Performance Audit:
City Hall East Sale and Public Safety Facilities Construction

December 2009

City Auditor's Office

City of Atlanta

File #09.02

CITY OF ATLANTA
City Auditor's Office
Leslie Ward, City Auditor
404.330.6452

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Performance Audit:

City Hall East Sale and Public Safety Facilities Construction

Why We Did This Audit

We undertook this audit at the request of the chief financial officer, who expressed concern that the city lacked funding to complete construction of the public safety facilities. The City Council also expressed concern about changes in project scope and financing.

What We Recommended

The Mayor's Office should ensure that executive departments:

- Analyze the costs, benefits, and financing methods of proposed capital projects before undertaking them.
- Identify funding needs for projects before starting them.
- Identify project risk s and risk management plans for each project that are updated over the life of the project.

The chief financial officer should:

- Create policies to ensure lease purchase agreements are accurately recorded within the city's financial system.

The office of enterprise asset management should:

- Create project management procedures to guide city personnel in managing capital projects appropriately. Procedures should assign specific responsibilities for controlling costs, meeting schedules, and ensuring quality.

For more information regarding this report, please contact Eric Palmer at 404.330.6455 or epalmer@atlantaga.gov.

What We Found

The scope of the public safety facilities project has evolved to increase both the square footage and the number of facilities devoted to public safety while excluding relocation of other City Hall East operations. At its simplest, the city's preferred developer proposed swapping City Hall East for a 350,752 square foot downtown building and funding a $10 million parking deck with tax allocation district proceeds, with the intention of housing all City Hall East operations. Assessments completed after the city requested proposals for relocation identified additional public safety needs. Ultimately, the city built a new public safety headquarters, purchased and renovated a public safety annex, and entered into a 30-year lease for a 911 call center. The three facilities comprise 430,025 square feet but do not house all employees who had worked in City Hall East.

Construction and related expenses for the facilities reached about $103 million through September 2009, about 73 percent debt financed. The city will pay more than $138 million over 30 years in debt service and lease payments, while additional costs for housing other City Hall East operations are not yet known.

Weak project controls increased project risk. The construction manager's responsibilities were too limited to effectively control costs. While payments for the city's initial $47 million contract for headquarters construction were intended to be based on cost plus a fixed fee, the city and construction manager did not track costs in accordance with contract terms. The city paid about $4.7 million in change orders for the headquarters without adequate documentation or required approval.

Financial reports on project costs are incomplete. Project expenditures were recorded in several different accounts in the city's financial system and expenditures of $24 million in bank loan proceeds were processed directly from the bank rather than through the city's financial management system. Because these transactions were off the city's books, some of the payments circumvented city controls.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	**Analyze the costs, benefits, and financing methods of proposed capital projects before undertaking them.**	
Department:	Mayor's Office	**Agree**
Response & Proposed Action:		
Timeframe:		
Recommendation #2:	**Identify funding needs for projects before starting them.**	
Department:	Mayor's Office	**Agree**
Response & Proposed Action:		
Timeframe:		
Recommendation #3:	**Identify project risks and risk management plans for each project that are updated over the life of the project.**	
Department:	Mayor's Office	**Agree**
Response & Proposed Action:		
Timeframe:		
Recommendation #4:	**Create policies to ensure lease purchase agreements are accurately recorded within the city's financial system.**	
Department:	Department of Finance	**Agree**
Response & Proposed Action:	Develop a stated policy that all lease purchase agreements must be approved by the Debt and Investment Chief and ensure that the necessary journal entries are provided to Accounting. This policy should be in writing and sent to all departments of the City.	
Timeframe:	January 2010	
Recommendation #5:	**Create project management procedures to guide city personnel in managing capital project appropriately. Procedures should assign specific responsibilities for controlling costs, meeting schedules, and ensuring quality. Project management procedures should also address project strategy, organization, and administration; financial management; procurement management; project controls and risk management; schedule management; and providing sufficient information to allow City Council oversight of capital projects.**	
Department:	Office of Enterprise Management	**Agree**
Response & Proposed Action:	Solicit a management consulting firm to develop a comprehensive set of processes and procedures including standardized accounting, pay applications, schedule of values, project scheduling systems, inspection reporting, and capitalization procedures. This would require funding and participation across departments.	
Timeframe:	Second quarter of 2011	

CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

AMANDA NOBLE
Deputy City Auditor
anoble@atlantaga.gov

CITY AUDITOR'S OFFICE
68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
Fred Williams, CPA, Chair
Donald T. Penovi, CPA, Vice Chair
Cecelia Corbin Hunter
Council President Lisa Borders

December 21, 2009

Honorable Mayor and Members of the City Council:

We undertook this audit of the public safety facilities project after the chief financial officer expressed concern that the city might lack funds to complete construction. Our objectives focused on how the scope and financing of the project changed over time, the amount expended and whether spending was subject to city controls, and the risks to the city if City Hall East remains unsold.

The project scope evolved from redeveloping City Hall East and relocating approximately 789 employees to more cost efficient work sites to constructing and leasing three new public safety buildings. This shift drove costs higher, increasing the city's reliance on debt to finance the project. Weak construction cost management and financial controls contributed to project risk. The expired sale contract for City Hall East carries additional costs and risks. While we identified no specific instances of fraud, our report should not be interpreted as assurance that no waste, fraud, or abuse occurred in the project.

Our recommendations to the Mayor's Office, the Chief Financial Officer, and the Office of Enterprise Management focus on preventing project scope and budget escalation, reducing the risk of lost assets and errors in the financial statements, and reducing the risk of misuse of city funds. Management has agreed with all of our recommendations. Their responses are included in Appendix A. Additional management comments are included in Appendices B and C. We responded to those comments in Appendix D.

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 Melissa Davis, Katrina Clowers, Lesia Johnson, and Eric Palmer.

Leslie Ward
City Auditor

Fred Williams
Audit Committee Chair

Public Safety Facilities Project

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List of Exhibits

Introduction

We conducted this performance audit of the public safety facilities project pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties. The Audit Committee reviewed our audit scope in August 2009.

A performance audit is an objective analysis of sufficient, appropriate evidence to assess the performance of an organization, program, activity, or function. Performance audits provide assurance or conclusions to help management and those charged with governance improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.[1]

We undertook this audit at the request of the chief financial officer, who expressed concern that the city lacked funding to complete construction of the public safety facilities. The City Council also expressed concern about changes in project scope and financing. The city intended to use proceeds from the sale of City Hall East to pay for at least part of the project. While the scope of the project expanded, the sale of City Hall East was delayed and the contract with the buyer expired in June 2009.

