



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

1520 Market St., Suite 3005
St. Louis, Missouri 63103-2630
(314) 657-3490
Fax: (314) 552-7670

DR. KENNETH M. STONE, CPA
Internal Audit Executive

FILE COPY

October 17, 2012

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

RE: Landrum & Brown, Professional Service Agreement #1067 (Project #2011-36)

Dear Ms. Hamm-Niebruegge:

Enclosed is the Internal Audit Section's report for the review of Landrum & Brown Inc., Professional Service Agreement #1067, for Master Plan & Federal Acquisition Regulation (FAR) Part 150 Noise Compatibility Study at Lambert – St. Louis International Airport for the period July 1, 2008 through March 30, 2011. A description of the scope of our work is included in the report.

Fieldwork was completed on September 19, 2012 . Management's responses to the observations and recommendations noted in the report were received on September 21, 2012 , 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
Cornell May, 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 Audit Supervisor



CITY OF ST. LOUIS

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

**LANDRUM & BROWN, INC.
PROFESSIONAL SERVICE AGREEMENT #1067
MASTER PLAN & FAR PART 150 NOISE COMPATIBILITY STUDY**

JULY 1, 2008 THROUGH MARCH 30, 2011

PROJECT #2011-36

DATE ISSUED: OCTOBER 17, 2012

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
LANDRUM & BROWN, INC.
PROFESSIONAL SERVICE AGREEMENT (PSA) #1067
JULY 1, 2008 THROUGH MARCH 30, 2011**

EXECUTIVE SUMMARY

Purpose

Professional Service Agreement (PSA) #1067 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 consultant and sub-consultants had adequate internal 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 scope of the review was limited to billings from the consultant and sub-consultants for the period July 1, 2008 and March 31, 2011 totaling \$698,296. Procedures included:

- Inquiries of consultant, sub-consultants and Airport management staff
- Review for compliance with policies & procedures, applicable laws and regulations and contract terms
- Other procedures as considered necessary

Background

PSA #1067 is a professional service agreement between Landrum & Brown and the City of St. Louis for professional services to prepare and perform airport related planning services consisting of an Airport Master Plan, Federal Acquisition Regulation (FAR) Part 150 Noise Compatibility Plan Study and other affiliated planning analyses.

Exit Conference

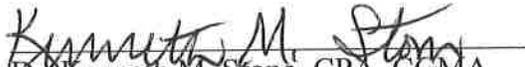
An exit conference was held on August 1, 2012. The Board of Public Service was represented by Deputy City Engineer. The Airport Planning and Development was represented by Assistant Airport Director of Engineering. The Airport Finance and Accounting Section were represented by Airport Assistant Director-Finance & Accounting and Airport Audit Supervisor. The Internal Audit Section was represented by the Internal Audit Supervisor and Auditor-in-Charge.

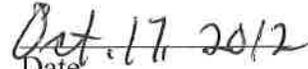
Conclusion

The consultant and sub-consultants complied with applicable laws, regulations, and contract terms, except for the following observations:

1. Compliance with contract's "right to audit" clause provisions
2. Opportunity to improve project management methods
3. Direct labor cost overcharges, questioned cost \$2,139
4. Salary Related Expenses (SRE) and General & Administrative Overhead (G&A) costs overcharges, questioned cost \$6,039
5. Unsupported SRE and G&A costs, questioned cost \$100,798 (\$72,243+\$28,555)
6. G&A cost overcharges, questioned cost \$3,187

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
LANDRUM & BROWN, INC.
PROFESSIONAL SERVICE AGREEMENT (PSA) #1067
JULY 1, 2008 THROUGH MARCH 30, 2011**

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OBSERVATIONS

Status of Prior Observations

Internal Audit Section has not previously reviewed this contract; therefore, there are no prior observations.

Summary of Current Observations

The consultant and sub-consultants complied with applicable laws, regulations, and contract terms, except for the following observations:

1. Compliance with contract's "right to audit" clause provisions
2. Opportunity to improve project management methods
3. Direct labor cost overcharges, questioned cost \$2,139
4. Salary Related Expenses (SRE) and General & Administrative Overhead (G&A) costs overcharges, questioned cost \$6,039
5. Unsupported SRE and G&A costs, questioned cost \$100,798 (\$72,243+\$28,555)
6. G&A cost overcharges, questioned cost \$3,187

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. Compliance With Contract's "Right To Audit" Clause

Sub-consultants of the projects did not provide the Internal Audit Section access to the accounting records in a timely manner. The accounting records were needed to verify the accuracy of the sub-consultants billings under the PSA.

The "Right to Audit" clause, of Article XXII of the PSA, states that the City, the Federal Aviation Administration, and the Comptroller of the United States shall have access to any books, documents, paper and records of the contractor which are directly pertinent to the contract for the purpose of making an audit, examination, excerpts, and transcriptions.

The sub-consultants did not comply with Article XXII - Inspection of Records of the PSA.

