

# **Metropolitan Nashville Airport Authority**

## **MEMORANDUM**

**TO:** Douglas E. Kreulen, Interim President and CEO

**CC:** Robert Ramsey, V.P. Development and Engineering and Chief Engineer  
Davita Taylor, Chief of Staff, Board Liaison  
Traci Holton, Director of Design  
Rick Williams, Manager of Building Construction

**FROM:** Julie Zwicknagel, Internal Audit Coordinator

**DATE:** November 10, 2017

**SUBJ:** Quarry Geothermal Audit Report

---

### **Background**

On June 5, 2015, Blakley Construction Services (“Blakley”) entered into a Design-Build Contract for the implementation of a water source geothermal system project (“Quarry Geothermal project”) with the Metropolitan Nashville Airport Authority (“Authority”). The Project involved the design and implementation of a geothermal system consisting of submerged lake plate heat exchangers and nearly two miles of pipes between the quarry and the terminal. The design included upgrades to the chillers and the terminal heat/cooling system programming to maximize cost savings and efficiencies. The contract required a minimum of over 3 million kilowatt-hours energy savings and water use reduction of 30 million gallons, annually.

The Authority agreed to pay Blakley for the performance of the work in the amount of Ten Million Four Hundred Twenty Three Thousand Three Hundred Dollars and 00/100 (\$10,423,300). The project would be completed no later than 365 calendar days from the commencement date established in the Notice to Proceed.

The Authority established a Disadvantaged Business Enterprise (“DBE”) participation level of 1.7% in the Invitation to Bid (“ITB”). However, Blakley committed to achieve a participation level of 3.94%.

## **Objectives**

The objectives of the audit were as follows:

1. Determine compliance with the contract terms;
2. Determine the validity of payments made to Blakley; and
3. Document and evaluate existing internal controls.

## **Testing**

In order to satisfy the audit objectives, the following tests were performed:

1. Determine Contractor submitted payment and performance bonds in compliance with contract terms.
  - a. Determine Legal is verifying the payment and performance bonding companies are authorized to do business in the State of Tennessee and have sufficient underwriting limits.
2. Determine Contractor is complying with drug-free workplace requirements.
3. Determine Contractor maintains adequate insurance coverage.
  - a. Obtain a copy of the current certificate of insurance.
  - b. Verify that the commercial general liability, automobile, worker's compensation, and professional liability insurance coverage meets or exceeds the amounts specified in the contract.
  - c. Verify the company/companies providing commercial general liability, automobile, and worker's compensation insurance are admitted to do business in the State of Tennessee and rated not less than the minimum rating or approved by the Authority's Chief Financial Officer ("CFO").
  - d. Verify the certificate of insurance is current and adheres to all other contract terms.
4. Determine contract amendments or modifications (if applicable) were appropriately approved by Authority personnel.
5. Determine weekly design and construction progress meetings were held throughout the project.
6. Determine Contractor has met the DBE program requirements specified in the contract.
7. Determine Contractor has complied with wage and labor provisions.
8. Determine Contractor received substantial completion certification.
9. Determine Contractor received Final Acceptance of the project.
  - a. Review project closeout report, if applicable.
10. Determine Contractor completed the project within the contracting time.
11. Determine Contractor has not exceeded the contract amount.
  - a. Verify the Contractor was formally notified when the remaining funds were in place to authorize spending of the full contract amount.
12. Determine compliance with the Performance Guarantee and Measurement and Verification requirements.

- a. Review the measurement and verification plan to determine the Contractor's achievement of energy and water savings as required for the period.
  - b. Verify the Contractor submitted the savings report within 90 days following the completion of the performance period.
13. Obtain invoices from June 2015 through current period and perform the following:
  - a. Review each invoice for mathematical accuracy.
  - b. Reconcile payments to Contractor's payment application.
  - c. Determine 5% of the contract amount was properly retained.
14. Document and evaluate existing internal controls.

