

SUMMARY

A leading steel manufacturer conducted an internal audit of service contractor invoices at its North American facilities. The audit revealed systemic issues in managing vendor contracts – from inception to payment.

The company turned to Management Controls (MCi) and implemented TRACK. The software enabled the company to recognize they overpaid for contractor-owned equipment on average 18% and realized a 5%-8% reduction in labor charges.

**THE CLIENT**

A Large Steel Manufacturer

COMPANY

A leading U.S. producer of steel and related products, with operations in the U.S. and Central Europe, sells steel products, including flat rolled and tubular products.

INDUSTRIES

Automotive, construction, appliance, energy, containers, and packaging industries.

PRODUCT USED

TRACK

Steel Manufacturer Saves 5%-8% on Labor and 18% on Equipment with TRACK

Lack of Oversight Leads to Audit

A leading North American steel manufacturer, with over 6,000 employees, worked with outside contractors regularly at its 30-plus facilities in the United States. The CEO and the CFO, both of whom had accounting backgrounds, realized they were unclear about the controls the company had related to its service vendors.

They instructed the internal audit group to audit service vendors. The issues uncovered in the audit include lack of oversight and erroneous invoicing. The discovery ultimately guided the steel manufacturer to Management Controls (MCi), resulting in a 5%-8% decrease in labor overbilling and an 18% reduction in equipment overbilling.

The large steel manufacturer's internal vendor audit of its North American facilities uncovered systemic problems surrounding its contracts with service vendors – from inception to payment.

Task Force Looks at Root Causes

To address these issues, the company formed a task force. They determined the root cause of the systemic problems could be addressed if the following controls were implemented:

- Create a procedure establishing requirements for the administration and control of service contracts with outside vendors.
- Establish standards the company's departments could use to write service contracts and put automated controls in place to ensure compliance with the contracts without manual effort.



The Challenge:

Internal Audit Reveals Systemic Invoice Errors

Problems Identified

- Vagueness in terms and conditions of executed vendor contracts and use of expired agreements and rate sheets.
- Vagueness in the scope of work identified on purchase orders.
- Absence of oversight of work being performed and incomplete or inaccurate time sheets submitted by vendors.
- Vendor invoicing of labor positions not included on rate sheets or erroneous invoicing of job classifications.
- Lack of vendor invoice verification for labor charges, including hours worked in the plant and off site, overtime approval, and rates applied.
- Lack of vendor invoice verification for equipment and material charges and charges for items considered to be included in overhead.
- Lack of segregation of duties of requisition and PO (purchase order) approval and work commencing without approved PO.
- Payment without invoice verification and expenditures exceeding authorization request, which included overpayment to vendors for labor, equipment, and material.

- Hire a Contract Manager and Contract Analyst per plant to revamp how the plant deals with service vendors from inception to payment to mirror the requirements established.

Next, they created a new department to put people and processes in place to eliminate the issues. The new department put in procedures, but they were met with resistance from the vendors. They felt overburdened by the additional required reporting. In response to this, they insisted on rate increases.

Overcoming Initial Resistance

There was also internal backlash. Some department heads responsible for service vendor work were not clear on why the stringent requirements were imposed on the vendors despite explanations.

Finally, procurement was not happy with the controversy and the complaints.

So, despite the success of addressing the internal audit findings, something had to change. The company could have called off the process then and there.

“When you have financially-minded people who trust data, they find a way when a significant amount of money is at stake,” says a former senior-level procurement manager with the company.



The steel company wanted to stop the waste, fraud, and abuse and with TRACK, this became a reality.

– *Former Sr. Level Procurement Manager, Large Steel Manufacturer*



The two leaders

at the leading

steel manufacturer were such people. They were determined to move forward. However, a change was needed to fully implement the guidelines and minimize the time requirements.

TRACK Transforms Vendor Management

To quell the frustration and scale, the leading steel manufacturer turned to TRACK from Management Controls. They implemented it at a single location, which had six people in the department. The department was only able to manage six of the 50 contractors before implementing TRACK.

The team quickly realized the software did exactly what was needed to solve the systemic issues that the internal audit discovered. With TRACK, the team was able to manage all 50 contractors. Six months later, the results were shared with the executive leadership. They approved putting TRACK into every manufacturing location.

TRACK empowered the leading steel manufacturer to scale and apply standardization across every location. Ultimately, the software enabled the leading steel manufacturer to disband the department because it could be managed by one person.

And in terms of adjusting to the system: Procurement appreciated the format TRACK required, given they knew what areas of clarification from vendors would be required. Procurement also liked knowing the terms and conditions would get

Key Outcomes

- Standardized processes across plant locations
- Improved resource utilization
- Enhanced contractor compliance
- Reduced labor overpayments by 5%-8%
- Identified equipment overpayments of 18%



The Results:

Visibility into Labor & Equipment Charges

enforced in the field—after the hard work and hours put into negotiating contracts with service vendors.

Accounting was happy to know about all the liabilities with service vendors. They also appreciated the visibility TRACK gave them into unallocated costs for labor, equipment, and material. Before TRACK, accounting relied on a manager's memory about contractor activity in their area and the associated cost with that activity. This was often inaccurate.



90% of Vendors Embrace TRACK Solution

Ultimately, 90% of the vendors loved having TRACK in place, especially how it made their reporting requirements easier and expedited their payments from the steel company.

Implementing TRACK at a single location led to results and learnings. For example, the leading steel manufacturer learned that they lacked transparency and visibility into contractor-owned equipment. There was not enough information on the time sheet to properly allocate the equipment in TRACK.

In addition, they didn't receive the most economical rate structure in the invoices they audited. This spurred the company to turn over the invoices to the internal audit team, and they determined the company overpaid for contractor-owned equipment on average 18%.

ABOUT MCI

Management Controls Inc. (MCI) is a developer of a Contractor Data and Spend Management platform designed for industries that rely heavily on contractors for operations, routine maintenance, turnarounds and capital projects. The company's TRACK software offers an end-to-end solution for all parties involved in tracking the costs of contractor labor, equipment, and materials, transforming the working relationship between owners and contractors by providing both parties full visibility, significant cost controls and immediate savings.

Get Started with myTrack – the Next Generation Platform

MCI helps companies of all sizes gain better visibility, control, and productivity from their workforce. myTrack is the next-generation TRACK Platform for contractor data management.

Learn more about the myTrack Platform and how it can help your company better manage and reduce contract labor, equipment, and material costs.

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MANAGE TRACK OPTIMIZE



TRACK Drives Cost Savings and Compliance

Ultimately, TRACK enabled the company to improve resource utilization, enhance contractor compliance, lower contractor equipment costs, strengthen visibility into legitimate billable claims, and reduce overpayments. A comparative analysis of invoices pre- and post- TRACK implementation showed an average overpayment reduction of 5%-8% for labor charges.

The former senior-level procurement manager with the company suspects that companies without any controls could save up to 15% on labor charges when implementing TRACK.

He added: "You can't get the product without following the process. The steel company wanted to stop the waste, fraud, and abuse and with TRACK, this became a reality."

