CITY OF ST. LOUIS

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LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

REVIEW OF OPEN-ENDED CIVIL, STRUCTURAL, SURVEYING, GEOTECHNICAL, ESTIMATING AND DRAFTING SERVICES PSA-1032

JULY 1, 2007 THROUGH JUNE 30, 2012

PROJECT #2013-APC3

DATE ISSUED: MARCH 25, 2013

Prepared by:
The Internal Audit Section

OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

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March 25, 2013

FILE COPY

Rhonda Hamm-Niebruegge, Director of Airports
Lambert–St. Louis International Airport
P.O. Box 10212
St. Louis, MO. 63145

RE: Review of Open-Ended Civil, Structural, Geotechnical, Estimating and Drafting Services for Lambert-St. Louis International Airport Contract PSA-1032 (Project #2013-APC3)

Dear Ms. Hamm-Niebruegge:

Enclosed is the Internal Audit Section's report for the review of the open-ended professional consultant engineering services for Lambert-St. Louis International Airport for the period July 7, 2002 through June 30, 2012. A description of the scope of our work is included in the report.

Fieldwork was completed on February 26, 2013 . Management's responses to the observations and recommendations noted in the report were received on March 1, 2013 and have been incorporated in the report.

This review was made under the authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing.*

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Sincerely,

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure:
cc: Richard T. Bradley, P.E., President, Board of Public Service
Gerard Slay, Senior Deputy Director, Lambert-St. Louis International Airport
Cornell Mays, Deputy Director, Planning and Development Lambert-St. Louis International Airport
Susan Kopinski, Deputy Director, Finance and Administration Lambert-St. Louis International Airport
Henrietta Brown, MBA, Assistant Airport Director, Finance and Accounting
James Fox, CPA, Airport Audit Supervisor

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JULY 1, 2007 THROUGH JUNE 30, 2012

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of the open-ended professional engineering consultant services for Lambert-St. Louis International between the City of St. Louis and URS Inc., (Consultant) and the following Sub-Consultants: David Mason and Associates, Webb Engineering Services, Inc., and Kowelman Engineering, Inc. The purpose was to determine if the consultant and sub-consultants have adequate controls in place to provide reasonable assurance of the following:

- Accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies, procedures and contract terms.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.
- Safeguarding of assets.

Scope and Methodology

The review was limited to the review of the consultant and sub-consultants' compliance with the terms and conditions of the contract. Review procedures included inquiries of the management of the consultant and sub-consultants and the Airport Planning and Development department to evaluate the manner in which contract deliverables and compliance provisions are obtained. Total contract cost for the open-ended professional consultant engineering services is $2,213,332. We expanded our testing of billings for the consultant and sub- consultants' $1,803,631 in the aggregate for the period July 1, 2007 through June 30, 2012.

Background

PSA-1032 is an agreement between City of St. Louis and URS, Inc. to provide professional engineering consultant services necessary for open-ended civil, structural, surveying, geotechnical, estimating and drafting services. Per Article V, the professional services of the consultant shall include but not necessarily be limited to the General Scope of Services. The consultant will perform assignments as specified, directed and authorized by the individual Task Orders.

Exit Conference

An exit conference was held on Friday February 15, 2013. Consultant and Sub-Consultants were represented by their Managers. The Airport Planning and Development Office was represented by the Assistant Director Planning and Engineering. The Airport Finance and Accounting Section was represented by the Airport Assistant Director-Finance & Accounting and Airport Auditor. The Internal Audit Section was represented by the Internal Audit Executive and Auditor-in-Charge.

Conclusion

The opportunity exists for the sub-consultants to improve compliance with the agreement. The following are general observations resulting from the review:

1. Opportunity to improve understanding of Federal Acquisition Regulations (FAR) Part 31.

2. Indirect cost overcharges by sub-consultants ($23,076).

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

Kenneth M. Stone

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

March 25, 2013
Date

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OBSERVATIONS

Status of Prior Observations

This contract has not been previously reviewed by Internal Audit; therefore, there were no prior observations.