## **Conclusion**

Based upon the audit, the following was determined with respect to the stated objectives:

1. There was no supporting documentation of the verification of the performance and payment bonds, as noted in finding #1.
2. Development & Engineering ("D&E") did not verify Blakley's insurance coverage for the contracting period of June 14, 2015, through June 14, 2016, as noted in finding #2.
3. D&E is not consistently verifying insurance companies are rated not less than the minimum credit rating, as noted in finding #3.
4. Meeting requirements were not consistently stated in the contracting documents, as noted in finding #4.
5. The DBE payments for the Quarry Geothermal project may have been overstated in the amount of \$31,710, as noted in finding #5.
6. Blakley did not achieve the DBE participation levels established in the contract, as noted in finding #6.
7. Some of the certified payroll records did not comply with wage and labor provisions, as noted in finding #7.
8. Some of the Statements of Compliance accompanying the certified payrolls were not properly approved, as noted in finding #8.

## **Finding #1**

### Observation

There was no supporting documentation of the verification of the performance and payment bonds.

### Background

According to Article A.11, Insurance and Bonds, Section A.11.7, Performance Bond and Payment Bond, of the Design-Build Contract with Blakley, “The Design-Builder who is awarded the Contract must provide Performance and Payment Bonds equal to One Hundred Percent (100%) of the Contract amount. All bonds must be completed on the forms provided with the Contract Documents.”

**PERFORMANCE BOND**

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

KNOW ALL PERSONS BY THESE PRESENTS, that we \_\_\_\_\_  
\_\_\_\_\_, a \_\_\_\_\_, duly  
organized and existing under the laws of the State of \_\_\_\_\_ and authorized  
to do business in the State of Tennessee, as contractor, (hereinafter called the "contractor"), and  
\_\_\_\_\_, a corporation duly organized and existing  
under the laws of the State of \_\_\_\_\_ and authorized to do  
business in the State of Tennessee, as surety, (hereinafter called the "surety"), do hereby  
acknowledge ourselves indebted and firmly bound unto the Metropolitan Nashville Airport  
Authority, Nashville, Tennessee, as obligee, (hereinafter called the "owner") a public corporation  
created by the Metropolitan Government of Nashville and Davidson County, Tennessee,  
organized and existing under the laws of the State of Tennessee, in the sum of  
\_\_\_\_\_ Dollars  
(\$ \_\_\_\_\_), good and lawful money of the United States, which sum is one  
hundred percent (100%) of the contract price, for the payment of which sum well and truly to be  
made, we do hereby bind ourselves, our heirs, executors, administrators, successors and assigns,  
jointly and severally, firmly by these presents.

WHEREAS, the Owner has contracted with the said contractor, for the sum  
of \_\_\_\_\_ Dollars  
(\$ \_\_\_\_\_) to furnish all labor, materials, equipment and appurtenances  
necessary for:

**IMPLEMENTATION OF WATER SOURCE GEOTHERMAL SYSTEM  
(QUARRY PROJECT)  
MNAACIP 1509**

An objective of the audit was to determine Legal was verifying the payment and performance bonding company was authorized to do business in the State of Tennessee and had sufficient underwriting limits. The current process for validating the bonds includes D&E sending Legal an email requesting verification of the bonds. Legal confirms the bonding company is

authorized to do business in the State of Tennessee and has sufficient underwriting limits. A copy of the confirmation email from Legal is saved in D&E's project files for supporting documentation.

Through audit testing, it was determined that there was no supporting documentation in Legal or D&E projects files verifying the bonding company was authorized to do business in the State of Tennessee and had sufficient underwriting limits. Therefore, Internal Audit was not able to substantiate the verification of the bonds.

### Recommendation

D&E should request Legal to verify payment and performance bonding companies are authorized to do business in the State of Tennessee and have sufficient underwriting limits. A copy of the verification of bonds should be retained in D&E's project files.

