as hired equipment bar-coding systems. It is estimated that the implementation of this recommendation will be completed by September 30, 2013.

APPENDIX 1 - Summary of Recommendations

Recommendation 1
We recommend that management limit the users that have access to edit the Hired Equipment database and that all changes are approved and tracked.

Recommendation 2
We recommend that changes to TKMMS be made to incorporate sufficient preventive controls in order to reduce the potential for errors. Specifically, these controls should include:

- displaying a notification when data for the same piece of equipment indicates continuous work at different locations
- prevent the same piece of equipment from being billed for more than one job at the same time
- allow a maximum of 24 billable hours per unit per day
- automate the calculation of the overtime premium

Recommendation 3
We recommend that management communicate to staff the importance of accurately reporting actual hours worked by contractors to ensure transparency over the use of public funds and that only trained and qualified individuals have the responsibility of signing off on work tickets and that a listing of these individuals is maintained and monitored.

Recommendation 4
We recommend that management investigate the feasibility of integrating the Equipment Scheduler and TKMMS applications.

Recommendation 5
We recommend that management implement a process where the senior foreman would sign-off on a review of the hired equipment summary transactions and include regular trend analysis and exception reporting to detect potential errors or fraudulent work tickets.

Recommendation 6
We recommend that formal procedures be created to manage substitutions and replacements as defined in the Bid Opportunity, and that the process is properly documented.

Recommendation 7
We recommend that management improve documentation of the reviews and to create a procedure to ensure that all reviews take place prior to a transaction being processed for payment.

Recommendation 8
We recommend that management review the necessity for including the overtime premium and age adjustment conditions in the Bid Opportunity with respect to obtaining the best value for the City.

Recommendation 9
We recommend that management create a succession plan for the Equipment Coordinator position and consider the potential to automate certain functions of this position to reduce the reliance on this position.