



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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February 15, 2007

Marjorie Melton, P.E., President
Board of Public Service
1200 Market Street, Room 401
St. Louis, MO 63103-2860

RE: Review of URS Corporation Professional Service Agreement #974 (Project #2004-74)

Dear Ms. Melton:

Enclosed is a report of our review of the URS Corporation Professional Service Agreement #974 for the period of June 1, 2002 through April 30 2004. The objective of this review was to ensure that URS Corporation billings were in accordance with the Agreement and that the City of St. Louis has not been overcharged for work performed by URS Corporation or any of its sub-consultants. Our fieldwork was substantially completed on December 15, 2006. Management responses to the observations and recommendations noted in the report were received on January 19, 2007 and have been incorporated in the report. A description of the scope of our work is included 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 Professional Practice of Internal Auditing.

If you have any questions, please call me at (314) 589-6132.

Respectfully,

Sedrick D. Blake, CPA
Audit /Fiscal Executive

Enclosure

cc: Ronald Smith, City Operations Manager, Office of the Mayor
Eugene Kuelker, Sr., Contracts Manager, Board of Public Service
Robert Dopuch, Airport Program Management Office



CITY OF ST. LOUIS

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

*URS CORPORATION
REVIEW OF DESIGN SERVICES FOR NEW RUNWAY 12R-30L AND
MODIFICATIONS TO AIRFIELD ELECTRICAL DISTRIBUTION SYSTEM
PROFESSIONAL SERVICE AGREEMENT #974*

JUNE 1, 2002 THROUGH APRIL 30, 2004

PROJECT #2004-74

DATE ISSUED: FEBRUARY 15, 2007

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER

Honorable Darlene Green, Comptroller

CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE
URS CORPORATION – PROFESSIONAL SERVICE AGREEMENT #974
FOR DESIGN SERVICES FOR NEW RUNWAY & MODIFICATIONS TO AIRFIELD
ELECTRICAL DISTRIBUTION SYSTEM
JUNE 1, 2002 THROUGH APRIL 30, 2004

EXECUTIVE SUMMARY

Purpose

The purpose of this review was to ensure that the URS Corporation and its sub-consultants' billings were in accordance with the contract agreement and that the City of St Louis has not been overcharged by URS Corporation or any of its sub-consultants and errors in application or methodology were corrected on a prospective basis.

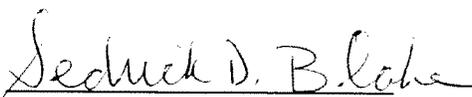
Conclusion

We made recommendations for the following observations, which if implemented, could ensure compliance with the agreement and result in a potential cost recovery of \$13,642:

1. ABNA Engineering, Inc. billed direct labor rates in excess of actual rates (\$13,642)
2. Sub-consultants failed to provide support documentation for SRE and G&A OH rates applied to the project

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

This limited review was made under 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 Professional Practice of Internal Auditing.


Sedrick D. Blake, CPA
Audit/Fiscal Executive

2/15/07
Date

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE
URS CORPORATION – PROFESSIONAL SERVICE AGREEMENT #974
FOR DESIGN SERVICES FOR NEW RUNWAY & MODIFICATIONS TO
AIRFIELD ELECTRICAL DISTRIBUTION SYSTEM
JUNE 1, 2002 THROUGH APRIL 30, 2004**

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URS CORPORATION – PROFESSIONAL SERVICE AGREEMENT #974
FOR DESIGN SERVICES FOR NEW RUNWAY & MODIFICATIONS TO
AIRFIELD ELECTRICAL DISTRIBUTION SYSTEM
JUNE 1, 2002 THROUGH APRIL 30, 2004**

INTRODUCTION

Background

Professional Services Agreement #974 is a contract between City of St. Louis, Board of Public Service and URS Corporation and its sub-consultants to provide planning and design services for the Runway 12R – 30L Complex and make modifications of existing airfield electrical distribution systems. This contract is authorized by Ordinance No. 64279 and is a part of the Airport Expansion Project.

Purpose

The purpose of this review was to ensure that:

- The consultant's billings were in accordance with the agreement
- The City of St. Louis has not been overcharged for work performed
- Errors in application or methodology are corrected on a prospective basis

Scope and methodology

We reviewed \$4,957,581 out of \$10,017,973 (49%) in billings submitted by the URS Corporation (including its sub-consultants) to the City of St. Louis for the period June 1, 2002 through April 30, 2004. We made inquiries of the management of the consultants and its sub-consultants, and evaluated the appropriateness and accuracy of all individual cost elements billed. Such elements included direct labor, salary related expenses (SRE), general and administrative overhead (G&A OH), direct reimbursable expenses, and Joint Venture's profit mark-up (Fixed Fee).

The compensation methodology specified in the contract is based on the Cost Accounting Standards as prescribed by Part 31 of the Federal Acquisition Regulation (FAR). Such methodology provides for the reimbursement of labor burden and overhead with SRE and OH cost rates. In addition, direct costs are billed as a direct reimbursable expense along with the specified fixed fee mark-up.

