



# **Metropolitan Council**

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## **Program Evaluation and Audit**

### ***Metro Transit***

### ***Snow Removal Contracts Review***

January 1, 2011

# INTRODUCTION

## Background

Metro Transit operates 32 park and ride (P&R) lots in conjunction with its bus, Hiawatha light rail (HLRT) and Northstar commuter rail (NS) transit operations. These P&R lots must be maintained clear of snow and ice. Metro Transit contracts with independent snow removal firms (Contractors) to keep these sites clear of snow and ice and in a safe condition for passengers. Metro Transit's Engineering and Facilities (E&F) Department administers these contracts and interacts with the Contractors to ensure adequate services are provided.

During Audit's annual risk assessment meetings with Council divisions, Metro Transit management identified this as an area that had not been reviewed and in which there may be risk. In addition, E&F management requested suggestions for more effective administration of these contracts.

## Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the U. S. Government Accountability Office's *Government Auditing Standards*.

## Purpose

This review was conducted to ensure that Contractors invoiced the Council in compliance with contract provisions and to determine the effectiveness of Metro Transit contract administration practices in limiting the Council's risk of being incorrectly invoiced.

## Scope

The review was conducted using a sample of snow removal contracts entered into between July 1, 2007 and January 30, 2010. It included a review of contract provisions, Contractor invoicing for the 2009-2010 winter season (October 2009 through March 2010) and Metro Transit contract administration practices.

## **Methodology**

To gain an understanding of Metro Transit and Contractor snow removal contracting and administration practices, the following methods of inquiry were used:

- Climate data for Chanhassen and the Twin Cities was reviewed and analyzed.
- Snow removal contract terms and conditions were reviewed.
- Contractor invoices were sampled and analyzed.
- Engineering & Facilities personnel were interviewed.
- Metro Transit Work Instructions were reviewed.

## OBSERVATIONS

Program Evaluation and Audit (Audit) identified 113 “contractor invoice months” (Months) (see Exhibit I) for which Contractors submitted invoices totaling \$488,360 for servicing the 32 P&R lots. Using a 95 percent confidence level and a five percent error rate, Audit obtained a random sample of 44 Months accounting for 81 Contractor invoices totaling 356 service days (Days). Audit compared the Contractor invoices to the contract requirements. The observations that follow are derived from that review.

The administration of the Contractor invoicing process was also assessed, the details of which are presented below. Metro Transit employees were also interested in the findings as the audit progressed and tightened internal controls over contract administration and invoice review and approval practices prior to this report being finalized. Those changes are identified in the respective audit areas listed below.

### Climate Data

The contract signed between Metro Transit and the Contractor identifies the website at which snowfall data is to be obtained. As stated in Exhibit A to the contract, “Snowfall amounts for purposes of invoicing for service provided shall be determined by the readings found at [www.crh.noaa.gov/mpx](http://www.crh.noaa.gov/mpx) (Weather Service). The contractor shall include a copy of the snowfall amount as recorded by that website. An alternate website can be used by contractor if acceptable to Metro Transit.”

The stated website provides a choice of locations, the two closest to the seven county metropolitan area being Chanhassen and the Twin Cities. Audit reviewed the 44 sampled Months for supporting climate data and found that Contractors included such data with only six of the 81 invoices submitted to the Council. Discussions with Metro Transit personnel disclosed that:

- not all the climate information submitted by Contractors was retained. Therefore, it is uncertain how compliant Contractors were in submitting climate data with their invoice during the 2009-2010 snow season. Metro Transit personnel have revised their practices for the 2010-2011 snow season and are now retaining all Contractor climate data.
- the requirement for submitting climate data with the invoice was not enforced by Metro Transit because the employee responsible for reviewing the invoices downloaded the climate data for the Twin Cities, kept it as a master, and used it to review each invoice as it was received. Metro Transit has also revised this practice, now requiring Contractors to submit climate data with each invoice before the invoice is approved for payment.

## **Non-Contracted Snow Removal Rates**

Audit compared the rate invoiced by the Contractors to the rates appearing in the contract. In nine of 356 Days the Contractor invoiced Metro Transit at a rate different from the contracted rate of service. In eight of those instances, the Contractor invoiced at a higher rate. Seven non-contracted rates were invoiced by a single Contractor. As a result, Audit reviewed all invoices submitted by that Contractor. Metro Transit brought these results to the Contractor's attention and the Contractor has credited Metro Transit \$2,121 for snow removal services provided in 2010-2011.

## **Contractor Invoices**

The 44 Months reviewed by Audit included 356 individual snow days for which Contractors charged the Council for services. Audit compared the snow depths invoiced by the Contractor to the snow depths reported for the city for which the Contractor provided climate information. For those instances in which climate data was not included in the Contractor's file, Audit used the climate data for the Twin Cities. Of the 356 snow days reviewed, 52 (14.61%) were invoiced incorrectly resulting in a net overcharge of \$6,660 (4.83% of the \$138,012 sampled). Extrapolated to the sample universe, Audit estimates that Contractors over billed the Council an estimated \$23,567 during the 2009-2010 snow season. After Audit discussed these sample results with Metro Transit personnel, they conducted a 100% review of all invoices paid during the 2009-2010 snow season and determined that the amount of overcharge was \$22,252.