Background

The city issued an RFP (request for proposals) for the sale and redevelopment of City Hall East and its parking lot in 2003, intending to improve employee working conditions, take advantage of a market for downtown housing, and spur redevelopment in the area. At the time, City Hall East housed 789 employees from several departments including police, fire, parks, public works, records management and watershed management. The building was in some

[1] Comptroller General of the United States, *Government Auditing Standards,* Washington, DC: U.S. Government Accountability Office, 2007, p. 17-18.

disrepair and not energy efficient — it was constructed in 1926 and originally used as a Sears regional distribution headquarters. The city purchased the building in 1991 for $12 million and spent another $10 million upgrading the property. The city's three strategic goals for the project in the RFP were to improve the use of the property, improve the physical environment for the agencies in City Hall East, and to accomplish these two items without increasing the city's annual operating costs or its debt burden.

The city received three proposals in response to the RFP. In August 2004, the city selected Ponce Park's proposal to redevelop City Hall East. The group estimated that its proposed development of the property would generate $11 million in annual property and sales tax revenues while saving $1.4 million in reduced annual operating costs due to more efficient use of space. The group proposed two options for the building purchase and relocation of employees: swapping City Hall East for another downtown property and newly constructed parking deck, or a cash offer of $35 million for City Hall East.

The city opted to sell City Hall East and entered into two contracts with Ponce Park in November 2005: to sell the City Hall East parking lot for $6 million, and to sell the building for $27 million. The parking lot sale closed in 2006. The building sale was scheduled to close July 31, 2008, which was later extended to and expired on June 15, 2009. Although outstanding debt related to City Hall East was approximately $21 million at the time the sale was negotiated, the city decided to use the building sale proceeds to partially fund a new public safety complex rather than retire the existing debt.[2]

Project Focused on Public Safety Facilities

The city planned to build a public safety complex at the old Municipal Court building site on Peachtree Street. The planned complex would have contained two facilities: a police and fire headquarters to house administrative and investigative functions, and an annex to house support functions such as the police property room, storage, and vehicle inspections. It was uncertain where the call center would go because the city and Fulton County were considering consolidating their 911 operations. The city ultimately

[2] The city pledged the property as security in 1998 as part of the $87.6 million financing for expansion projects at the city's Municipal Court and Pre-Trial Detention Center; $19.7 million of the debt was apportioned to City Hall East. The city also entered into a performance contract with Johnson Control, Inc in 1999 for a major retrofit of City Hall East's HVAC system. The contract was funded by a lease/purchase agreement with First Municipal Credit Corp.

built the public safety headquarters on the Peachtree site, purchased and renovated a warehouse on Donald Lee Hollowell Parkway for the annex, and leased and built-out a new 911 call center. Call center operations moved to its new facility in May 2009. Police and fire moved into the headquarters in June and July 2009 and started moving into the annex in October 2009.

Authority Funded Majority of Project Costs

A newly created authority (the Atlanta Public Safety and Judicial Facilities Authority) financed the majority of project construction costs. Georgia's 2003 War on Terrorism Local Assistance Act allows local municipalities to create authorities to construct public safety facilities and borrow funds for that purpose.[3] The City Council authorized creation of the authority in November 2005.[4] The authority comprises five directors, two of whom are ex-officio, non-voting members: the city's chief operating officer and chief financial officer. The authority has no staff and its activities are conducted by city employees acting on its behalf. The authority has no separate financial records from the city.

The authority issued $50 million in bonds in October 2006 to fund construction of the public safety headquarters and parking deck. The City Council authorized a lease agreement between the city and the authority to make annual lease payments for 20 years to cover the debt service.[5]

The City Council authorized an intergovernmental agreement for the annex in March 2008.[6] Under the agreement, the authority agreed to construct the facility and fund about $17 million of the costs through a bank loan. The city agreed to pay any additional costs and make semi-annual lease payments for ten years, to cover principal and interest on the loan.

The authority entered into a construction management agreement with the city for the annex in March 2008. The city transferred its interest in the property to the authority[7] and procured the design and construction services in exchange for financing. Under the

[3] O.C.G.A. 36-75-1
[4] Ordinance 05-O-1910
[5] Ordinance 06-O-2054
[6] Resolution 08-R-0503
[7] 08-O-0511

agreement, the city was responsible for following its own procurement guidelines.

Project Involved Multiple Contractors

The Mayor's Office managed the public safety facilities project, including the construction of the three facilities and the sale of City Hall East. The Mayor's Office made decisions for both the headquarters and the annex construction. The Mayor's Office staff acted on both the city's and the authority's behalf.

The city contracted with Turner/Russell/OLH to design and build the public safety headquarters in December 2006. The contract was a cost plus a fixed fee agreement with a guaranteed maximum price of $47 million. The building was scheduled for completion in October 2008. The capital projects officer approved three change orders for the contract in February 2008, bringing the contract cost to about $51.7 million.

The authority contracted with Hogan Construction Group, LLC, to build the annex in June 2008. The contract was a lump sum agreement to renovate a warehouse and build additional office space and a parking structure for $18.3 million. The contract states that the building would be completed 18 months after the notice-to-proceed. The chief operating officer, on behalf of the authority, authorized a change order for $849,141 in November 2008, bringing the contract to about $19.1 million. The annex opened to the public in October 2009. The project manager told us that the city expects to issue a second change order for $566,000 as the authority's agent.

The city signed an office building lease agreement with Peachtree/Carnegie LLC, for the 911 call center in May 2007. The thirty-year lease is based on a per square foot rent price which escalates each year for a total of cost of $29.9 million. The city is also responsible for 9.85% of the taxes, 16.37% of the operating expenses for the building, and paid $500,000 for existing equipment. The city made $5.8 million in improvements to the building, partially offset by a $2.7 million allowance.

Under an annual contract for architectural and engineering services, Shaw Environmental Inc. and AIM Partners, PLC, provided consulting services for the project on a task order basis. Originally, Shaw/AIM was the design manager, and also provided quality assurance and construction management services.

Audit Objectives

This report addresses the following objectives:

- How have scope and financing of the public safety facilities project changed?
- How much has been expended and was spending subject to city controls?
- What are the potential risks to the city if City Hall East remains unsold?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. We conducted our audit fieldwork from February through September 2009. 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.

Our audit methods included:

- Examining original and revised budgets and needs assessments;
- Reviewing the city's procurement policies and program documents;
- Assessing compliance with financial policies;
- Analyzing support for expenditures;
- Reviewing support for contract change orders;
- Reviewing city controls over procurement and payments,
- Interviewing city staff and contractors to confirm our assessments of program changes and future plans,
- Reviewing legislation about the project,

- Compiling expenditure data from the city financial systems, bank statements, payment applications, and project management tracking, and
- Contracting with construction auditors to review our audit conclusions and provide additional guidance.

Findings and Analysis

Project Scope Evolved, Driving Costs Higher

The scope of the public safety facilities project has evolved to increase both the square footage and number of facilities devoted to public safety while excluding relocation of other City Hall East operations. At its simplest, the city's preferred developer proposed swapping City Hall East for a 350,752 square foot downtown building and funding a $10 million parking deck with tax allocation district proceeds, with the intention of housing all City Hall East operations. Assessments completed after the city requested proposals for relocation identified additional public safety needs. Ultimately, the city built a new public safety headquarters, purchased and renovated a public safety annex, and entered into a 30-year lease for a 911 call center. The three facilities comprise 430,025 square feet but do not house all employees who had worked in City Hall East.

