

12-C-1159

**A COMMUNICATION BY CITY AUDITOR LESLIE WARD SUBMITTING THE IMPLEMENTATION OF AUDIT RECOMMENDATIONS REPORT FOR THE DEPARTMENT OF AVIATION.**

Filed by  
Full Council  
10/11/12

- CONSENT REFER
- REGULAR REPORT REFER
- ADVERTISE & REFER
- 1<sup>ST</sup> ADOPT 2<sup>ND</sup> READ & REFER
- PERSONAL PAPER REFER

Date Referred: 09/04/2012  
 Referred To: Transportation  
 Date Referred:  
 Referred To:  
 Date Referred:  
 Referred To:

**First Reading**

Committee \_\_\_\_\_  
 Date \_\_\_\_\_  
 Chair \_\_\_\_\_  
 Referred To \_\_\_\_\_

Committee  
Transportation  
Date  
9-12-12  
Chair  
C.T. Martin  
Action  
Fav, Adv, Hold (see rev. side)  
Other

Members

Refer To

Committee  
Transportation  
Date  
9-26-12  
Chair  
C.T. Martin  
Action  
Fav, Adv, Hold (see rev. side)  
Other  
File  
Members

Refer To

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Committee  
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10/1/12  
Chair  
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Action  
Fav, Adv, Hold (see rev. side)  
Other  
File  
Members  
Peggy Shee  
John A. Moore

Refer To

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**FINAL COUNCIL ACTION**  
 2<sup>nd</sup>  1<sup>st</sup> & 2<sup>nd</sup>  3<sup>rd</sup>  
**Readings**  
 Consent  V Vote  RC V

**CERTIFIED**  
 OCT 01 2012

ATLANTA CITY COUNCIL PRESIDENT

*[Signature]*

**CERTIFIED**  
 OCT 01 2012  
*Ronald Douglas Johnson*  
 MUNICIPAL CLERK

MAYOR'S ACTION

RCS# 2340  
10/01/12  
4:09 PM

Atlanta City Council

12-C-1159

IMPLEMENTATION OF AUDIT RECOMMENDATION  
REPORT FOR DEPARTMENT OF AVIATION  
FILE

YEAS: 12  
NAYS: 0  
ABSTENTIONS: 0  
NOT VOTING: 3  
EXCUSED: 0  
ABSENT 1

Y Smith	B Archibong	Y Moore	Y Bond
Y Hall	Y Wan	Y Martin	Y Watson
Y Young	Y Shook	NV Bottoms	NV Willis
Y Winslow	Y Adrean	Y Sheperd	NV Mitchell



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## CITY OF ATLANTA

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Marion Cameron, CPA  
C.O. Hollis, Jr., CPA, CIA  
**Ex-Officio:** Mayor Kasim Reed

**TO:** Honorable Mayor and Members of the City Council  
**FROM:** Leslie Ward   
**DATE:** August 29, 2012

**SUBJECT:** Implementation of Audit Recommendations: Department of Aviation

We undertook this audit to assess the extent to which city officials have taken timely, appropriate corrective action in response to audit findings and recommendations. The city charter requires my office to report on completed audits, major findings, management's corrective actions, and significant findings that have not been fully addressed.

We followed up on 16 recommendations made to the Department of Aviation from four audits: *Hartsfield-Jackson Development Program* (June 2007), *Hartsfield-Jackson Atlanta International Airport - Landing Fee Billing and Collections* (July 2007), *Aviation Terminal Leases* (August 2009), and *Aviation Grants Management - Federal Recovery Act* (June 2010). The recommendations range in age from 24 to 60 months old. Management agreed with fourteen of the recommendations and partially agreed with two. We conducted this audit in accordance with generally accepted government auditing standards. Our audit methods included:

- obtaining management's assessment of whether each recommendation has been implemented, partially implemented, or not implemented
- reviewing managements' responses and data submissions to understand how management addressed each audit recommendation
- reviewing prior audit work relevant to particular recommendations; and
- Reviewing city code and contractual documents.