### Management Response

*D&E has verified that our existing procedures and the procedures under revision includes a step that Legal is to verify payment and performance bond companies are authorized to do business in the State of Tennessee and have sufficient underwriting limits. As part of the new procedures, which are scheduled to be complete by December 31, 2017, it will be a requirement to retain this verification in the project file.*

## **Finding #2**

### Observation

D&E did not verify Blakley's insurance coverage for the contracting period of June 14, 2015, through June 14, 2016.

### Background

The Design-Build Contract with Blakley required the Contractor to obtain and maintain continuously in effect at all times during the term of the contract, commercial general liability, automobile, worker's compensation, and professional liability insurance coverage at limits established in the contracting documents.

An objective of the audit was to determine that D&E maintained a certificate of insurance during the term of the contract and the certificate adhered to all contract terms. Through audit testing, it was determined that D&E had a copy of Blakley's certificate of insurance at the time the contract was executed for the period June 14, 2014, through June 14, 2015, meeting all contract requirements. They also had a copy of Blakley's certificate of insurance for the time period June 14, 2016, through June 14, 2017.

However, D&E did not have a copy of Blakley's certificate of insurance on file for the contracting period of June 14, 2015, through June 14, 2016. Therefore, Internal Audit was not able to verify the insurance coverage met the contracting requirements.

### Recommendation

D&E should verify Contractors maintain adequate insurance coverage throughout the term of the contract.

### Management Response

*D&E will coordinate with the new CFO to outsource the insurance certificate verification and tracking within the first six months of the CFO's start date. Until the new insurance certification program is started, D&E will continue to monitor and track insurance and applicable D&E staff are scheduled to attend certificate of insurance training on Oct 10<sup>th</sup> and 11<sup>th</sup>.*

## **Finding #3**

### Observation

D&E is not consistently verifying insurance companies are rated not less than the minimum credit rating.

### Background

According to Article A.11, Insurance and Bonds, Section A.11.1.2 of the Design-Build Contract with Blakley, "Each insurance company issuing an insurance policy providing CGL Coverage shall be (A) admitted to do business in the State of Tennessee and rated not less than the Minimum Rating (as defined herein) or (B) otherwise approved by the Chief Financial Officer of the Authority. Such approval may be denied or withheld based upon an insurance company's rating by the Rating Service (as defined herein) or other indications of financial inadequacy, as determined in the sole discretion of the Chief Financial Officer of the Authority."

According to Article A.11, Insurance and Bonds, Section A.11.4.5, of the Design-Build Contract with Blakley, "The term "Rating Service" shall mean A.M. Best Company, or, if A.M. Best Company no longer exists or discontinues its rating of insurance companies, such alternative rating service for insurance companies as determined in the sole discretion of the Chief Financial Officer of the Authority. The term "Minimum Rating" shall mean a rating (if A.M. Best Company is the Rating Service) of A- (Financial Size: X) based upon the criteria for financial strength and financial size ratings utilized by A.M. Best Company on the date of this Contract, or such equivalent rating (if A.M. Best Company is not the Rating Service or if A.M.

Best Company subsequently revises its criteria for financial strength and financial size ratings) as determined in the sole discretion of the Chief Financial Officer of the Authority.”

An objective of the audit was to verify insurance companies were rated not less than the minimum credit rating. Through audit testing, it was determined that D&E verified the insurance companies were rated not less than the minimum credit rating for the period of June 14, 2014, through June 14, 2015. A copy of the companies A.M. Best credit rating was attached to the certificate of insurance.

Internal Audit was not able to verify Blakley’s insurance carriers were rated not less than the minimum credit rating for the period June 14, 2015, through June 14, 2016, because there was not a copy of the certificate of insurance on file with D&E.

Additionally, D&E did not have a copy of the A.M. Best credit rating for the insurance companies for the period of June 14, 2016, through June 14, 2017, and Blakley had a change in insurance carriers. Internal Audit verified the insurance companies met the minimum credit rating on July 25, 2017.

#### Recommendation

D&E should verify insurance companies meet the minimum credit rating throughout the term of the contract.