Internal Audit Section expended additional time to assess the sub-consultants' compliance with provisions of the contract. The timeline for completion of the review had to be revised.

Recommendation

The consultant ensure sub-consultants' compliance with the "right to audit" clause of the PSA.

Management's Response

Consultant was not aware that information was outstanding from sub-consultants. The consultant will maintain consistent follow-up to ensure sub-consultants comply with the right to audit clause provision.

Auditor's Comments

The pre- exit conference for this review was held on Wednesday June 29, 2011. Since the project manager in attendance is no longer with the consultant, the Internal Audit Section concludes the information discussed in the pre-exit conference was not communicated to the consultant's newly assigned project manager. However, since discussions held with consultant's Chief Financial Officer, we note that sub-consultants continued not to comply with the right to audit clause. See observations #3 and #5 for additional information.

2. Opportunity To Improve Project Management Methods

The following conditions were observed during the review of the consultant's project management methods:

- Contract Deliverables
A report of the PSA deliverables, requested by the Internal Audit Section on June 8, 2011, was in draft form. The final copy of the report was not provided until July 19, 2011. The report did not provide any evidence to confirm that the project management procedures had been outlined including a project execution work-plan to document the status of the project.
- Monthly Progress Reports
The sub-consultants' monthly progress reports did not include any documentation to confirm that they complied with the project's work plan requirements. In addition, the open issues related to the work delegated to the sub-consultants were not identified along with their resolutions.
- Project Review by US Department of Transportation
Correspondence from the Department of Transportation (DOT) dated August 27, 2009, September 23, 2010, and December 3, 2012, regarding its review of the Airport Layout and Master Plans Forecasts, required additional supplemental work to ensure the minimum required information was provided in the Plans. Specifically, it was recommended that the Regional Master Plan and Airport Layout Plan (ALP) Checklists be utilized for the preparation and review of the Airport Master Plan and ALP updates.

The DOT correspondence also noted that the forecast for the 5-year passenger enplanement contained a variance of 15.1 %, which exceeded the FAA allowance of 10%. In addition, comments from previous communications were not incorporated in the second submittal and reference that the deliverables for that Master Plan were "lagging".

Article II of the PSA requires the consultant to be responsible for the additional professional services hired outside his regularly employed staff. The consultant is also responsible for the professional quality, technical accuracy and the coordination of reports, drawings, specification, estimates, etc.

The consultant's current project management methods are not operating at an effective level to ensure the work performed under the contract meets the approval of the DOT.

The consultant did not meet the reporting requirements of the PSA.

2. Continued...

Recommendation

The consultant improve project management methods to provide assurance of the following:

- Final copies of all deliverables are on file with the Airport Planning and Development
- Project management process is documented and working effectively.
- Improve current understanding of the requirements for submitting a Master Plan and Airport Layout Plan (ALP) Checklist to the US Department of Transportation.
- Utilize the US Department of Transportation Checklist for submitting a Master Plan.
- Ensure that all comments by the US Department of Transportation are addressed in subsequent submittals to reduce lag times with deliverables.

Management's Response

Delivery schedules were established with Airport staff and reviewed weekly. Written Status reports were provided at the time of invoicing. We cannot certainly predict how a master plan will develop at the onset, it takes a certain amount of coordination and vetting between industry regulators and planners to arrive at a conclusion. As of today, all technical items raised in the letters have been addressed with the FAA.

Auditor's Comment

The consultant should ensure that all work performed is documented and accessible upon request. Although requests were made to review, we were unable to confirm the information noted was addressed and resolved in a timely manner.

3. Direct Labor Costs Overcharges, Questioned Cost \$2,139

Based on the review of the three invoices, selected on a random basis, the sub-consultant, Sanchez Design, Inc., billed the City for labor costs at the labor rates that were higher than its actual rates.

The variance between the billed and actual labor rates resulted in questioned cost of \$2,139. The questioned cost could be higher if Sanchez Design, Inc.'s all billed labor costs under the PSA were reviewed.

Article XI, Fees and Payments, of the PSA requires that each consultant and sub-consultants' labor cost to include their actual payroll costs and further requires that

3. Continued...

cost incurred must be limited to those incurred in accordance with generally accepted accounting principles

Sanchez Design, Inc., did not have a system of internal control in place to ensure that the billed labor rates were based on its actual payroll costs.

Sanchez Design, Inc., overcharged the City for the labor costs by \$2,139.

Recommendation

It is recommended that:

- Sanchez Design, Inc., provided supporting documentation for the labor rates used to bill the City.
- The Airport Finance and Accounting Section expand its review of labor costs billed by Sanchez Design Inc., to-date to determine the total overcharges due to labor rate variances.
- The Board of Public Service pursue cost recovery of \$2,139 including any additional overcharges discovered from the expanded review of the sub-consultant's billings.

Management's Response

Sanchez Design, Inc., did not respond to the observation.

