



CHARLOTTE

INTERNAL AUDIT

**Report of Internal Audit
CATS Northeast Corridor Light Rail Transit Project
STV/RWA, Incorporated – Direct Labor, Overhead, and Fees
Fiscal Year Ended September 30, 2014
April 22, 2015**

**City Auditor's Office
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Audit Approach and Scope

This audit focused on invoices submitted by STV/Ralph Whitehead Associates, Inc. (STV/RWA), contractor for the Northeast Corridor Light Rail Transit Project. For the fiscal year ended September 30, 2014, STV/RWA submitted invoices totaling about \$6.9 million. The audit addressed the direct labor, overhead, and fees billed for that period of about \$4.8 million.

Internal Audit conducted this review to ensure that contractor invoices comply with federal guidelines and to identify unallowable charges. Auditors examined the invoices for accuracy, authorization, and compliance with the guidelines specified in the Federal Acquisition Regulations (FAR). Our evaluation included interviews with appropriate City personnel and the review of state and federal funding guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council and CATS.

Conclusion

Other than the need to reconcile overhead rates, there were no additional audit findings. These results indicate a high level of compliance with Federal contracting guidelines by the contractor, along with effective administrative efforts by CATS staff.

Summary Results

For the period audited, STV/RWA submitted 12 project-related invoices to CATS totaling \$6,913,069. Auditors reviewed direct labor charges of \$1,740,114 and overhead and fees of \$3,065,013. (The audit did not include a review of other direct costs which totaled \$2,126,674.)

Auditors addressed and resolved a number of issues related to STV/RWA's direct labor charges. During the audit, STV/RWA supplied timely responses and documentation. As a result, there are no findings related to direct labor for the audit period.

As is typical in contracts involving federal funding, the contractor used a provisional overhead billing rate, which is adjusted to the actual rate following completion of a financial audit. Our review of overhead rates found that a reconciliation payment totaling \$104,905 is owed to CATS, to reflect audited results from the fiscal year ended September 30, 2014.

Background

In 2008, the Charlotte Area Transit System (CATS), in conjunction with NCDOT and the Federal Transit Administration, initiated the preliminary engineering and design portion of the Northeast Corridor Light Rail Transit Project (NECLRP)/Lynx Blue Line Extension project (BLE). BLE was the second of the corridor systems planned for implementation following the first project (South Corridor Light Rail Transit System) which became operational in November 2007. The Federal Government and State of North Carolina's partial funding of the project imposes several requirements on CATS, including the need to ensure that payments comply with the provisions of FAR. These requirements apply to contracts in excess of \$100,000.

As stipulated in the contract which was revised effective May 1, 2008, the City has withheld 5% (\$18,731.42) of the fixed fees until STV/RWA provides all documentation and completes deliverables, including all claim releases, required by the contract. Beginning with August of this fiscal year, CATS is no longer withholding retainage per the BLE Project Director.

Finding and Recommendation

STV should remit \$104,905 to reconcile actual to provisional overhead rates.

Overhead and fees totaled \$3,065,013, or 44% of the \$6.9 million billed. Prior to the completion of annual audits, contractors submit invoices based upon "provisional" overhead rates, that is, their estimated overhead rates which have been accepted as reasonable. Overhead is paid based upon actual rates, with overhead calculated following each year.

STV/RWA has provided audited overhead rate schedules for FY2014. Using the audited rates provided, we determined that CATS was over billed \$104,905. This consisted of \$95,368 in overhead charges and \$9,537 in fees. The billed rates and audited rates submitted by STV/RWA are detailed below.

STV/RWA Overhead Rates								
	Audited Financials				Invoiced			
	STV Overhead	STV Field Overhead	RWA Overhead	RWA Field Overhead	STV Overhead	STV Field Overhead	RWA Overhead	RWA Field Overhead
2014	146.22%	124.68%	146.22%	124.68%	142.50%	0.00%	158.50%	134.50%

Recommendation

STV should remit payment of \$104,905 to CATS to reconcile the provisional payments made properly using provisional rates to the actual audited results.

CATS Response

CATS will submit a letter to STV/RWA invoicing the \$104,905 owed to the City of Charlotte for overhead charges. Once the letter is issued, STV will have 30 days to reimburse the money owed to the City of Charlotte.