#### Management Response

*D&E will coordinate with the new CFO to outsource the insurance certificate verification and tracking within the first six months of the CFO’s start date. Until the new insurance certification program is started, D&E will continue to monitor and track insurance and applicable D&E staff are scheduled to attend certificate of insurance training on Oct 10<sup>th</sup> and 11<sup>th</sup>.*

### **Finding #4**

#### Observation

Meetings requirements were not consistently stated in the contracting documents.

#### Background

According to Article A.3, Design-Builder, Section A.3.2.7 of the Design-Build Contract with Blakley, “The Design-Builder shall meet with the Owner weekly to review the progress of the design and construction documents and provide meeting minutes of that meeting.”

According to the Scope of Services, Section 1. j, Design Phase Services, of the Request for Proposal (“RFP”), “The Design-Builder shall conduct bi-weekly design meetings with MNAA project stakeholders (e.g. MNAA, FAA, etc.) and provide meeting minutes within 3 days of the meeting.”

According to the Scope of Services, Section 2. h, Construction Phase Services, of the RFP, “The Design-Builder shall conduct weekly construction meetings with the MNAA project stakeholders (e.g. MNAA, FAA, etc.) and provide meeting minutes.”

An objective of the audit was to determine that weekly design and construction meetings were held throughout the project. Through audit testing, it was determined that the meeting requirements were not consistently stated in the contracting documents. The contract required weekly design and construction meetings with documented meeting minutes. The RFP required bi-weekly design meetings and weekly construction meetings with documented meeting minutes.

Through further audit testing, it was determined that three design meetings were held throughout the project based on percentage of completion. The following meetings were conducted with a documented meeting agenda but D&E was not able to locate meeting minutes: Finalize Design Build RFP meeting on 11/7/2014, pre-proposal meeting on 1/6/2015, and design kick-off meeting on 6/6/2015.

Additionally, construction meetings were conducted on an as needed basis. In the initial phase of construction, construction meetings were held on a monthly basis. As construction progress increased, meetings were conducted on a bi-weekly basis. As construction progress slowed toward the end of the project, monthly construction meetings were conducted. Construction meetings were held on the following dates: 9/23/2015, 10/21/2015, 11/4/2015, 11/18/2015, 12/2/2015, 12/16/2015, 1/13/2016, 2/10/2016, 3/9/2016, and 4/6/2016. It should be noted that there were meeting minutes documenting each construction meeting.

Through further audit inquires with D&E staff, it was disclosed that design and construction meetings were conducted throughout the project, based on an operational need.

### Recommendation

D&E should ensure that meeting requirements are consistently stated in the contracting documents.

Additionally, D&E should consider adding a clause to the contracting documents that if meetings are not operationally required on a weekly or bi-weekly basis, they will be conducted on an as needed basis.

### Management Response

*By the end of October 2017, D&E will add language to contracting documents that meetings may be added or deleted as operationally required.*

## **Finding #5**

### Observation

The DBE payments recorded for the Quarry Geothermal project may have been overstated in the amount of \$31,710.

### Background

An objective of the audit was to determine Blakley met the DBE program requirements specified in the contract. Through audit testing, discrepancies in the amount of \$26,889 were noted between the DBE participation stated on the invoices and the DBE participation recorded in Business Diversity Development's ("BDD") B2G reporting system, as detailed below.

<b>DBE Subcontractor</b>	<b>DBE Participation per Blakely Invoices</b>	<b>DBE Participation per B2G System</b>	<b>Variance</b>
Archangel Protective Services	\$124,488	\$124,488	\$0
Lane Hauling & Excavating Inc.	135,622	137,232	-1,610
Thornton & Associates	33,029	56,869	-23,840
Gibco Construction, LLC	1,960	1,960	0
Jen-Hill Construction Materials	7,489	7,489	0
BAC Paving	58,599	0	58,599
TN Coatings	6,260	12,520	-6,260
<b>Total</b>	<b>\$367,447</b>	<b>\$340,558</b>	<b>\$26,889</b>

Through further audit testing, it was determined that BAC Paving is a certified SMWBE firm and not a certified DBE firm. Therefore, BAC Paving's participation in the amount of \$58,599 should not be included in Blakley's DBE participation totals, which brings the differences noted to \$31,710, as detailed below.