City staff has implemented nine of the sixteen recommendations we followed up in this report. We are closing one recommendation that city staff has implemented in different way. We are also closing the remaining six recommendations because they are not currently relevant; four dealt with renegotiating lease agreements, one dealt with American

Reinvestment & Recovery Act (ARRA) funded projects, and one dealt with the overall budget for the Hartsfield-Jackson Development Program, approved in the department's 1999 master plan. Attachment A summarizes our assessment of each recommendation that we are closing.

City staff has updated policies and procedures to address appropriate system access. In our *Aviation Terminal Leases* audit, we recommended the department establish policies and procedures to govern appropriate access to PROPworks, the department's billing system, and to review all users to remove inappropriate access. We had found 14 employees who were no longer employed by the Department of Aviation retained access to PROPworks and had also found 17 employees could perform incompatible job functions within the system such as creating, updating, and deleting lease agreements and invoices. At the time, the department lacked policies governing user access. During the *Aviation IT General Controls* (November 2011) audit, we confirmed that the department had removed user IDs with inappropriate access to their systems. The department also created an updated policy to govern adding, transferring, terminating users and a periodic review of user with system access. The policy also includes a semi-annual review of incompatible duties.

Recommendations associated with the American Reinvestment & Recovery Act of 2009 (ARRA) are no longer relevant. In *Aviation Grants Management - Federal Recovery Act*, we issued two recommendations to strengthen the department's controls and compliance with ARRA regulations. Those recommendations included discussions about fraud prevention methods and posting fraud awareness posters at construction sites. The department provided emails indicating discussions among management about ensuring contractors are aware of the city's integrity line as a method of reporting fraud. Because all ARRA-funded projects are complete, the recommendation to include fraud awareness posters at construction sites is no longer required.

The department implemented four recommendations related to the Hartsfield-Jackson Development Program. We issued six recommendations to the department to increase the financial transparency and improve cost controls over the \$5.4 billion Hartsfield-Jackson Development Program. The department implemented four of these recommendations. The department now includes original baseline budget data, containing schematic budgets from the original approval of a project, within project budget documents such as Project Information Packages (PIPs) and Budget Transfer Forms. The department has also improved quality control procedures by assigning responsibilities to individuals to ensure the accuracy of data entered into the cost management system. To comply with the city's procurement codes, the department has requested approval of the Chief Procurement Officer prior to purchasing brand name specifications. Finally, the department has also contracted with Managing General Contractors through a competitive request for proposal process for services that support the development program but are outside the scope of individual construction contracts. We had recommended that the aviation general manager seek authority to enter into annual contracts for services such as landscaping, tree trimming, and routine maintenance and repairs of existing facilities because at the time the department had added the work to existing construction contracts, which skirted procurement rules.

The department implemented alternative controls that address the risks of using miscellaneous modifications. In the *Hartsfield-Jackson Development Program* audit, we recommended the department use 10% contract contingencies in place of miscellaneous modifications, which were intended to fund work related to the contract but not shown on drawing and/or specifications. Miscellaneous modifications pose a risk because, unlike most change orders, the department can execute them without legislative oversight. During the audit we noted problems with \$7.7 million of \$31.6 million paid through miscellaneous modifications under three contracts, including:

- \$6.4 million for work that appeared to be unrelated to the \$159.5 million I-285 bridge structures contract
- \$1.2 million (the unused balance of the miscellaneous modification allowance) paid to a contractor for unspecified work
- \$108,000 to pay the higher costs for specific brands of a pump and control panel.

In response to our recommendation, the department obtained approval from council for project contingencies (also known as manager reserves account) for two of the elements of the development program, the Consolidated Rental Car Facility (CONRAC) and Maynard H. Jackson, Jr. International Terminal (MHJIT). These project contingencies limit the aggregate value of all contract modifications across each element; however, they do not limit modifications of individual contracts. The department established a policy to limit miscellaneous modifications within 3% to 10% of a construction contract value.