Exit conference

An exit conference was held with the Board of Public Service at the Riverport PMO on January 10, 2007 to discuss the draft report. Eugene Kuelker, Sr., Contract Administration, represented the Board of Public Service; Peg Thole, Cost Control-SPK Consulting Group, represented the Airport Program Management Office; Dwayne Crandall, Audit Supervisor and Leonard E. Bell, Jr., Auditor-in-Charge, represented the Internal Audit Section.

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JUNE 1, 2002 THROUGH APRIL 30, 2004**

INTRODUCTION

Management's responses

Management responses to the observations and recommendations noted in the report were received on January 19, 2007 and have been incorporated in the report.

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JUNE 1, 2002 THROUGH APRIL 30, 2004**

OBSERVATIONS

Status of Prior Observations

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

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could ensure compliance with the agreement and result in a potential cost recovery of \$13,642.

1. ABNA Engineering, Inc. billed direct labor rates in excess of actual rates (\$13,642)
2. Sub-consultants failed to provide support documentation for SRE and OH rates applied to the project

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**DETAILED OBSERVATIONS, RECOMMENDATIONS AND
MANAGEMENT’S RESPONSES**

1. ABNA Engineering, Inc. billed direct labor rates in excess of actual rates (\$13,642)

The contract states that the City shall reimburse the consultant based on actual costs incurred on the project. The consultant and sub-consultants’ actual cost shall include direct labor costs, salary related expenses (SRE), and general and administrative overhead (G&A OH) costs.

ABNA Engineering, Inc. (ABNA), one of the sub-consultants, billed direct labor costs at higher hourly labor rates than paid to its employees. We reviewed all twelve invoices ABNA submitted during our review period. Our review disclosed an over billing by ABNA for direct labor costs by \$13,642 as follows:

Direct Labor Cost Overcharges	\$ 4,802
SRE at 29.94% of Direct Labor Cost Overcharges	1,437
G&A OH @154.18% of Direct Labor Cost Overcharges	<u>7,403</u>
Total Overcharges	<u>\$13,642</u>

Although ABNA billed at higher direct labor hourly rate than it paid to employees, the rates were within the salary ranges as specified in the contract. The SRE and G&A OH rates billed were the same as provided for in the contract.

Recommendation

We recommend the Board of Public Service establish internal controls to ensure direct labor hourly rates billed by consultants are the same as the rates used to pay employees and are in compliance with the contract. We also recommend the Board of Public Service recover the direct labor cost overcharges of \$13,642.

Management’s responses

The audit revealed there were labor cost overcharges. Those overcharges resulted in ABNA reaching their maximum cap, while their portion of the design work was not complete. Based on the work by the internal auditors, the allowable labor costs for the employee overcharges were determined. When these new rates are applied to the hours certified by the prime consultant, URS, that could have been billed if the maximum contract amount was not previously reached, the labor overcharge finding can be reduced to \$6,520. The City will

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**DETAILED OBSERVATIONS, RECOMMENDATIONS AND
MANAGEMENT’S RESPONSES**

1. Continued...

pursue recovering \$6,520, which represents the balance of the audit finding for direct labor cost.

Auditor’s comment

We reviewed the support documentation for the additional ABNA labor hours the prime contractor submitted and certified. Based upon our review, the direct labor cost overcharges have now been reduced to \$6,520, which remain recoverable.

2. Sub-consultants failed to provide support documentation for SRE and G&A OH rates applied to the project

The contract states that the “consultant and sub-consultants’ records shall be open to inspection and subject to audit and/or reproduction during normal business working hours. Such records shall include but not be limited to, those records necessary to evaluate and verify direct and indirect costs (including overhead allocations as they may apply to costs associated with this Agreement).”

Three sub-consultants, ABNA Engineering, Inc., Bayse & Associates, and Kowelman Engineering, Inc. did not provide us with the supporting General Ledger reports needed to verify that the SRE and G&A OH rates they used, complied with Federal Acquisition Regulations (FAR) Part 31.205. We reviewed three invoices, P974-001, 011 and 012 and were unable to verify the adequacy and accuracy of SRE and G&A OH billed to the City.

Recommendation

We recommend the City of St. Louis, Board of Public Service require the above sub-consultants to provide us with the requested supporting general ledger reports so that we can determine whether they complied with Federal Regulations in calculating their SRE and G&A OH rates.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS AND
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2. Continued...

Management’s response

The City negotiated and approved the SRE and G&A rates for the prime consultant and each sub-consultant at the time the contract was executed. Their general ledger data was used if available during these negotiations.

Auditor’s comment

The contract states that the “consultant’s (and sub-consultant’s) records shall be open to inspection and subject to audit and/or reproduction during normal business working hours. Such records shall include but not be limited to, those records necessary to evaluate and verify direct and indirect costs (including overhead allocations as they may apply to costs associated with this Agreement).”

We stand by our finding.