Construction and related expenses for the facilities reached about $103 million through September 2009, about 73 percent debt financed. The city will pay more than $138 million over 30 years in debt service and lease payments, while additional costs for housing other City Hall East operations are not yet known.

Scope of Public Safety Facilities Expanded

While the project initially envisioned relocating all City Hall East operations, an early decision to separate the City Hall East sale and redevelopment from options about relocating employees allowed the focus to shift to public safety. Assessments completed after the city issued its RFP identified additional public safety needs, such as separation of critical operations from the customer service functions and increased security needs. The scope of the public safety facilities expanded and other departments' operations were de-scoped from the project.

Initial RFP identified the city's strategic goals. The city's December 2003 RFP for the sale and redevelopment of City Hall East stated that the city's strategic goals in the project were to improve the use of the property, improve the physical environment for the agencies in City Hall East, and to accomplish these two items without increasing the city's operating costs or its debt burden.

In March 2004, Ponce Park, LLC responded with two options; swapping City Hall East with another property, renovating it and relocating city staff to that building or an all cash offer of $35 million. The property proposed for the swap contained 350,752 sq ft. and included three interconnected buildings, a small parking deck and two parking lots. Ponce Park proposed building an additional parking deck for $10 million, with the cost possibly offset by tax allocation district revenues. The proposal outlined plans for each department to be relocated to the building. Ponce Park also stated it was prepared to find land and construct a new facility built to meet the city's needs if the city chose to accept the cash offer.

Early decision shifted project focus and increased complexity and risk. In an August 2004 briefing to the Mayor, the RFP review panel recommended that the city separate the decision about the sale and redevelopment of City Hall East from the decision about where to relocate operations. The panel recognized that separating these aspects of the proposal would increase project complexity and risk, but concluded that a better space or property could be available on the market. Subsequent assessments focused on public safety facilities.

Square feet devoted to public safety increased by over 50% while other operations were separated from the project scope. A January 2004 study conducted by the Brookwood Group calculated that City Hall East operations required 471,800 square feet, with 284,050 (60%) for public safety, including a separate facility for property storage and central records. A 2005 needs assessment for police and fire estimated that the headquarters required 178,098 square feet and the annex required 260,381 square feet. The assessment did not include the 911 call center. The city ultimately developed 430,025 square feet in the new public safety facilities (see Exhibit 1). The department of information technology uses about 20,000 square feet of the total.

The Brookwood Group study also recommended locating the 911 center away from the police headquarters to provide for operational redundancy in the event of an attack on either building. The Herb Roth 2005 needs assessment noted that a separate annex would be convenient for the public, create operational efficiencies between departments, and reduce the number of costly parking spaces for daily visitors to the headquarters. Thus the project expanded to include three separate facilities for public safety.

Exhibit 1
Public Safety Facilities Scope Changes Over Time

	Date	Cost	Scope	Sq. Ft. (HQ)	Sq. Ft. (annex)	Sq. Ft. (911)	Total PS Sq. Ft.	Total Sq. Ft.
Project Scope Estimates								
Brookwood study	1/8/2004		Facility requirements for all CHE departments	146,750	112,600	24,700	284,050	471,800
RFP response	3/16/2004	$10,000,000 & building swap	Transfer of all CHE operations to 222 Mitchell & build parking deck					350,752
AFCO cost estimate	1/4/2005	$30,529,608	HQ and parking deck	130,000				
Herb Roth programming assessment	12/2/2005		HQ and annex	178,098	260,381		438,479	
Hanscomb cost estimate	1/16/2006	$53,974,183	HQ, parking, and sitework	178,000				
Hanscomb cost estimate	7/31/2006	$47,461,922	HQ, parking, and sitework	161,070				
Final Construction								
HQ Contract	12/1/2006	$51,685,642	HQ and parking deck	180,540				
Annex Contract	6/6/2008	$19,141,141	Annex		195,000			
911 Build-out	7/1/2007	$3,041,790	911 center			54,485		
Total		**$73,868,573**					**430,025**	

Sources: Mayor's Office**,** project assessments, estimates, and presentations. Cost estimates were only for construction.

Project Costs and Reliance on Debt Increased

Project costs and the amount financed by debt have increased since the city decided to build new public safety facilities. An April 2005 briefing to the City Council estimated project costs to be between $55 and $80 million and identified two revenue sources for the project: $31 million[8] from the sale of City Hall East and $50 million in authority bonds. Construction and related costs reached about $103 million through September 2009. The city authorized interim financing of $11.7 million from the capital finance fund until the city received the balance of proceeds from the City Hall East sale. When the sale stalled, the authority borrowed $17 million in a bank loan to construct the annex. The city borrowed an additional $7 million in a lease purchase agreement to furnish the facilities and approved $800,000 funding from the capital finance fund to move the CAD system. Including debt service and lease payments, the city will pay about $138 million for the public safety facilities, while additional costs for housing other City Hall East operations are not yet known.

City estimated the cost of the three public safety facilities at about $80 million in 2005. The Mayor's Office briefed the City Council in April 2005 estimating the costs of the three public safety facilities to be between $55 and $80 million. Project managers estimated the costs to be a little over $94 million in March 2006, including $2 million in moving costs. Project managers reduced estimated costs in November 2006 to $91.6 million and added $7.1 million to the plan of finance from the sale of the old traffic court parking lot to balance the budget. The city added a $2 million federal grant to the finance plan in August 2007, but project funding failed to keep up with the projected expenses then estimated at $103 million. The project budgeted nearly $2 million in traffic ticket revenue that never materialized and estimated costs increased. By August 2007, the estimated expenses exceeded the estimated revenues by over $7 million (see Exhibit 2).

[8] The presentation netted about $4 million from the sale proceeds that had been used to repay the general obligation bond fund for headquarters property acquisition.

Exhibit 2
Changes in the Plans of Finance

	Apr 19, 2005	Mar 29, 2006	Nov 9, 2006	Aug 23, 2007	Mar 23, 2009
Budgeted Revenue:					
Public Safety Bonds	50,000,000	-	51,500,000	51,504,053	51,504,053
Old Traffic Court sale	-	-	7,100,000	7,100,000	7,087,780
City Hall East Sale (Net Amount)	*31,000,000	-	33,000,000	-	-
City Hall East parking lot	-	-	-	7,000,000	7,035,000
City Hall East building	-	-	-	26,000,000	-
APD grant funds	-	-	-	2,000,000	2,000,000
Current Interest from Bonds	-	-	-	-	2,100,000
Wachovia Lease Purchase	-	-	-	-	24,000,000
Capital Budget Loan	-	-	-	-	11,000,000
Traffic Ticket Revenue	-	-	-	2,000,000	-
Total	**$81,000,000**	**-**	**$91,600,000**	**$95,604,053**	**$104,726,833**
Budgeted Expenses:					
Public Safety HQ	30-40M	56,564,748	62.6M	62,868,298	66,421,902
Police Annex	10-20M	26,581,789	22.5M	32,378,931	28,191,993
E911 Call Center	15-20M	9,279,565	4.5M	5,819,652	10,138,740
CHE Move Costs	-	2,000,000	2.0M	2,000,000	1,460,000
Total	**$55-80M**	**$94,426,102**	**$91,600,000**	**$103,066,881**	**$106,212,635**

Source: Mayor's Office presentations and spreadsheets

The city has spent or obligated nearly $103 million on the project through September 2009. The city spent $100.8 million on construction and related expenses through September 2009. Most of the bank loans and issued debt have been exhausted and the city is paying for expenses from the general fund. We identified project spending and outstanding obligations of about $103 million through review of city financial records, Wachovia bank statements, and project records (see Exhibit 3).