The department failed to create a total program budget covering all development program elements. The department did not develop a total program budget to use as a benchmark for monitoring overall program costs. We noted in the *Development Program* audit that program officials reconciled status reports to the original \$5.4 billion cost estimate using a “plug figure” for the South Complex. The South Complex, although never officially approved, was a proposed new complex south of the existing terminal based upon an anticipated need for additional gates. It was one of nine elements that compose the development program when it was approved in 1999 and was originally estimated to cost \$1.8 billion. Rather than establish an overall budget to cover all planned elements, the department reduced the scope of work to be completed with the \$5.4 billion in program funds. We are closing this recommendation because the department has committed 92% of the approved program funds without implementing a total program budget.

Other than the Fixed Based Operator Contract, the rates and fees provisions within the department’s contracts with leaseholders remain unchanged. We issued recommendations in the *Aviation Terminal Leases* and *Hartsfield-Jackson Atlanta International Airport - Landing Fee Billing and Collections* audits for negotiating better contract terms related to different rates and fee structures including provisions for penalties for late payment. Landing fees for signatory carriers - carriers that have signed airport use agreements or airport use license agreements - were set in 1967 and the basic fee did not recover the cost of airfield operations and maintenance. The department relied on carrier-reported data to assess landing fees and often invoiced carriers late. More than 80% of the landing fee invoices we reviewed had been paid late. About one-third of the terminal lease payments we reviewed were paid late.

Since our original audits, the department has had the opportunity to renegotiate various agreements (Airport Use Agreements, Central Passenger Terminal Complex leases, and Hartsfield-Jackson Atlanta International Airport agreements) with leaseholders. The department included a provision establishing a penalty for late payments for the fixed based operator, Landmark Aviation. The renegotiated agreements with other leaseholders did not address our recommendations to provide for late payment penalties or to renegotiate the structure and rates for landing fees. These current agreements expire in 2017, at which time we could revisit these issues.

The department invoices all leaseholders monthly. In the *Aviation Terminal Leases* audit, we recommended that the department bill leaseholders monthly. During our review of 36 invoices, we found that the department failed to generate an invoice, after a year, for February 2008 for one leaseholder. Our current review of billings from July 2011 to May 2012 indicates that the department has generated monthly invoices for all leaseholders.

Generally accepted government auditing 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.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Damien Berahzer and Christopher Armstead.