### **DBE Participation Discrepancies Noted:**

<b>DBE Subcontractor</b>	<b>DBE Participation per Blakely Invoices</b>	<b>DBE Participation per B2G System</b>	<b>Variance</b>
Lane Hauling & Excavating Inc.	135,622	137,232	-1,610
Thornton & Associates	33,029	56,869	-23,840
TN Coatings	6,260	12,520	-6,260
<b>Total</b>	<b>\$174,911</b>	<b>\$206,621</b>	<b>-\$31,710</b>

Through further analysis, it appears that Blakley may have mistakenly overstated the participation for Thornton & Associates and TN Coatings by submitting duplicate participation payments and not properly updating the DBE participation form included with the invoices, as noted below.

**Possible Duplicate Participation Payments:**

<b>DBE Subcontractor</b>	<b>Invoice #3</b>	<b>Invoice #4</b>
Thornton & Associates	\$23,840	\$23,840

<b>DBE Subcontractor</b>	<b>Invoice #12</b>	<b>Invoice #13</b>
TN Coatings	\$6,260	\$6,260

**Recommendation**

BDD should verify the DBE participation amounts with Blakley’s subcontractors and make adjustments to AX and the B2G system accordingly.

**Management Response**

*BDD will verify the DBE participation amounts with Blakley’s subcontractors and make appropriate adjustments by the end of the 2<sup>nd</sup> quarter of FY18.*

*Additionally, BDD will turn on its B2GNow self-verification of payment feature for subcontractors at the end of the 2<sup>nd</sup> quarter of FY18.*

**Finding #6**

**Observation**

Blakley did not achieve the DBE participation levels established in the contract.

**Background**

According to Article C1.1, DBE Participation Goal, the Design-Build Contract with Blakley, "The attainment of the goal established for this Contract is to be measured as a percentage of the total dollar value of the Contract. The Design-Builder, as well as its Subcontractors and vendors, agree that is shall not discriminate on the basis of the race, color, national origin, sex or handicap in the performance of Contract. Design-Builders of the MNAA are required to engage in good faith efforts to joint venture, subcontract, or contract for supplies or services with DBEs and meet the goal unless an exception exists that excuses a Design-Builder from compliance with the goals. MNAA established a goal of One and Seven Tenths Percent (1.7%) in the ITB. Design-Builder has committed to achieve a Three and Ninety-Four Hundredths Percent (3.94%) goal."

An objective of the audit was to verify that Blakley met the 3.94% DBE participation level established in the Design-Build Contract. Through audit testing, it was determined that Blakley achieved a DBE participation level of 3.27%, as detailed below.

<u>Description</u>	<u>Amount</u>
DBE Participation	\$340,558
÷ Total Construction Payments	<u>\$10,423,300</u>
DBE Percentage	3.27%

Therefore, Blakley’s DBE participation was approximately 0.67% below the contract requirements, as detailed below.

<u>Description</u>	<u>Amount</u>
Required DBE Percentage	3.94%
Achieved DBE Participation	<u>3.27%</u>
Variance	-0.67%

As previously stated, the DBE participation levels may not have been properly stated on Blakley’s invoices, due to possible duplicate DBE participation payments. Therefore, the DBE participation levels could be reduced to approximately 2.96% with the possible duplicate payments being removed, as detailed below.

<u>Description</u>	<u>Amount</u>
DBE Participation	\$308,849
÷ Total Construction Payments	<u>\$10,423,300</u>
DBE Percentage	2.96%

Recommendation

BDD should be monitoring DBE participation levels throughout the project to ensure compliance with the participation levels established in the contract and to advise the Contactor of additional opportunities for participation.