Exhibit 3
Project Expenditures and Obligations

	Financial Systems	Responsible Entity	Source	Headquarters	Annex	E911 Call Center	Radio Upgrade	Total
Expenditures	N/A	Authority	$17M Wachovia Loan	-	17,082,755	-	-	17,082,755
	N/A	City	$7M Wachovia Loan	-	6,432,785	-	-	6,432,785
	Oracle	Authority	$50M Revenue Bond	32,032,006	-	-	-	32,032,006
	MARS/G	Authority	$50M Revenue Bond	26,404,728	-	-	-	26,404,728
	Oracle	City	Capital Finance Fund	-	1,341,239	4,140,446	415,503	5,897,188
	MARS/G	City	Capital Finance Fund	-	8,906,166	96,882	741,712	9,744,760
	Oracle	City	General Fund	259,969	2,228,543	723,515	-	3,212,027
			SUB-TOTAL	**$58,696,703**	**$35,991,488**	**$4,960,843**	**$1,157,215**	**$100,806,249**
Obligations	N/A	City	Invoices Not Processed	74,033	400,256	200,760	-	675,049
	N/A	City	Estimated Outstanding Invoices	4,085	1,598,024	209,240	-	1,811,349
			SUB-TOTAL	**$78,118**	**$1,998,280**	**$410,000**	**-**	**$2,486,398**
			GRAND TOTAL	**$58,774,822**	**$37,989,767**	**$5,370,844**	**$1,157,215**	**$103,292,648**

Source: Wachovia Bank Statements, Oracle and MARS/G, Public Safety Project Manager as of September 2009

The Mayor's Office estimated that about $2.5 million had not been invoiced or the invoices not processed. Most of the money funded the construction projects or construction management (see Exhibit 4).

Exhibit 4
Payments by Vendor

VENDOR	AMOUNT PAID	INVOICES NOT PROCESSED	ESTIMATED OUTSTANDING INVOICES	TOTAL EXPENSES
Turner Construction/HJ Russell & Co/OLH International/JV	51,685,643			51,685,643
Hogan Construction Group, LLC	19,117,993		1,521,300	20,639,293
Shaw Environmental Inc/AIM PLC JV	9,777,344	675,049	290,049	10,742,442
Property Purchases (Various Sellers)	8,811,537			8,811,537
Peachtree Carnegie, LLC	3,041,790			3,041,790
Northrop Grumman	2,484,056			2,484,056
Inscape	2,077,003			2,077,003
MARS/G Conversion (Expenditures)	1,087,854			1,087,854
911 Direct	1,031,253			1,031,253
AT&T	650,714			650,714
VIA	308,053			308,053
ISE	183,038			183,038
Krug	138,434			138,434
Symphony	91,165			91,165
Undetermined	86,792			86,792
Property Fees	84,498			84,498
Stylex	36,390			36,390
Allseating	35,888			35,888
L3 Communications	33,471			33,471
Hillard Heintze	19,800			19,800
OFS - Sales Corp	18,377			18,377
Bank Fees	2,243			2,243
Nucraft	1,712			1,712
Intensa	1,199			1,199
			TOTAL	**$103,292,648**

Source: Wachovia Bank Statements, Oracle and MARS/G, Public Safety Project Manager as of September 2009

- **About 73% of the project costs are debt-financed.** Although the initial RFP for the project stipulated that the city's debt burden would not rise, the 2005 plan of finance estimated that 62% of project costs would be debt-funded through $50 million in bonds. The City Council authorized use of $11.7 million from the capital finance fund to cover the cash flow for the project until the City Hall East closing scheduled for July 2008. When the sale of City Hall East was delayed until June 2009, the city financed additional construction costs by issuing a $17 million promissory note for the acquisition, design, and construction of the annex; and executing a $7 million master equipment lease purchase agreement to finance the furniture, fixtures and equipment for the annex.

The city is now obligated to make lease payments of more than $138 million for the three public safety facilities over varying time periods:

- Headquarters lease payments will total about $79 million over 20 years to repay $50 million in bonds plus debt service.
- 911 call center lease payments will total about $30 million over 30 years, with an additional one-time payment of $500,000 to transfer ownership of special equipment. The city is also responsible for a tenant's operating share for common area maintenance.
- Annex lease payments will total about $21.3 million over 10 years to repay the $17 million loan and debt service.
- Lease payments on furniture, fixtures and equipment for the annex will total about $7.8 million over 5 years.

Reliance on debt-financing increases long-term obligations. Debt payments restrict uses of future revenues. Therefore the choice to incur additional debt should be a strategic decision based on analysis of the benefits and the long-term costs. The city's borrowing capacity is limited. The inability to borrow additional funds also limits the solutions to future problems. Planning for capital projects should identify how they will be financed. The financing should be weighed against other uses for those funds that might bring a larger benefit to the city.

Project Costs Exclude Space for Other City Hall East Operations

The March 2009 plan of finance showed expenses associated with moving public safety personnel, but did not account for the parks department or other city operations. Departments plan to be moved by the end of 2009. The full costs for leasing space and relocating these employees are not yet known.

On-going costs excluded from project plan. The city did not plan how to relocate all employees from City Hall East after entering into an agreement to sell the building. The Office of Enterprise Asset Management recently negotiated the parks department's move to the Harris Tower at 233 Peachtree Center. City Council authorized the Mayor to enter into a 10-year lease agreement for 32,453 square feet of office space for parks. Estimated rent for the first year is about $264,000, at $16.25 per square foot annually.

The City Council also approved legislation to contract for records storage and retrieval – city records had been stored at City Hall East. The agreement with Iron Mountain will be for $235,000 in fiscal year 2010 and $212,000 in 2011. Contract terms will be for a period of ten years with the option to renew.

Management continued to seek space for about 16 employees. The employee assistance program (EAP) staff recently relocated to 818 Pollard Street. However several units located at City Hall East had not yet found suitable replacement facilities as of October 2009. According to office of enterprise asset management, although some radio shop staff went to the new 911 center, the city is still searching for a location for other radio shop employees as well as a site for the motor transport services. A potential site for motor transport services has been identified, but details still need to be worked out.