## Attachment A:

### Audit Recommendations Closed

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
1	<p><b>Aviation Terminal Leases</b> August 2009</p> <p>Management Agreed</p> <p>Expected Implementation Date: October 2009</p>	<p>The Department of Aviation should develop a documented policy for determining the appropriate level of access for PROPworks users. This policy should govern user addition, user transfers, user terminations, and periodic review of user access level and incompatible duties.</p>	<p>The department has developed a documented policy addressing the addition of new users, transfer of current users, removal of terminated employees and a periodic review of users with access to the system. The policy also includes a periodic review of incompatible duties.</p>	<p><b>Implemented</b></p>
2	<p><b>Aviation Grants Management – Federal Recovery Act</b> June 2010</p> <p>Management Agreed</p> <p>Expected Implementation Date: Immediately</p>	<p>The aviation general manager should discuss the integrity line or other methods to report suspected fraud in project administrative meetings.</p>	<p>The department documented the discussion of the city's integrity line as part of the agenda for an administrative meeting.</p>	<p><b>Implemented</b></p>
3	<p><b>Aviation Grants Management – Federal Recovery Act</b> June 2010</p> <p>Management Agreed</p> <p>Expected Implementation Date: Immediately</p>	<p>The aviation general manager should post fraud awareness and reporting materials at construction sites.</p>	<p>The construction projects with American Recovery and Reinvestment Act funding are complete. The fraud awareness and reporting materials are no longer relevant.</p>	<p><b>Closed</b> (There are no ARRA-funded projects at the time of this follow-up.)</p>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
4	<p><b>Aviation Terminal Leases</b> August 2009 Management Partially Agreed Expected Implementation Date: Ongoing</p>	<p>The Department of Aviation should propose a change in city code to establish a penalty for late payment for all leaseholders.</p>	<p>The department has not proposed a change in city code to city council. This recommendation is no longer relevant because the renegotiated agreements include no provisions for penalties.</p>	<p><b>Closed</b> (Current agreements expire in 2017.)</p>
5	<p><b>Aviation Terminal Leases</b> August 2009 Management Agreed Expected Implementation Date: December 2009</p>	<p>The Department of Aviation should review all user IDs to remove any inappropriate access, in order to reduce the risk of errors, fraud, misuse or unauthorized alteration.</p>	<p>The department removed user IDs for individuals who did not have appropriate access.</p>	<p><b>Implemented</b></p>
6	<p><b>Aviation Terminal Leases</b> August 2009 Management Agreed Expected Implementation Date: August 2009</p>	<p>The Department of Aviation should ensure all leaseholders are invoiced monthly.</p>	<p>The department created monthly invoices from July 2011 to May 2012 for the CPTC and HJAIA leases.</p>	<p><b>Implemented</b></p>
7	<p><b>Aviation Terminal Leases</b> August 2009 Management Agreed Expected Implementation Date: September 2010</p>	<p>The Department of Aviation should seek to include a late payment provision on payments not received thirty days after the City issues its invoices, when renegotiating the lease agreements in 2010.</p>	<p>The department did not include a late payment provision on payments not received thirty days after the city issues its invoices.</p>	<p><b>Closed</b> (Current agreements expire in 2017.)</p>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
8	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007</p> <p>Management Agreed</p> <p>Expected Implementation Date: June 2007</p>	<p>The airport general manager should include original baseline budget data in the project budget documents and monthly status reports to help decision-makers better evaluate a budget and increase transparency to external stakeholders.</p>	<p>The department added columns "Schematic Budget" and "Baseline Budget at Schematic" lines to its Project Information Package and Budget Transfer form.</p>	<p><b>Implemented</b></p>
9	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007</p> <p>Management Partially Agreed</p> <p>Expected Implementation Date: TBD</p>	<p>The airport general manager should develop a total program budget to use as a benchmark for monitoring overall program costs.</p>	<p>The department has not established a total program budget but rather used its total funds as a budget. The department has committed 92% of its approved funds.</p>	<p><b>Closed</b></p> <p>(The department has committed 92% of its approved funds.)</p>
10	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007</p> <p>Management Agreed</p> <p>Expected Implementation Date: June 2007</p>	<p>The program controls director should develop improved quality control procedures to ensure that data entered in the cost management system are accurate.</p>	<p>The department updated policies and procedures addressing the "Quality Assurance of Project Controls Reports." The procedure details the responsibilities of different individuals associated with project controls.</p>	<p><b>Implemented</b></p>
11	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007</p> <p>Management Agreed</p>	<p>Instead of including a miscellaneous modification allowance in the contract, the airport general manager should request a separate appropriation for contingencies of no more than 10% of the contract amount when seeking authorization to execute a</p>	<p>The department has obtained council approval for "Project Contingencies" for two elements. The department implemented policies and procedures to control the use and amount of project contingencies. The department also has implemented policies</p>	<p><b>Implemented in Another Way</b></p>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
	<p>Expected Implementation Date: 3<sup>rd</sup> Quarter 2007</p>	<p>construction contract. The contingency appropriation should be used in a manner consistent with city code and guidelines established by the Departments of Procurement and Law.</p>	<p>and procedures limiting miscellaneous modifications to between 3% and 10% of the contract estimate.</p>	
12	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007 Management Agreed Expected Implementation Date: 3<sup>rd</sup> Quarter 2007</p>	<p>The airport general manager should seek authority to enter into annual contracts for services such as landscaping, tree trimming, and routine maintenance and repairs of existing facilities that may be required to support other projects and to minimize delay and operational impact.</p>	<p>The department created Manager General Contractors (MGCs). After city council approves contractors and awards, the department utilizes the MGCs to perform routine services unrelated to construction projects.</p>	<p><b>Implemented</b></p>
13	<p><b>Department of Aviation Hartsfield-Jackson Development Program</b> June 2007 Management Agreed Expected Implementation Date: Immediately</p>	<p>The airport general manager should obtain written authorization for brand name specifications from the chief procurement officer per the city's procurement code prior to a contractor's purchase of such brand name items.</p>	<p>The department requested and obtained approval for purchase of brand name items from the chief procurement officer.</p>	<p><b>Implemented</b></p>
14	<p><b>Hartsfield-Jackson Atlanta International Airport – Landing Fee Billing and Collections</b> July 2007 Management Agreed Expected Implementation Date: September 2010</p>	<p>The Department of Aviation should renegotiate the airport use agreements to: - Charge signatory carriers based on actual landings rather than scheduled landings; - Provide for assessing a fee for late payments; - Increase the signatory landing fee rate to cover the cost of airfield operations and maintenance; and - Structure fees such that the basic landing fee can vary based on changes in cost.</p>	<p>The department did not obtain the recommended changes in the renegotiated airport use agreements.</p>	<p><b>Closed</b> (Current agreements expire in 2017.)</p>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
15	<p><b>Hartsfield-Jackson Atlanta International Airport – Landing Fee Billing and Collections</b> July 2007</p> <p>Management Agreed</p> <p>Expected Implementation Date: October 2007</p>	<p>The Department of Aviation should ensure the new contract for the fixed base operator includes performance provisions and assesses a penalty for late payments. The Department should also establish a mechanism for monitoring the operator's performance and compliance with contract provisions.</p>	<p>The new fixed based operator contract includes a provision establishing a penalty for late payments. The new contract also provides a mechanism to monitor performance by making the operator's books and records available to the department general manager for inspection.</p>	<p><b>Implemented</b></p>
16	<p><b>Hartsfield-Jackson Atlanta International Airport – Landing Fee Billing and Collections</b> July 2007</p> <p>Management Agreed</p> <p>Expected Implementation Date: September 2007</p>	<p>The Department of Aviation should propose a change in the City Code to establish a penalty for late payment of non-signatory landing fees.</p>	<p>The department has not proposed a change in city code to city council.</p>	<p><b>Closed</b></p>