Management Response

*BDD will coordinate with D&E and Finance to develop a 30-day invoice verification process, which will be presented to the Interim President and CEO for approval by the end of the 2<sup>nd</sup> quarter of FY18.*

## **Finding #7**

### Observation

Some of the certified payroll records did not comply with wage and labor provisions.

### Background

According to the Minimum Wage Scale & Requirements of the RFP, "Pursuant to Section 15(b) of the Federal Airports Act (Public Law 377, 70th Congress, 2nd Session) and the regulations of the Administrator of the Federal Aviation Administration, a schedule of minimum hourly wage rates has been determined by the U.S. Secretary of Labor to be the prevailing rate of wages for the crafts to be employed on this construction work at the Nashville International Airport, Nashville, Tennessee."

According to Section 01, Airport Improvement Program, Part 1, Wage and Labor Provisions, Item c, Payroll and Basic Records, of the Front-End Specifications: (1) Payrolls and basic records relating thereto shall be maintained by the Contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in Section 1(b) (2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid."

According to Section 01, Airport Improvement Program, Part 1, Wage and Labor Provisions, Item c (2) (i), Payroll and Basic Records, of the Front-End Specifications, "The Contractor shall submit weekly for each week in which any Contract work is performed a copy of all payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the Federal Aviation Administration."

An objective of the audit was to determine certified payroll records contained the name, address, social security number of each worker, his or her correct classification, hourly rates of wages paid, daily and weekly numbers of hours worked, deductions made, and actual wages paid. Internal Audit randomly selected the following certified payrolls for detailed testing: Payment applications number 4, 7, and 12. Through audit testing, Internal Audit identified 110 discrepancies on the certified payroll records including missing social security numbers, job classification not provided, type of operator or truck driver not identified, job classification not listed on federal wage rates, and hourly rate not meeting the minimum federal wage rates. Details of the discrepancies are noted below.

Contractor	Certified Payroll	Payroll for the Week Ending	No. of Payroll	Discrepancy Identified
			Records with Discrepancies	
SBW Constructors, LLC	Payment Application No. 4	9/6/2015	2	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 4	9/13/2015	3	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 4	9/20/2015	8	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 7	11/29/2015	7	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 7	12/6/2015	7	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 7	12/13/2015	8	Certified payroll did not include the last 4 digits of employee's social security number
SBW Constructors, LLC	Payment Application No. 7	12/20/2015	7	Certified payroll did not include the last 4 digits of employee's social security number
Mac Web Construction, LLC	Payment Application No. 7	11/14/2015	3	Certified payroll did not include the last 4 digits of employee's social security number
Mac Web Construction, LLC	Payment Application No. 7	11/21/2015	3	Certified payroll did not include the last 4 digits of employee's social security number
Mac Web Construction, LLC	Payment Application No. 7	11/28/2015	3	Certified payroll did not include the last 4 digits of employee's social security number
Mac Web Construction, LLC	Payment Application No. 7	12/5/2015	3	Certified payroll did not include the last 4 digits of employee's social security number
Arch Angel Protective Services	Payment Application No. 4	9/13/2015	7	Certified payroll did not include the employee's job classification
Arch Angel Protective Services	Payment Application No. 4	9/20/2015	5	Certified payroll did not include the employee's job classification
Arch Angel Protective Services	Payment Application No. 4	9/27/2015	5	Certified payroll did not include the employee's job classification
Hawkins & Price LLC	Payment Application No. 4	9/20/2015	1	Certified payroll did not include the employee's job classification
SBW Constructors, LLC	Payment Application No. 4	9/6/2015	2	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 4	9/20/2015	4	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 7	11/29/2015	3	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 7	12/6/2015	3	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 7	12/13/2015	4	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 7	12/20/2015	3	Certified payroll did not include the type of operator or truck driver
SBW Constructors, LLC	Payment Application No. 4	9/13/2015	1	Certified payroll did not include the type of operator
Down Ta Earth, Inc.	Payment Application No. 4	9/5/2015	4	Job classification was not listed on the federal wage scales
Down Ta Earth, Inc.	Payment Application No. 4	9/12/2015	3	Job classification was not listed on the federal wage scales
Down Ta Earth, Inc.	Payment Application No. 4	9/19/2015	6	Job classification was not listed on the federal wage scales
Down Ta Earth, Inc.	Payment Application No. 4	9/26/2015	3	Job classification was not listed on the federal wage scales
Travis Electric Company	Payment Application No. 7	12/9/2015	1	The electricians hourly rate did not meet the minimum federal wage rates
Travis Electric Company	Payment Application No. 7	12/16/2015	1	The electricians hourly rate did not meet the minimum federal wage rates
<b>Total Discrepancies Identified</b>			<b>110</b>	