Council Approved Most Project Decisions

The City Council approved project decisions and appropriated $105 million for project expenses in 25 ordinances and resolutions over five years (see Exhibit 5). Information provided for decision-making appears to have been disconnected, lacking a clear overview of changes to the project and the impact of these changes.

Exhibit 5
Project Legislation

Public Safety Facility	Council Approval	Legislation	Legislative Details
City Hall East	11/1/2004	04-O-1892	Surplused City Hall East property and authorized RFP for the sale and redevelopment of City Hall East.
Public Safety Facilities Project	6/20/2005	05-O-1116	Authorized a notice-to-proceed with Shaw-AIM for architectural and engineering services.
Authority	11/7/2005	05-O-1910	Created the Atlanta Public Safety Judicial Facility Authority.
Traffic Court Building / Traffic Court Parking Lot	11/7/2005	05-O-1974	Transferred traffic court property to the Atlanta Downtown Development Authority to be redeveloped for a parking deck. Proceeds were later appropriated for the public safety facilities project.
City Hall East	11/7/2005	05-R-1832	Authorized the sale of City Hall East to Ponce Park, LLC.
City Hall East	12/5/2005	05-O-2434	Borrowed funds from the December 2005 General Obligation bonds to acquire properties to build the new public safety headquarters.
Headquarters	12/5/2005	05-O-1833	Authorized purchase of land for public safety headquarters.
Headquarters	4/17/2006	06-R-0475	Authorized notice-to-proceed with Shaw-AIM for design of the public safety headquarters.
CHE Parking Lot	4/17/2006	06-O-0783	Anticipated $ 7 million in proceeds from the sale of the City Hall East parking lot. The funds would be used for repaying the borrowed general obligation bond funds and consulting services.
Traffic Court Parking Lot	8/21/2006	06-O-1592	Anticipated $ 7 million in proceeds from sale of the traffic court property to the Downtown Development Authority and created a public safety facility account.
Annex	9/5/2006	06-O-1684	Authorized purchase of land for the annex.
Authority	9/18/2006	06-O-2054	Authorized city lease of headquarters and parking deck from Atlanta Public Safety Judicial Facility Authority.
Headquarters	11/20/2006	06-O-2277	Appropriated bonds for the construction of the headquarters.
Public Safety Facilities Project	12/4/2006	06-R-2611	Authorized notice-to-proceed with Shaw – AIM for construction management and move-in coordination for the headquarters, annex and 911 center.
PS Facility and PS Radio Upgrade Project	12/4/2006	06-0-2594	Authorized the chief financial officer to secure interim financing for costs associated with the public safety facilities project and radio upgrade project ($11.7 million) since the city would not collect the balance for the sale of City Hall East proceeds until September 2008.
Headquarters	12/4/2006	06-R-2563	Authorized design-build contract with Turner-Russell-OLH for the headquarters.
911 Call Center	5/7/2007	07-R-0764	Authorized lease agreement with AtlantaXchange, LLC for the 911 center.
Public Safety Facilities Project	5/21/2007	07-O-0973	Authorized the chief financial officer to transfer the $2 million federal grant to the project and create three separate accounts.
City Hall East	3/17/2008	08-R-0406	Extended the closing date for the sale of City Hall East building.
Annex	3/17/2008	08-R-0503	Authorized intergovernmental agreement between Atlanta Public Safety Judicial Facility Authority and the city to lease the annex. Initial costs financed through a $17 million Wachovia Bank loan.
Annex	3/17/2008	08-O-0511	Authorized quitclaim deed for annex property
Public Safety Annex	7/21/2008	08-R-0405	Authorized $ 7 million lease/purchase agreement with Wachovia Bank for furniture, fixtures, and equipment for the annex.
Headquarters	10/6/2008	08-R-1747	Authorized a cooperative purchasing agreement with ISE Inc. for the furniture, fixtures, and equipment for the headquarters.
911 Call Center	11/3/2008	08-R-2077	Authorized notice-to-proceed with Shaw – AIM for consulting services to manage the move to the 911 call center.
Public Safety Facilities Project	5/4/2009	09-R-0790	Authorized a cooperative purchasing agreement with AT & T for voice over internet protocol equipment for headquarters, annex, and 911 center.

Source: City Council Final Action Legislation

Management twice provided an in-depth briefing to the City Council. The April 2005 briefing proposed building three facilities for $81 million; funded through $31 million from the sale of City Hall East and $50 million in authority bonds. The second briefing, prepared November 2006 but presented in August 2007, identified a project budget of $91.6 million and added as a revenue source $7.1 million from the sale of land to the Downtown Development Authority.

Most of the legislation occurred before the 2007 briefing. The City Council approved legislation in 2005 authorizing the sale of City Hall East, creation of the authority, purchase of land for the headquarters, and an agreement between the city and the authority for financing and constructing the public safety headquarters. Council approved legislation in 2006 authorizing purchase of land for the annex, a lease agreement for the headquarters, notice to proceed for construction management and move-in coordination for the headquarters, annex and 911 call center, and transferring $11.7 million from the capital fund as interim financing until the sale of City Hall East was completed. The City Council approved legislation in 2007 authorizing the lease agreement for the 911 call center, appropriating the $2 million federal grant, and reorganizing the project account into three separate accounts.

While internal financial plans estimated project costs at $103 million in August 2007, we found no evidence that the Mayor's Office updated the City Council on budget changes until a February 2008 update. The City Council approved the headquarters contract but not the annex contract even though both contracts were funded primarily by the authority and managed by the city. The City Council approved legislation in 2008 authorizing an intergovernmental agreement between the city and the authority for financing and construction of the annex, authorizing the $7 million loan for furniture and equipment purchase, and authorizing a quitclaim deed for the annex property. The City Council appropriated $105 million for the project between April 2006 and **July 2008 (see Exhibit 6).** In March 2009, Mayor's Office internal documents estimated total project costs at $106 million.

Exhibit 6
Total Amount Appropriated in Legislation for Public Safety CIP

Legislation	Revenue Source	Amount
06-O-2277	Revenue Bond	52,430,619
06-O-1592	Sale of Land to Downtown Development Authority	7,087,780
06-O-0783	Sale of City Hall East Parking Lot	7,035,602
06-R-2594	Capital Finance Fund	11,725,513
07-O-0973	Federal Grant	2,000,000
08-R-0503	Wachovia Loan	17,000,000
08-R-0649	Capital Finance Fund	800,000
08-R-0405	Wachovia Loan	7,000,000
	TOTAL	$105,079,514

Source: City Council Final Action Legislation

City staff should analyze the costs and benefits of proposed capital projects and identify funding needs before undertaking the project. City staff should have regular oversight meetings with City Council on project progress, costs, schedules, changes since the last briefing, and significant risks for the project.

Project Management and Financial Controls Weak, Some Circumvented

Weak project controls increased project risk. The construction manager's responsibilities were too limited to effectively control costs. While payments for the city's initial $47 million contract for headquarters construction were intended to be based on cost plus a fixed fee, the city and construction manager did not track costs in accordance with contract terms. The city paid about $4.7 million in change orders for the headquarters without adequate support or required approval.

