



CITY OF ST. LOUIS

CITY OF ST. LOUIS

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

**REVIEW OF MECHANICAL, ELECTRICAL, PLUMBING AND SPECIAL
SYSTEMS (MEPSS) RENOVATIONS
PSA-1064**

JUNE 1, 2008 THROUGH AUGUST 30, 2012

**PROJECT #2013-APC4
DATE ISSUED: JULY 2, 2013**

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

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DR. KENNETH M. STONE, CPA
Internal Audit Executive

July 2, 2013

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

RE: Review of Mechanical, Electrical, Plumbing and Special Systems (MEPSS) Renovations
Design Services for the Airport Improvement Program at Lambert St. Louis International
Airport Contract PSA-1064 (Project #2013-APC4)

Dear Ms. Hamm-Niebruegge:

Enclosed is the Internal Audit Section's report for the review of the mechanical, electrical, plumbing and special systems (MEPSS) renovations design services contract for the Airport Improvement Program at Lambert-St. Louis International Airport for the period June 1, 2008 through August 30, 2012. A description of the scope of our work is included in the report.

Fieldwork was completed on Tuesday June 18, 2013. Management's responses to the observations and recommendations noted in the report were received on Monday June 24, 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,


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

Enclosure:

cc: Gerard Slay, Senior Deputy Director Lambert-St. Louis International Airport
Richard T. Bradley, PE, President, Board of Public Service
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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CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
REVIEW OF ELECTRICAL, MECHANICAL, AND PLUMBING SERVICES
CAPITALIMPROVEMENT PROGRAM PSA-1018
OCTOBER 1, 2006 THROUGH MARCH 30, 2011

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of the mechanical, electrical, plumbing and special systems (MEPSS) renovations design services contract for the Airport Improvement Program at Lambert-St. Louis International between the City of St. Louis and Burns and McDonnell (prime consultant) and the following sub-consultants: Belle Engineering, Ross and Barruzini and Webb Engineering Services, 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 were obtained. Total contract cost for the electrical, mechanical, and plumbing design services program is \$1,451,844 (inclusive of six change orders). We performed random testing of billings of \$204,326 and expanded our testing of billings for direct labor rates, reimbursable rates: salary and related expense (SRE), general administrative overhead (G/A OH) and direct reimbursable for the consultant and sub-consultants in the aggregate for the period June 1, 2008 through August 30, 2013.

Background

PSA 1064 is an agreement between City of St. Louis and Burns and McDonnell to provide the mechanical, electrical, plumbing and special systems (MEPSS) renovations design services for the Airport Improvement Program at Lambert-St. Louis International Airport. Per the general scope for services, the consultant agrees to provide professional engineering consultant services necessary for the design of the Main Ticketing Hall and Mid-Level mechanical, electrical, plumbing and special systems (MEPSS) renovations as more fully defined in the Scope of Work (Attachment A) with Design Matrix (Appendix 1) of PSA-1064

Exit Conference

An exit conference was held on Thursday, June 6, 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 Supervisor and Auditor-in-Charge.

Conclusion

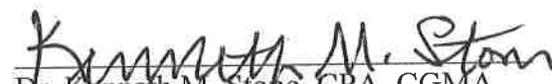
The opportunity exists for the prime consultant to ensure compliance with the agreement. The following are observations resulting from the review:

1. Labor cost overcharges by prime consultant. (\$897)
2. Opportunity to improve compliance with direct reimbursable expenditures. (\$18,596)

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

3. Labor cost overcharges by Webb Engineering Services, Inc. (\$ 673)
4. Indirect cost overcharges by Webb Engineering Services, Inc. (\$35,157)

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

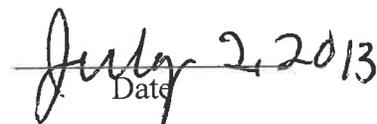

Date

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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 consultant to ensure compliance with terms and conditions for the professional services of the mechanical, electrical, plumbing and special systems (MEPSS) renovations design services for the Airport Improvement Program at Lambert-St. Louis International Airport. The following are observations resulting from the review:

1. Labor cost overcharges by prime consultant. (\$ 897)
2. Opportunity to improve compliance with direct reimbursable expenditures. (\$18,596)

The opportunity exists for the sub-consultants to ensure compliance with terms and conditions for the mechanical, electrical, plumbing and special systems (MEPSS) renovations design services for the Airport Improvement Program at Lambert-St. Louis International Airport. The following are observations resulting from the review:

3. Labor cost overcharges by Webb Engineering Services, Inc. (\$ 673)
4. Indirect cost overcharges by Webb Engineering Services, Inc. (\$35,157)

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 Prime Consultant

1. Labor Costs Overcharges (\$897)

The prime consultant billed SRE productive cost for a contract labor (personnel from an employment agency). Given that the SRE cost for the contract labor is included in the agency's hourly rate, this is a cost not being directly incurred by the consultant and thus incorrectly billed to the City of St. Louis.

It was determined that \$897 was overbilled for SRE for work performed on PSA-1064.

Article X, Fees and Payments of the contract requires payments under the provisions of this contract is limited to those costs incurred and in accordance with generally accepted accounting principles.