## Recommendation

D&E should verify certified payroll records comply with wage and labor provisions or outsource the compliance certification to a third-party.

## Management Response

*Effective immediately, on projects that have the Davis Bacon Act Requirement, D&E will use existing third-party contracts to verify certified payroll records instead of performing this function by MNAA staff.*

## **Finding #8**

### Observation

Some of the Statements of Compliance accompanying the certified payrolls were not properly approved.

## Background

According to the Minimum Wage Scale & Requirements of the RFP, "Pursuant to Section 15(b) of the Federal Airports Act (Public Law 377, 70th Congress, 2nd Session) and the regulations of the Administrator of the Federal Aviation Administration, a schedule of minimum hourly wage rates has been determined by the U.S. Secretary of Labor to be the prevailing rate of wages for the crafts to be employed on this construction work at the Nashville International Airport, Nashville, Tennessee."

According to Section 01, Airport Improvement Program, Part 1, Wage and Labor Provisions, Item c (2) (i), Payroll and Basic Records, of the Front-End Specifications, "The Contractor shall submit weekly for each week in which any Contract work is performed a copy of all payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the Federal Aviation Administration."

According to Section 01, Airport Improvement Program, Part 1, Wage and Labor Provisions, Item c (2) (ii), Payroll and Basic Records, of the Front-End Specifications, "Each payroll submitted shall be accompanied by a "Statement of Compliance", signed by the Contractor or Subcontractor or his or her agent who pays or supervises the payment of the persons employed under the Contract and shall certify the following:

- a. That the payroll for the payroll period contains the information required to be maintained under paragraph c (1) above and that such information is correct and complete.
- b. That each laborer and mechanic (including each helper, apprentice, and trainee) employed on the Contract during the payroll period has been paid the full weekly wages earned without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations 29 CFR Part 3.
- c. That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the Contract."

An objective of the audit was to determine certified payrolls were accompanied by an approved Statement of Compliance. Internal Audit randomly selected the following certified payrolls for detailed testing: Payment applications number 4, 7, and 12. Through audit testing, it was determined that there were 5 Statements of Compliance that were not signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract, as detailed below.

<b>Contractor</b>	<b>Certified Payroll</b>	<b>Payroll for the Week Ending</b>	<b>Discrepancy Identified</b>
Nashville Machine Company, Inc.	Payment Application No. 4	8/23/2015	Statement of Compliance was not properly approved
Mac Web Construction, LLC	Payment Application No. 7	11/14/2015	Statement of Compliance was not properly approved
Mac Web Construction, LLC	Payment Application No. 7	11/21/2015	Statement of Compliance was not properly approved
Mac Web Construction, LLC	Payment Application No. 7	11/28/2015	Statement of Compliance was not properly approved
Mac Web Construction, LLC	Payment Application No. 7	12/5/2015	Statement of Compliance was not properly approved

### Recommendation

D&E should verify that Statements of Compliance are properly approved by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract or outsource the compliance approval to a third-party.

### Management Response

*Effective immediately, on projects that have the Davis Bacon Act Requirement, D&E will use existing third-party contracts to verify certified payroll records instead of performing this function by MNAA staff.*