The most common overcharge was for clearing 3-5 inches of snow when the Weather Service indicated snowfall in the 2-3 inch range. Other mischarges included additional invoicing for snow amounts either greater or less than those recorded by the Weather Service. See Exhibit II for additional details.

## **Metro Transit Invoice Review and Approval**

In discussions with E&F personnel it was disclosed that Contractors are often given instructions by the Transit Control Center (TCC) or by E&F staff to clear ice or drifting snow or otherwise maintain sites in a safe condition. This often occurred when no snow had fallen, such as when snow melted during the day and froze overnight or when strong winds blew snow back into previously cleared areas. During the 2009-2010 snow season, records were not maintained at Metro Transit to verify approval of such work and Audit recalls only a single invoice in which the Contractor provided supporting documentation such as the reason for the additional work and the E&F employee who requested the work.

As indicated under *Climate Data*, above, Contractors had not included climate data with their invoices as required by contract. In addition, E&F personnel had not maintained records of when a Contractor had complied with this requirement. Since Contractors have a choice of which climate reporting station to use for invoicing purposes, it is important to maintain such records.

Audit's random sample disclosed that invoices contained incorrect snowfall service charges on 52 of 356 (14.61%) Days for which Contractors invoiced for service (see *Contractor Invoices*, above). Metro Transit personnel agreed that this is a high error rate, and have revised internal controls to ensure that Contractor invoices reflect the snowfall amounts reported by the Weather Service.

## CONCLUSIONS

*1. Metro Transit snow removal contractors have not invoiced the Council in accordance with contract requirements, resulting in a potential over-billing of \$22,252.*

Audit analyzed a sample of Contractor invoices and found that 14.61% of the days invoiced were done so incorrectly. Metro Transit personnel then conducted a review of all Contractor invoices which resulted in an estimated overcharge of \$22,252 for the 2009-2010 snow season.

*2. Prior to Audit's review Metro Transit personnel had not maintained adequate records nor required sufficient documentation from Contractors to effectively assess the accuracy of Contractor invoices.*

The sample reviewed by Audit included the following indicators of inadequate internal controls:

- Nine days were invoiced at rates that were not included in the contract between the Council and the Contractor.
- Although Contractors are required to submit climate data with their invoices, contract files included documentation of climate data for only 18 of the 356 days that were invoiced.
- Fifty-two of the 356 days sampled were invoiced at rates not supported by climate data recorded by the Weather Service.
- In only one instance in which Metro Transit personnel requested additional service had the Contractor provided the appropriate documentation.

Metro Transit has subsequently addressed these issues and has strengthened internal controls for the 2010-2011 snow season.

## RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk of the finding (conditions) they are designed to resolve. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

**1. (Significant) Metro Transit Engineering and Facilities personnel should obtain credits toward 2010-2011 snow removal costs from Contractors that incorrectly invoiced the Council for services during the 2009-2010 snow season.**

In about one out of every seven days for which Contractors provided services for Metro Transit, invoices reflected inaccurate pricing, resulting in an estimated \$22,252 overcharge. One contractor erroneously invoiced at rates not included in its contract and has agreed to credit the Council for those erroneous charges. Metro Transit has begun negotiating similar settlements with the other Contractors for 2009-2010 over billings.

***Management Response:** Prior to the December 7, 2010, Exit Conference for this audit, staff undertook an extensive review of its own of every snow removal invoice processed during the 2009-2010 season, comparing invoiced amounts to actual contracted rates. That review yielded overcharges of \$42,594, undercharges of \$20,342, for a net overcharge of \$22,252. Many of these “overcharges” may be more a function of undocumented authorizations than true over-billings. Following our review, and also before the Exit Conference, staff contacted all vendors where discrepancies were identified and notified them of a desire to resolve these invoice differences. Reports are currently being developed for distribution to these contractors, and meetings to discuss and resolve these discrepancies are being scheduled.*

**Staff Responsible:** Tamee Rodolph/Gayle Gartner

**Timetable:** May 1, 2011



**2. (Significant) Metro Transit Engineering and Facilities personnel should review/revise the procedures for administering Contractor contracts, including the review of Contractor invoices.**

In the past, invoices were selectively reviewed for supporting documentation. Metro Transit personnel have subsequently begun a complete review of each Contractor invoice to include climate documentation, matching snow depths invoiced to that documentation, verifying invoice rates to contracted rates and verifying Metro Transit requests for additional work. . In the past, invoices could be approved for payment absent full documentation or verification of Contractor rates Metro Transit personnel have subsequently required that all documentation be received and all verifications be completed prior to approving payment for 2010-2011 snow season invoices.