Financial reports on project costs are incomplete. Project expenditures were recorded in several different accounts in the city's financial system and expenditures of $24 million in bank loan proceeds were processed directly from the bank rather than through the city's financial management system. Because these transactions were off the city's books, some payments circumvented city controls.

Weak Project Management Increased Risks

The construction manager's role in the project was unclear and limited; neither city staff nor the construction manager enforced terms in the construction contract for the public safety headquarters regarding basis of payment, scheduled completion date, or final payment. The project team released retainage and paid for work before the work was complete and authorized $4.7 million in change orders without sufficient support or appropriate approval. Failure to follow procurement rules is a red flag for potential fraud, increasing the risk that the city will either pay too much for services received or not receive the quality or quantity of services it paid for.

Construction manager's role was too limited to effectively control costs. The city contracted with Shaw/AIM for consulting services through an annual architectural and engineering contract. The authorizing legislation described the services as construction management and move-in coordination for the headquarters, annex, and 911 call center. The contract for the headquarters also names Shaw as the construction manager. Compensation was based on labor and materials used — the city paid Shaw/AIM $9.8 million from 2005 through September 2009.

According to Shaw/AIM staff, the company provided quality assurance and quality control for the public safety project, including reviewing testing documents, facilitating the design-build, maintaining the construction management software, serving as a communication link between the police and fire departments, delivering lien waivers, reviewing the contractor's progress, agreeing on completion percentages, and making recommendations for pay applications. Shaw/AIM also updated the project schedule and budget, retained requests for information, prepared and maintained all project documents, including project status reports and meeting minutes. However, Shaw/AIM staff stated the company was not responsible for managing construction costs, schedule, or budget, and did not track earned value, which objectively measures project progress.

The Construction Management Association of America identifies cost management as one of the most common construction management responsibilities. Large capital projects require cost control as well as quality control. The office of enterprise asset management should develop project management procedures to guide city personnel in managing projects appropriately. Procedures should assign specific responsibilities for controlling costs, meeting schedules, ensuring quality, and managing risks.

Headquarters contract terms not enforced. Neither the city nor the construction manager enforced contract terms regarding the basis of payment, scheduled completion date, or final payment.

The headquarters contract called for payments to be based on actual costs plus a fixed fee, not to exceed a guaranteed maximum price. In this type of contract, the owner reimburses the contractor for direct and indirect costs and pays the contractor a fee for services. Cost plus contracts require considerable oversight of the cost of time and materials because of the risk that contractors may include additional costs that do not reflect the true cost of the project. In cost plus contracts, the owner risks paying for unauthorized work, labor hours not worked, and excessive charges for equipment, tools, materials and subcontractors. A guaranteed maximum price mitigates these risks by making the contractor responsible for costs that exceed the maximum price. A cost plus contract can be advantageous to the owner because there is reduced incentive for the contractor to cut corners.

The contract states that the following costs are not reimbursable:

- Compensation for Design-Builder's personnel stationed at Design-Builder's principal or branch offices
- Overhead and general expenses
- The cost of Design-Builders' capital used in the performance of the work
- Costs that would cause the GMP to be exceeded
- Design fees, costs, and expenses

However, the city did not obtain information to support contractor costs or ensure that these types of costs were excluded from payment applications. Instead, contrary to the contract terms, the city paid the contractor based on the percentage of schedule of values completed.

The contractor was not held to the final completion date. The headquarters contract states that "Final Completion of the Work (Certificate of Occupancy) shall be achieved on or before October 4, 2008. All punchlist work shall be complete sixty (60) days after Certificate of Occupancy." The certificate of occupancy for the headquarters was issued June 2, 2009, eight months late. Subcontractors continued to submit lien waivers after October 2008, indicating that work was not complete.

The city paid the contractor about $785,000 in advance of work completed. While the city made the final $4.7 million payment to the contractor in December 2008 including retainage, project documents show work at the site continued through April 2009. Of the $4.7 million, $2.5 million were retained funds due at the substantial completion of the project and $785,000 was for work done after it was invoiced. The contractor gave the city's capital project officer a $650,000 check to cover the costs for completing the remaining work. However, the capital projects officer agreed not to cash the check and did not deposit the funds. Paying contractors before work is completed carries a risk that the work will not be completed or may not meet quality specifications.

The city and the contractor should have shared about $70,000 in cost savings. The headquarters contract states that if the sum of the actual cost of the work and design-builder's fee is less than the guaranteed maximum price, the difference will be shared equally between the design-builder and the owner. The guaranteed maximum price listed in the contract is $47 million. Three change orders raised the guaranteed maximum price to about $51.7 million. The final payment application noted $70,000 in work that was not done . According to the contract, these cost savings should be shared between the city and the contractor, but the city had already paid the revised amount in full. Project staff expects the contractor to return about $30,000 to the city.

Change orders ignored procurement policy. The project management team authorized three change orders for the construction contract for the headquarters in February 2008, totaling just under $4.7 million. Section 2-1292 of the City Code requires that the chief procurement officer or City Council authorize change orders that are less than 10% of the contract amount. Change orders that exceed 10% of the contract require approval by the City Council and the Mayor. Contrary to city code, the chief procurement officer made no written determination authorizing the changes, nor were changes approved through legislation. Further, the city lacked documentation to support $3.3 million of the $4.7 million added to the contract. Following repeated requests for information, Shaw/AIM provided us with documents to support about 29% of the additional costs, but bid proposal amounts did not clearly match change order amounts, nor was there any reconciliation between the proposed amounts and the amounts in the change orders. The construction manager indicated that they had no other documents supporting the amounts of the change orders. City staff found some additional support for the change orders. However, Shaw-AIM was responsible document control. By increasing the guaranteed maximum price without clear support, the change orders shifted the risk of the cost overruns from the contractor to the city.

The city's chief operating officer authorized one change order to the construction contract for the annex in November 2008 for $849,141, acting as a representative of the authority. The authority entered into a construction management agreement with the city for the city to manage the construction contract on behalf of the authority. The agreement states that the city's procurement rules applied. Neither the chief procurement officer nor the City Council approved the change. The Mayor's Office told us a second change order for $566,000 is pending for the annex.

The city's procurement rules are intended to ensure that the city receives the benefits of a fair and competitive procurement process. Failure to follow procurement rules could indicate fraud and increases the risk that the city will pay too much or not receive the services it paid for. Project management procedures should reinforce that terms of city contracts should be enforced and the procurement code should be followed.

Financial Controls Disregarded

Financial controls are in place to accurately record and protect assets. Key financial controls were not consistently followed in the public safety project, including recording all transactions in the general ledger, submitting requisitions and generating purchase orders to ensure funds are available before they are committed, recording retainage withheld in the city's system, recording assets when they are received, and reconciling bank statements timely. Because of disregarded controls, financial reports on project costs were incomplete and inaccurate.

