

Metropolitan Nashville Airport Authority

MEMORANDUM

TO: Raul Regalado, President and CEO

CC: Rob Wigington, Executive Vice President and COO
Stan Van Ostran, Vice President and CFO
Christine Vitt, Asst. Vice President of PDC - Construction

FROM: Julie Zwicknagel, Internal Auditor

DATE: August 15, 2011

SUBJ: Terminal Renovation Phase II Construction Contract Review Report

Background

On June 17, 2009, Hardaway Construction Corporation (“Hardaway”) entered into a Construction Contract with the Metropolitan Nashville Airport Authority (“Authority”). The Contractor would furnish all of the materials and perform all of the work necessary to construct the Terminal Renovation Phase II project in the passenger terminal and concourses at the Nashville International Airport.

This capital improvement project was the second project of the Terminal Renovation program. It focused on improvements to the airline hold rooms, public restrooms, and floor coverings throughout the terminal and concourses.

The following items were included in the project to renovate the terminal and concourse areas:

- Renovate all gate hold rooms
- Renovate all public restrooms
- Construct new public restrooms near the A/B Apex and on the ground transportation levels
- Replace terminal and concourse carpeting and tile
- Replace wall covering on ticketing, baggage, and ground transportation levels
- Convert existing T-3 passenger elevator into a freight elevator
- Replace concourse linear diffusers and speakers
- Replace connector ceiling
- Enlarge ticket lobby-center area
- Replace existing HVAC units

- Replace hold room podiums, back screens, and storage rooms

The Authority agreed to pay the Contractor for the performance of the work in the amount of Seventeen Million Eight Hundred Fifty Three Thousand Five Hundred Dollars (\$17,853,500). Included in the Contract price was an Owner’s Allowance of One Million Five Hundred Thousand Dollars (\$1,500,000), which was to be used as directed by the Authority for unforeseen changes or modification to the Contract. The Owner’s Allowance was for the Authority’s exclusive use and any monies remaining unused at the end of the project would be the property of the Authority.

The project would be fully completed no later than 550 calendar days from the commencement date established in the Notice to Proceed.

The Small, Minority Woman-Owned Business Enterprise (“SMWBE”) participation level for the Contract was established at ten point six three percent (10.63%) of the total value of the Contract. However, the Contractor committed to a twelve point nine percent (12.9%) goal and achieved 14.13%, as detailed below.

SMWBE Subcontractor	Final SMWBE Amount
Hermosa	\$318,975
TG, Inc.	\$326,244
Jarvis Signs	\$8,778
Modular Designs	\$392,000
TN Coatings, LLC	\$470,729
Sunago	\$427,041
Boulton Enterprises	\$67,500
Gipson Mechanical	\$403,357
Total	\$2,414,624
Revised Contract Amount	\$17,092,030
SMWBE Participation Level	14.13%

PDC’s Manager of Building Construction was the project manager for the Terminal Renovation Phase II project. He thoroughly managed the project by reviewing all of the payment applications including the monetary amounts, SMWBE participation levels, and the Owner’s Allowance details. Bi-weekly construction meetings were held to monitor the projects progress and address issues accordingly. Daily inspections were conducted by PDC Construction Inspectors and the project came in under budget by \$761,470.

All of the aforementioned internal controls attributed to a successful execution of the project by PDC staff as well as the Contractor.

Objectives

The objectives of the audit were as follows:

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

Testing

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

1. Determined Contractor submitted Payment and Performance bonds in compliance with contract terms.
2. Determined Contractor maintained adequate insurance coverage:
 - a. Obtained a copy of the current certificate of insurance.
 - b. Verified that the comprehensive general liability, auto, and worker's compensation insurance coverage met or exceeded the amounts specified in the contract.
 - c. Verified the certificate of insurance was current and adhered to all other contract terms.
3. Determined contract modifications were appropriately approved by Authority personnel.
4. Determined bi-weekly Construction Progress Meetings were held throughout the project.
5. Determined Contractor met the SMWBE requirements specified in the contract.
6. Determined Contractor complied with Wage and Labor Provisions.
7. Verified Contractor substantially completed the project.
8. Determined Contractor completed the project within the contracting time and had not exceeded the contract amount.
9. Obtained invoices from July 31, 2009, through current period and performed the following:
 - a. Reviewed each invoice for mathematical accuracy.
 - b. Reconciled payments to Contactor's payment applications.
 - c. Reconciled Owner's Allowance to Authority approved modifications.
 - d. Determined 5% of the contract amount was properly retained.
10. Through inquiry and observations, reviewed the existing internal controls in place.

Conclusion

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

1. The Authority and Hardaway complied with the terms of the contract agreement.
2. Payments made to Hardaway have been verified
3. Internal controls appear to be in place and operating effectively.

There were no findings identified during this audit.