The consultant did not have a system of internal control to ensure compliance with the Article X, Fees and Payments, provisions of the contract.

The prime consultant did not comply with the Article X, Fees & Payment requirements of the contract. Non-compliance with this requirement resulted in the City paying \$897 for the payroll cost that exceeded the actual cost.

Recommendation

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of \$2,135 for the labor costs billed in excess of actual costs incurred.

Management's Response

The prime contractor agrees with the observation and will repay the City of St. Louis \$897.

2. Opportunity To Improve Compliance With Billing For Direct Reimbursable Expenditures (\$18,856)

The prime consultant billed the City \$18,856 for computer usage, which consisted of non-Computer Assisted Digital Design (CADD) work. This expense, however, had already been billed as a labor cost including the related SRE and G&A.

2. *Continued*

Billings for direct purchases should not include any expenses that are part of the labor cost.

The prime consultant did not have a system of control in place to ensure that the expenses billed as labor costs are not also billed as for the purchase of services.

The City was billed twice for the same expense.

Recommendation

It is recommended the City of St. Louis Board of Public Service pursue cost recovery for \$18,856, the non-CADD computer usage billed twice, once as salary and then again as purchase of services.

Management's Response

The prime contractor agrees with the observation, will discontinue billing for Non-CADD computer usage and will repay the City of St. Louis \$18,596.

Observations Relative to Sub Consultants

3. Labor Costs Overcharges By Webb Engineering Services, Inc. (\$672)

The sub-consultant's billed hourly labor rates were higher than the hourly rates based on its accounting records. The differences between the billed and the actual hourly labor rates resulted in unsupported billings for the labor costs by \$672 as follows:

Over-billed labor costs	\$ 269
Add: SRE 48.81% of over-billed labor cost	131
G&A OH 101.20% of over-billed labor cost	<u>272</u>
Total over-billed cost including SRE and G&A OH	<u>\$ 672</u>

Article X, Fees and Payments of the contract requires that the labor cost billed by contractor / sub-contractor should be based on their actual hourly labor rates.

The sub-consultant did not have a system of internal control to ensure compliance with the Article X, Fees and Payments, of the contract.

The sub contractor did not comply with the Article X, Fees and Payment requirements of the contract. Non-compliance with this requirement resulted in the City paying \$672 for the payroll cost that exceeded the actual cost.

3. Continued

Recommendation

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of \$672 for the labor costs billed in excess of actual costs incurred.

Management's Response

No management response has been received from the sub-contractor.

Auditor's Comments:

The Internal Audit Section did review additional information submitted by the contractor and provided our conclusions on the information presented to the sub-contractor on June 18, 2013. It was determined that there was no change to the charges in excess of actual costs

4. Indirect Cost Overcharges By Webb Engineering Services, Inc. (\$ 35,157)

The sub-consultants' billed SRE and G&A rates were either not based upon 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 of \$35,157 as follows:

A	B	C	D	E
Sub-Consultant	Indirect Cost Category	Amount Billed	Amount Based on Accounting Records	Unsupported Billings (C-D)
Webb Engineering Services, Inc.	SRE and G/AOH	\$ 157,855	\$122,698	\$35,157

According to the contract, 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. Rate other than those verified by an audit are provisional and should be adjusted when audited rates are available.

The sub-consultant did not have a system of internal controls in place to ensure compliance with the contract's SRE and G/AOH rate determination requirements.

Audit procedures performed to evaluate the sub-consultant's accounting system indicated that their accounting systems were not adequately differentiating between direct and indirect costs.

4. Continued

The sub-consultant did not comply with the contract's SRE and G/AOH rates determination requirements. The non-compliance with this requirement resulted in the City paying \$35,157 for the indirect labor costs that did not incur.

Recommendation:

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of \$35,157 for indirect costs billed in excess of actual costs.

Management's Response

No management response has been received from the sub-contractor.

Auditor's Comments:

The Internal Audit Section did accept the revised rates prepared by the sub-contractor's CPA firm, reviewed additional information submitted by the sub-contractor, and provided our conclusions on the information to the sub-contractor on June 18, 2013. It was determined that the proposed changes to the reimbursable rates would not be in compliance with FAR Part 31 procedures for determining SRE and G/A OH rates. Therefore, no changes to the amount for charges in excess of actual costs were made.

4. *Continued*

The sub-consultant did not comply with the contract's SRE and G/AOH rates determination requirements. The non-compliance with this requirement resulted in the City paying \$35,157 for the indirect labor costs that did not incur.

Recommendation:

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of \$35,157 for indirect costs billed in excess of actual costs.

Management's Response

No management response has been received from the sub-contractor.

Auditor's Comments:

The Internal Audit Section did accept the revised rates prepared by the sub-contractor's CPA firm, reviewed additional information submitted by the sub-contractor, and provided our conclusions on the information to the sub-contractor on June 18, 2013. It was determined that the proposed changes to the reimbursable rates would not be in compliance with FAR Part 31 procedures for determining SRE and G/A OH rates. Therefore, no changes to the amount for charges in excess of actual costs were made.