City failed to follow controls intended to accurately record and protect assets. The Mayor's Office processed payments made from the proceeds of the $17 million and $7 million bank loans directly from the bank without going through the city's financial management system. The city's financial management system has controls in place intended to prevent the removal of assets and the inaccurate recording of transactions.

Exhibit 7 outlines the major control points in the procure-to-pay cycle and the intent of those controls. The chart also shows what the city did and the risks of not using those controls.

Exhibit 7
Project Procedures Compared to the Procure to Pay Controls

Control Points	Purpose	Intent of Control	What the City Did?	Risk
Purchase Requisition	To detail specifics of purchase (i.e. quantity, amount, quality, time) so departments can ensure they received what they requested.	Prevent the removal of assets	$50 million bond-submitted requisition $17 million and $7 million loans-did not submit requisition	Department requests or receives a wrong or inferior good/service or pays more for purchase than necessary Employee purchases a good/ service for personal use
Purchase Order	It is a contractual agreement between the vendor and department listing specifications and price for a purchase.	Prevent the removal of assets	$50 million bond-submitted purchase order $17 million and $7 million loans-did not submit purchase order	Department requests or receives a wrong or inferior good/service or pays more for purchase than necessary
Receiving Report	To show that goods requested were actually received and document who received them.	Prevent the removal of assets	$50 million bond-had signed city disbursement forms showing receipt of goods or service $17 million and $7 million-did not have signed city disbursement forms showing receipt of goods or service	Department pays for goods/service they never received
Voucher (Disbursement Form)	To show that a vendor is authorized to be paid a specific amount for a specific good or service.	Prevent the removal of assets	$50 million dollar bond-submitted vouchers for purchases $17 million and $7 million loans did not submit vouchers for purchases	Payments released to person who is not the vendor, for the wrong amount (over or under payment), or for an unauthorized good or service

Control Points	Purpose	Intent of Control	What the City Did?	Risk
Accounts Payable Ledger	To record money owed by the city to vendors and payments to vendors.	To prevent inaccurate recording of transactions	$50 million dollar bond-purchases processed by accounts payable $17 million and $7 million loans-not processed by accounts payable and could not be placed on ledger	Being unaware of what is owed and financial position
Journal Entry	To record accounting transactions with account names, amounts as a debit or credit.	To prevent inaccurate recording of transactions	$50 million dollar bond-purchases processed by accounts payable $17 million and $7 million loans not processed by accounts payable and could not be entered as a journal entry	Being unaware of what is owed and financial position
Bank Reconciliation	To compare and match amounts for accounting statements to bank statements.	To prevent removal of assets	$17 and $7 million dollar loans- bank statements were not received and could not be reconciled with purchases	Spending more money or requesting additional funds when funding is not available in bank accounts. Recognition of payment errors (i.e. double payments, unauthorized payments from accounts)
Record Fixed Asset	To track assets and depreciation	To prevent inaccurate recording of transactions To prevent removal of assets	The Headquarters is recorded as a fixed asset Assets from the $7 million loan in furniture, fixtures and equipment (FFE) will be added to Oracle's Fixed Assets module when Fixed Assets receive the FFE list	Shortening the useful life of fixed assets by not properly maintaining assets Not knowing what assets you have and the removal of assets because no one is tracking

Sources: *Internal Control Guide*, Wanda A. Wallace; *An Elected Official's Guide to Internal Control and Fraud Prevention,* Stephen J. Gauthier; *Auditing the Procurement Function*, David O'Regan, CIA, FCA; and interviews with city staff

The controls in the procure-to-pay process generally involve:

- Request for procurement (requisition);
- Mechanism to set up a contract with the vendor (purchase order);
- Mechanism to record receipt of a good or service (receiving report);
- Trigger for the release of funds to pay for the good or service (voucher);

- Record of the transaction through a journal entry and on an accounts payable ledger;
- Reconciliation of transaction records to bank statements; and
- Record of purchased goods over a certain value as fixed assets.

However, these controls only work when these duties are segregated among different individuals. One employee in the Mayor's Office should not be assigned duties that involve record keeping, asset custody, authorization and reconciliation. One person should not be allowed to receive an invoice, authorize payment, cut the check, and mail it to the vendor. We found that with the $7 million and $17 million loans, one employee was responsible for record keeping, asset custody, authorization and reconciliation of the loans. These controls are in place to prevent the loss of assets, inaccurate recording of transactions, or creation of false documents to commit fraud.

Mayor's Office staff did not submit city purchase requisitions for items purchased with Wachovia loans funds. The risk of not using city purchase requisitions include requesting the wrong good or service, receiving an inferior good or service, paying more for a good or service, employees purchasing a good or service for their personal use, and over-committing funds.

Mayor's Office staff did not receive bank statements for Wachovia loans and could not reconcile project records to bank statements. Bank reconciliation prevents spending more money than is available in bank accounts and allows detection of errors such as double payments and unauthorized payments from accounts. After obtaining and reviewing Wachovia bank statements, we found transactions that staff could not explain. The bank acknowledged about $1,500 in fees charged in error when we requested support for the account transactions.

Because the Mayor's Office did not process these payments through the city's accounting system, transactions for about $24 million in payments were not recorded in the general ledger resulting in incomplete financial data. The finance department caught the error through year-end bank reconciliations, and posted summary information from the bank statements to the city's financial system, but a detailed record of the individual transactions is not available in the system.

Also because payments for construction of the annex were not processed through the city's accounting system, retainage was not recorded in the account the city uses to track what has been paid and what is still owed on contracts. Failing to track retainage owed could result in over-committing available funds.

Staff did not complete city receiving reports for the goods purchased and is now working with finance to ensure that fixed asset records are complete and accurate.

Financial reports on project costs are incomplete and inaccurate. Because project expenditures were recorded in several different accounts in the city's financial system and some payments were not recorded in the city's books, reports generated from the financial system did not capture all project expenditures. We also found omissions and minor errors in the spreadsheet the Mayor's office uses to track project expenses. Staff was unaware of account information used to pay several expenditures. We found about $3.2 million in expenditures paid out of the general fund. Staff had authorized invoices without specifying a revenue source, causing the finance department to find funds to satisfy the debt. We also found one instance where the payment didn't match what was invoiced.

Support for $3.7 million in property acquisition was difficult to find. Project staff was unable to provide support for the annex property purchase. The city's financial system did not identify recipients of all the land payments and accounting staff was also unable to provide detail for all payments. The legislation authorizing the purchase did not reference the property address. We confirmed the recipient, amount, and date of payment from closing statements retained by outside attorneys.

What are the Consequences of the City Hall East Sale Contract Expiring?

The city will incur significant one-time and on-going costs to secure and maintain City Hall East. In addition, the $11.7 million borrowed from the capital finance fund cannot be repaid without the City Hall East sale proceeds, contributing to the fund's $46 million deficit.

