



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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Comptroller

*Internal Audit Section*

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DR. KENNETH M. STONE, CPA  
Internal Audit Executive

FILE COPY

October 3, 2012

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

RE: Review of Kozeny-Wagner, Contract #19717 (Project #2011-50)

Dear Ms. Hamm-Niebruegge:

Enclosed is the Internal Audit Section's report for the review of Kozeny-Wagner, Inc. for designing and building inbound checked baggage conveyors and baggage claim devices at Lambert – St. Louis International Airport. The review period for the contract was June 26, 2008 through April 30, 2011. A description of the scope of our work is included in the report.

Fieldwork was completed on August 9, 2012. Management's responses to the observations and recommendations noted in the report from the project manager was received on June 27, 2012 and have been incorporated in the report. After numerous follow-up with the prime-contractor, we received no management response.

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,

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

Enclosure:

CC: 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  
Richard T Bradley, PE, President, Board of Public Service  
Henrietta Brown, MBA, Assistant Airport Director, Finance and Accounting  
James Fox, CPA, Airport Auditor



# CITY OF ST. LOUIS

**CITY OF ST. LOUIS**

**LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT  
KOZENY-WAGNER, INC.**

**REVIEW OF DESIGN/BUILD CONSTRUCTION SERVICES AT  
LAMBERT ST. LOUIS INTERNATIONAL AIRPORT  
CONTRACT #C-19717**

**JUNE 26, 2008 THROUGH APRIL 30, 2011**

**PROJECT #2011-50**

**DATE ISSUED: OCTOBER 3, 2012**

**Prepared by:  
The Internal Audit Section**



# OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT  
KOZNEY – WAGNER, INC.  
CONTRACT C-19717  
JUNE 26, 2008 THROUGH APRIL 30, 2011**

**EXECUTIVE SUMMARY**

**Purpose**

Contract C-19717 was selected as part of the interagency agreement between the Airport and the Internal Audit Section to audit construction and service contracts. The purpose was to determine if the contractor and its sub-contractors had adequate controls in place to provide reasonable assurances of the following:

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

**Scope and Methodology**

The scope of the review was limited to billings from contractors and sub-contractor for the period June 26, 2008 through April 30, 2011. Procedures included:

- Inquiries of contractor, subcontractor and airport management staff.
- Review for compliance with policies and procedures, applicable laws and regulations and contract terms
- Other procedures as considered necessary

**Background**

Contract C-19717 is an agreement between Kozeny-Wagner, Inc. (contractor) and the City of St. Louis for designing and building inbound checked baggage conveyors and baggage claim devices at Lambert – St. Louis International Airport (Airport). The total contract amount is \$5,545,000. The contract was authorized by City Ordinance No. 67357.

## Exit Conference

An exit conference was held on May 30, 2012. Kozeny –Wagner was represented by the Vice President and Chief Financial Officer. The Board of Public Service was represented by the Deputy City Engineer. The Airport Planning and Development was represented by the Deputy Director of Planning and Development, and Assistant Airport Director of Engineering. The Airport Finance and Accounting Section were represented by the Airport Assistant Director -Finance & Accounting and Airport Audit Supervisor. The Internal Audit Section was represented by the Internal Audit Supervisor and Auditor-in-Charge.

## Conclusion

The project manager, contractor and sub-contractor complied with applicable laws, regulations and contract terms, except for the following observations:

1. Opportunity to comply with prevailing wage provisions. (Questioned Costs \$1,687)
2. Opportunity to improve processing of lien waivers.

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

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

  
Date

**CITY OF ST. LOUIS  
LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT  
KOZNEY – WAGNER  
CONTRACT NO. C-19717  
JUNE 26, 2008 THROUGH APRIL 30, 2011**

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## OBSERVATIONS

### **Status of Prior Observations**

This contract has not been reviewed by Internal Audit previously.

### **Summary of Current Observations**

The project manager, contractor and subcontractor complied with applicable laws, regulations, and contract terms, except for the following observations:

1. Opportunity to comply with prevailing wage provisions (Questioned Costs \$1,687)
2. Opportunity to improve processing of lien waivers

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

### 1. Opportunity To Comply With Prevailing Wage Provisions (Questioned Costs \$1,687)

1. It could not be determined if the following contractor complied with the prevailing wage provisions of the contract: CCR, Inc.
2. In eight instances, sub-contractor Krys -Tile Flooring Systems under paid wages by \$1,687. The wages paid did not comply with the prevailing wage provisions of the Missouri Department of Labor and Industrial Relations Annual Wage Order.

Article XXIII of the contract requires the contractor and sub-contractors to comply with all federal, state, and local laws, ordinances and regulations that may be amended, related to work, including but not limited to the prevailing wage on Public Works Act.

CCR, Inc., did not provide their payroll records, therefore, it could not be determined if they complied with the prevailing wage provisions of the contract. Krys-Tile Flooring Systems did not have a system of internal controls in place to ensure compliance with the prevailing wage provisions of the contract.

The City may not be protected against claims arising from the sub-contractors' non-compliance with the prevailing wage provisions of the contract.

#### **Recommendation**

It is recommended that:

- CCR, Inc., submit supporting documents to confirm their compliance with the prevailing wage provisions of the contract.
- Krys -Tile Flooring Systems, provide documentation of pay adjustments to the employees who were not paid the prevailing wages for the work performed on contract 19717 for \$1,687.

#### ***Management Response***

***No response was received from the prime contractor regarding this observation.***

## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

### *Observation Relative to the Project Manager*

#### **2. Opportunity To Improve Processing of Lien Waivers**

The project manager did not provide the City lien waivers for the payments to the sub-contractors for work performed under the contract for \$35,144.

A review of close out lien waivers was required to provide assurance that lien waivers for \$35,144 was secured for payments to the sub-contractors.

Article XII Payment Provisions require the following:

- Lien waivers provided for payments from previous pay applications be submitted with the next pay application
- Lien waivers be obtained from all sub-contractors for payments received from prior pay applications.

The project manager did not have a system of internal control in place to submit lien waivers with pay applications on a consistent basis for the payments made to the sub-contractors.

The risk exists that the City may have been held liable for \$35,144 as outstanding to the sub-contractors for the work performed under the contract.

#### **Recommendation**

The project manager should improve processing of lien waivers to ensure that lien waivers provided for pay applications are properly documented in the invoices submitted to the City of St. Louis for payment.

#### ***Management's Response***

*The project manager has internal controls in place for gathering lien waivers from the general contractor and sub-contractors when pay applications are submitted to the City of St. Louis for payment. The lien waivers from pay application number 14 until close-out were submitted appropriately. Furthermore, at the close-out of this project, affidavits from sub-contractors and material suppliers were submitted for every subcontractor and supplier acknowledging total payments on the project.*

## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

### 2. Continued

#### Auditor's Comments

It is noted, the reliance the project manager has in the close-out processing of affidavits as a compensating control for lien-waivers was not processed with application for payments such as pay applications prior to 14. The recommendation should be reviewed by the project manager to ensure all pay applications through the contract duration are accompanied by the appropriate lien waivers. The close-out process is a secondary control whereas lien waivers with each pay application is the primary control.