***Management Response:** Staff is more strictly enforcing contract requirements that climate documentation accompany each invoice, returning or holding invoices until all supporting documentation is received from the contractor. Each invoiced line item is being compared to submitted climate data and contracted rates to ensure that billed amounts are consistent with contract requirements. Better controls have been established for monitoring and tracking work efforts requested by Metro Transit where those efforts may fall outside of published climate data (e.g., thaw/refreeze conditions resulting in additional salting, zero precipitation days with blowing and drifting conditions requiring plowing, snow hauling and push backs to relieve sightline and passage issues, etc.). These controls include a requirement that contractors indicate on their invoices when they were requested to perform additional work and by whom, and these statements are compared to internal records that are now being maintained for each site.*

***Staff Responsible:** Tamee Rodolph/Gayle Gartner*

***Timetable:** Immediately*

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**Exhibit I: Contractor Invoice Month Universe and Sample**

<b>Contract #</b>	<b>Description</b>	<b>Contractor</b>	<b>Oct-09</b>	<b>Nov-09</b>	<b>Dec-09</b>	<b>Jan-10</b>	<b>Feb-10</b>	<b>Mar-10</b>
07P166	I-394 & Louisiana P&R	Carefree	X		Sample	X	X	Sample
07P172	610 & Noble P&R	Carefree	X		X	Sample	X	X
07P178	Cottage Grove P&R	Reliakor	X		X	X	Sample	
07P153	Ft. Snelling North & South P&R	Reliakor	Sample		Sample	X	X	Sample
07P171	Hopkins P&R	Carefree	Sample		X	X	Sample	
07P170	Highway 7 & Vinehill P&R	Lynde			X		X	
07P175	Maplewood Mall P&R	Reliakor	Sample		X	X	Sample	X
07P177	Woodbury Theater P&R	K & J			X	X	X	
07P179	Hiawatha & 38th/46th St	Reliakor	X		Sample	X	X	Sample
07P150	I-394 & CR 73 P&R (South Lot)	Reliakor	X		X	Sample	X	
07P165	I-394 & Park Place P&R	Carefree	Sample		X	X	X	X
07P167	I-394 & General Mills P&R	Carefree	Sample		X	Sample	X	Sample
07P168	I-394 & Plymouth Rd Transit Center	Carefree	Sample		X	Sample	X	X
07P169	Wayzata & Barry P&R	Reliakor	Sample		Sample	X	X	
08P151	Foley P&R	Taylor Made			X	Sample	X	
08P154	28th Ave P&R	Paragon			X	Sample	Sample	
08P169	Various Locations	Reliakor			X	X	X	
09P189	Kendrick Ave P&R	Reliakor			Sample	Sample	Sample	X
09P190	Guardian Angels Church P&R	K & J	X		X	Sample	X	
09P191	I-35W & CR C P&R	K & J			Sample	Sample	X	
09P192	Hwy 61 & Lower Afton P&R	Green Guard			X	X	Sample	
09P193	I-35W & 95th Ave P&R	Green Guard			X	Sample	X	
09P194	Midtown/Lake P&R	Reliakor				X	X	Sample
09P195	NS Mpls/Target Field Station	Reliakor			X	Sample	X	X
09P196	NS Fridley P&R	K & J			Sample	Sample		
10P038	NS Fridley P&R	Green Guard						Sample
09P197	NS Coon Rapids P&R	Green Guard			X	X	X	
09P198	NS Anoka P&R	Green Guard			X	X	X	
09P199	NS Elk River P&R	Reliakor					X	
09P200	NS Big Lake P&R	Midwest			Sample	X	Sample	
09P216	South Bloomington Transit Center	Ceres			Sample		Sample	
09P234	Columbia Heights Transit Center	Green Guard			Sample	X	X	Sample

Note: 1. "X" indicates those months for which invoices were received by the Contractor.  
2. "Sample" indicates those 44 "Contractor invoice months" that were selected for review.

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**Exhibit II: Contractor Invoice Miss-Charges**

<b>Over Charge</b>	<b>Note</b>		
13	Charged 3 - 5"; s/b 2 - 3"		
8	Charged 7 - 9"; s/b 5 - 7"		
8	Charged 2 - 3"; s/b < 2"		
3	Charged 5 - 7", s/b 3 - 5"		
3	Charged 5 - 7"; s/b 2 - 3"		
2	Charged 5 - 7"; s/b < 2"		
2	Charged > 9"; s/b 3 - 5"		
1	Charged 5 - 7"; s/b no charge		
1	Charged > 9"; s/b 7 - 9"		
1	Charged 3 - 5"; s/b < 2"		
1	Charged < 2" & business hour heavy when only trace fell		
1	Charged business hour heavy when only trace fell		
1	Charged 7 - 9"; s/b 3 - 5"		
<b>45</b>			

  

		<b>Under Charge</b>	<b>Note</b>
		3	Charged < 2"; s/b 2 - 3"
		2	Charged 2 - 3"; s/b 5 - 7 "
		1	Charged 2 - 3"; s/b 3 - 5"
		1	Charged < 2"; s/b 3 - 5"
		<b>7</b>	