# CITY OF ATLANTA

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Marion Cameron, CPA  
C.O. Hollis, Jr., CPA, CIA  
**Ex-Officio:** Mayor Kasim Reed

**TO:** Honorable Mayor Reed, Council President Mitchell, and Members of the City Council

**FROM:** Donald T. Penovi  
Vice Chair, Audit Committee

**DATE:** August 29, 2012

**SUBJECT: Audit Report on FY2012 Aviation Recommendations Follow-up**

The audit report listed above is attached for your review. The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. The committee's chairperson did not review the report because of a conflict of interest regarding the airport. Feel free to contact City Auditor Leslie Ward if you have questions or want to discuss the report.

Cc : Duriya Farooqui, Chief Operating Officer  
Hans Utz, Deputy Chief Operating Officer  
J. Anthony "Jim" Beard, CTP, Chief Financial Officer  
Gwendolyn Smith, Deputy Chief Financial Officer  
Louis Miller, Aviation General Manager  
Balram Bheodari Aviation Deputy General Manager  
Roosevelt Council, Jr., Aviation Chief Financial Officer  
Greg Richardson, Interim Assistant General Manager  
Sharon Jones, Interim Director, Aviation Information Systems  
Candace Byrd, Chief of Staff  
Katrina Taylor, Deputy Chief of Staff  
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Nina Hickson, Ethics Officer  
Rhonda Dauphin Johnson, Municipal Clerk  
Dexter Chambers, Director, City Council Officer of Communications  
Reggie Grant, Committee Analyst  
Audit Committee Members