4. Salary Related Expenses (SRE) And General Administrative Overhead Costs Overcharges , Questioned Costs \$6,039

The sub-consultant, Unison Consulting Group's (UCG), billed SRE and G&A rates were neither based on the audited rates nor agreed to their accounting records. The variances between the billed and the audited or actual rates, calculated based on their accounting records, resulted in unsupported SRE and G&A billings to the City for \$6,039 as follows:

A	B	C	D	E
Sub-Consultant	Indirect Cost Category	Amount Billed	Amount Based on Accounting Records	Unsupported Billings (C-D)
UCG	SRE and G/A	\$234,438	\$228,399	\$6,039

According to the PSA, SRE and G&A 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.

4. Continued...

The UCG did not have a system of internal controls in place to ensure compliance with the PSA's SRE and G&A rates determination requirements:

Audit procedures performed to evaluate UCG's accounting system indicated that their accounting systems were not adequately differentiating between direct and indirect costs. The home office reimbursable rates rather than field office rates were submitted for billing productive salary costs.

The non-compliance with this requirement resulted in the City paying \$6,039 in excess of actual SRE and G&A costs incurred by UCG.

Recommendation

It is recommended the City of St. Louis Board of Public Service pursue cost recovery of \$6,039 for indirect costs billed in excess of actual costs by UCG.

Management's Response

UCG has agreed to repay the City of St. Louis the \$6,039 in overbillings.

5. **Unsupported SRE and G&A Costs, Questioned Costs \$100,798 (\$72,243+ \$28,555)**

The following three sub-consultants did not submit payroll reports, schedules of rate computations, general ledger accounts, and audited financial statements to support the SRE and/or G&A rates listed in Attachment E of the PSA and used to bill the City. This resulted in questioned costs of \$72,243 as follows:

Sub-consultant	Cost Category	Amount Billed
Applied Real Estate Group	G&A	\$13,995
Charbonnet & Associates	SRE and G&A	\$15,570
Final Phase Marketing	SRE and G&A	\$42,678
Total		\$72,243

In addition, Sanchez Design Inc., marked up the labor rates based on unsupported industry standards to bill the City for SRE and G&A. This resulted in questioned costs of \$28,555.

Article XI of the PSA states that the consultants and sub-consultant's SRE and G&A rates shall be based on the Rate Schedule provided in Attachment E of the contract. In addition, payments under the provisions of this contract is limited to those costs

5. Continued...

incurred in accordance with generally accepted accounting principles and to the extent are considered necessary to the execution of the work.

Sub-contractors did not have a system of internal control to ensure compliance with PSA's requirements for SRE and G/A billings.

The sub-consultants overcharged the City for SRE and G&A by \$100,798 (\$72,243 + \$28,555).

Recommendation

The sub-consultants submit payroll reports, schedules of rate computations, general ledger accounts, and audited financial statements, etc. to support the SRE and G&A rates listed in Attachment E of PSA and used to billed the City. If supporting document are not provided, the City Board of Public Service should pursue a cost recovery for the unsupported SRE and G&A billings for \$100,798.

Management's Response

Charbonnet & Associates did submit information to determine the actual over-billings for services and has agreed that \$15,570 is due back to the City of St. Louis.

Auditor's Comments

Applied Real Estate Group, Final Phase Marketing and Sanchez Design, Inc. did not respond to the observation.

6. G&A Cost Overcharges, Questioned Cost \$3,187

The sub-consultant's, David Mason and Associates, G&A billing rates were higher than the actual rates based on their accounting records. The rate variances resulted in questioned costs of \$3,187 as follows:

A	B	C	D
Sub-consultant	Amount Billed	Amount Based on Accounting Records	Overcharges (B-C)
David Mason and Associates	\$150,288	\$147,101	\$3,187

Payment under the provisions of the PSA is limited to those costs incurred and in accordance with generally accepted accounting principles and to the extent that are considered necessary to the execution of items of work.

6. Continued...

It is industry practice to calculate the G&A reimbursable rate based on the Federal Acquisition Regulation (FAR) Part 31 Contract Cost Principles and Procedures. FAR 31.204 states the cost shall be allowed to the extent they are reasonable, allocable and determined to be allowable.

FAR Part 31 defines “Home Office” as an office responsible for directing and managing two or more but not necessarily all, segments (field offices) of an organization. It is standard to develop field reimbursable rates for G&A and SRE to ensure reimbursement is based on actual costs incurred for the field office where the services are performed.

G&A rates used by the sub-consultant for billing the City were not computed in compliance with FAR Part 31.

The City has been overbilled \$3,187 for indirect charges.

Recommendation

The sub-consultant submit documentation to support the billing rates listed in Attachment E of the agreement to the Board of Public Service

If documentation is not provided, the City of St. Louis-Board of Public Service pursue cost recovery of \$3,187 for G&A billed in excess of actual costs incurred.

Management’s Response

David Mason and Associates has agreed to repay the City of St. Louis the \$3,187 in overbillings.