Summary of Current Observations

The opportunity exists for the sub-consultants to improve compliance with terms and conditions for the open-ended professional consultant engineering services for Lambert St. Louis International Airport. The following are observations resulting from the review:

1. Opportunity to improve understanding of Federal Acquisition Regulations (FAR) Part 31.

2. Indirect cost overcharges by sub-consultants ($23,076).

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Observations Relative to Sub-Consultants

1. Opportunity To Improve Understanding Of Federal Acquisition Regulations (FAR) Part 31.

There is a general misunderstanding regarding how the General Administrative (G/A) and Salary and Related Expense (SRE) rates should be computed according to FAR Part 31. It was noted that G/A rates submitted for billing did not agree to the G/A rates listed in the schedule of rate computations.

Article XI of the Professional Service Agreement (PSA)-1032 states that overhead rates and salaries shall be verified by audit preferably performed by a governmental agency and in accordance with CFR (Code of Federal Regulations) requirements. Rates other than those verified by an audit are provisional and may be adjusted when an audit is available. Payment for all services incurred shall be reimbursed as cost.

CFR requirements are inclusive of the Federal Acquisition Regulations (FAR) Part 31 which outlines cost components for the SRE and G/A rates. Payment under provisions of this contract is limited to cost incurred as restricted by general accepted accounting principles.

The sub-consultants do not have an adequate working knowledge of determining rates per FAR Part 31.

Rates applied to direct labor hours were not supported by accounting records resulting in overcharges to the City of St. Louis for services rendered.

Recommendation

It is recommended that the sub-consultants improve their understanding of FAR Part 31 regarding developing the reimbursable rates for G/A and SRE.

Management's Response

David Mason and Associates has started implementation of new measures to assist in improving their working knowledge of FAR Regulations. The sub-consultant Webb Engineering Services, Inc. does not agree with the observation and recommendations.

Auditor's Comments

An improve understanding of FAR Part 31 will reduce the occurrences of overcharges and improve internal controls over the sub-consultants' billing processes.

2. Indirect Cost Overcharges By Sub-Consultants ($23,076)

The sub-consultants' billed SRE and G&A rates were either not based on the audited rates or did not agree to their accounting records. The variances between the billed and the audited or actual rates, calculated based on their accounting records, resulted in unsupported billings to the City for $23,076 as follows:

A	B	C	D	E
Sub-Consultant	Indirect Cost Category	Amount Billed	Amount Based on Accounting Records	Unsupported Billings (C-D)
David Mason and Associates	G/A	$136,596	$126,182	$10,414
Webb Engineering Services, Inc.	G/A&SRE	$56,708	$44,046	$12,662
Total		$193,304	$170,228	$23,076

According to the contract provisions, SRE and G&A OH rates shall be verified by an audit preferred by a governmental agency in accordance with the Code of Federal Regulations (CFR) requirements. Rates other than those verified by an audit are provisional and should be adjusted when audited rates are available.

The sub-consultants did not have a system of internal controls in place to ensure compliance with the contract's SRE and G&A rates determination requirements.

Audit procedures performed to evaluate the sub-consultants' accounting system indicated that their accounting systems included non-allowable cost for determining the G/A rate and unsupported cost for determining the SRE rate.

The sub –consultants did not comply with the contract's SRE and G&A rates determination requirements. The non-compliance with this requirement resulted in the City paying $23,076 for indirect labor cost that it did not incur.

Recommendation:

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of $23,076 for indirect cost billed in excess of actual cost.

2. *Continued*

Management's Response

David Mason and Associates agrees to repay the City of St. Louis the overcharges of $10,414. Webb Engineering Services, Inc. does not agree with the observation and recommendation.

Auditor's Comments

It is not the policy of the Board of Public Service for contractors to have unbillable hours. Specifically, where there is no executed supplemental agreement to support the work performed. It is not the position or authority of the Internal Audit Section to apply unapproved unbillable hours as a credit toward overcharges noted during an audit. Specifically where there has been no previous notice of such condition.

It is recommended that consultants not delay the issue of unbillable hours until notice of overcharges in a review of contract.