Costs could exceed $1.6 million in the first year. Maintenance and electricity make up the majority of the cost. The city will continue to pay for utilities and security as long as it owns the City

Hall East. The structure will not require routine maintenance, but will require water for fire protection and electricity to heat the building to prevent water pipes from freezing. City Hall East will continue to require 24-hour security to protect the property from damage by vagrants and to minimize other risks to the city. Staff at the 911 call center will continuously monitor surveillance cameras. The Office of Enterprise Assets Management budgeted $1.3 million to operate the building from July through December 2009. Utility, maintenance, and security costs will drop to $385,000 for the next six months, when all employees are scheduled to be out of the building. According to project staff, salvageable materials, including steel and some 911 equipment, could be sold to offset some costs.

Disposition of $1 million in earnest money is uncertain. Neither the city nor Ponce Park fulfilled the terms of the City Hall East sale agreement and the disposition of the $1 million paid in earnest money is unclear. In November 2005, the city agreed to sell the parking lot to Ponce Park for about $6 million. Ponce Park also paid the city $1 million in earnest money for the City Hall East building. The agreement stated that if the city was at fault for not closing, Ponce Park would receive the earnest money back less $100. If Ponce Park was at fault for not closing, the city would keep the earnest money.

The city failed to vacate City Hall East before the closing date of the sale contract. Under the agreement, all city staff, motor vehicles, and personal property were to be removed from the building before the closing date. The city originally agreed to be out of City Hall East on July 31, 2008. In March 2008, the council authorized extending the closing date to June 15, 2009, but staff remained in the building.

Ponce Park failed to pay the balance of the sale price by the closing date. In February 2009, the city's chief financial officer said that the developer no longer had the funds and was seeking a financing arrangement with the city.

Insurance premium may increase. The city's insurance premium may be affected by increases in the total value of the city's buildings. The city's premium is based on an overall statement of value. Selling City Hall East would have removed it from the city's statement. Now, the city must insure a vacant City Hall East and the new public safety facilities.

Unanticipated maintenance and security costs are required to mitigate risks. The Office of Enterprise Assets Management is working on plans to protect the building from trespassers, including fencing the perimeter, boarding up the first two floors and the parking area, providing for on-site security, and additional monitoring. Enterprise management will also winterize the building to prevent pipes from freezing. As of August 2009, enterprise management estimated these one-time costs to be about $300,000.

Repayment schedule for capital finance fund is unknown. The City Council authorized the public safety project to borrow $11.7 million from the capital finance fund. According to project managers, the intent was to repay the loan once City Hall East sold. The city has not identified an alternative method to repay the capital finance fund, which had a $46 million deficit at the end of fiscal year 2008.

Recommendations

To prevent escalation of project scope and budgets, the Mayor's Office should ensure that the executive departments:

1. Analyze the costs, benefits, and financing methods of proposed capital projects before undertaking them.
2. Identify funding needs for projects before starting them.
3. Identify project risks and risk management plans for each project that are updated over the life of the project.

To reduce the risk of lost assets and errors in the city's financial statements, the Chief Financial Officer should:

4. Create policies to ensure lease purchase agreements are accurately recorded within the city's financial system.

To reduce the risk that city funds are misused or wasted, the office of enterprise asset management should:

5. Create project management procedures to guide city personnel in managing capital projects appropriately. Procedures should assign specific responsibilities for controlling costs, meeting schedules, and ensuring quality. Project management procedures should also address:
    - Project strategy, organization and administration;
    - Financial management;
    - Procurement management;
    - Project controls and risk management;
    - Schedule management, and
    - Providing sufficient information to allow City Council oversight of capital projects.

Appendices

Appendix A
Management Responses to Audit Recommendations

Report # 09.02	Report Title: City Hall East Sale and Public Safety Facilities Construction	Date: 12/14/2009
Recommendation Responses - Mayor's Office		
Rec. # 1	The Mayor's Office should ensure that the executive departments analyze the costs, benefits, and financing methods of proposed capital projects before undertaking them.	Agree
Proposed Action:		
Implementation Timeframe:		
Responsible Person:		
Rec. # 2	The Mayor's Office should ensure that the executive departments identify funding needs for projects before starting them.	Agree
Proposed Action:		
Implementation Timeframe:		
Responsible Person:		
Rec. # 3	The Mayor's Office should ensure that the executive departments identify project risks and risk management plans for each project that are updated over the life of the project.	Agree
Proposed Action:		
Implementation Timeframe:		
Responsible Person:		

Report # 09.02	Report Title: City Hall East Sale and Public Safety Facilities Construction	Date: 12/13/2009

Recommendation Responses – Department of Finance

Rec. # 4	The Chief Financial Officer should create policies to ensure that lease purchase agreements are accurately recorded within the city's financial system.	Agree

Proposed Action:	Develop a stated policy that all lease purchase agreements must be approved by the Debt and Investment Chief and ensure that the necessary journal entries are provided to Accounting. This policy should be in writing and sent to all departments of the City.
Implementation Timeframe:	January 2010
Responsible Person:	Roosevelt Council and Carmen Pigler

Report # 09.02	Report Title: City Hall East Sale and Public Safety Facilities Construction	Date: 12/14/2009

Recommendation Responses – Office of Enterprise Asset Management

Rec. # 5	Enterprise asset management should create project management procedures to guide city personnel in managing capital projects appropriately. Procedures should assign specific responsibilities for controlling costs, meeting schedules, and ensuring quality. Project management procedures should also address: Project strategy, organization and administration; Financial management; Procurement management; Project controls and risk management; Schedule management, and Providing sufficient information to allow City Council oversight of capital projects.	Agree What is recommended is proper capital project management process and procedure.

Proposed Action:	In order to be effective the policies and procedures should follow the standard practices of the construction industry organizations such as the American Institute of Architects, American General Contractors Association, Construction Standards Institute, International Facility Management Association, and The Project Management Institute. These recommendations require specific policies, procedures, and related changes in many related City of Atlanta's departments. Recommend the Project Management Institute be contacted to assist enterprise asset management and department of procurement to develop an RFP for a management consulting firm specializing in project management process to develop a comprehensive set of process and procedures including: 1) Standardized Accounting, Pay Applications, Schedule of Values, Project Scheduling Systems, Inspection Reporting, Capitalization Procedures and the Appropriate Provisions in either the Request for Proposal or Request for Quotations Contracts being used for Capital Projects. These systems must be practical to apply, timely maintained, and transparent to all that need to view status at any time. The expectations of the City Council Oversight must be expressed in the initial planning stages. Funding for such program development will have to be allocated. The respective departments involved will have to agree and participate in the development and utilization of proper project management.
Implementation Timeframe:	Such a program will take at least 9 months after proper consultant begins program development. Thus completion can be achieved by second quarter of 2011.
Responsible Person:	Capital Project's Officer and Chief Information Officer

Appendix B
Additional Management Comments

CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

55 TRINITY AVE, S.W
ATLANTA, GEORGIA 30335-0300

TEL (404) 330-6100

December 16, 2009

Ms. Leslie Ward
City Internal Auditor
City of Atlanta
88 Mitchell Street, SW
Suite 12100
Atlanta, Ga. 30303

Dear Ms. Ward:

Thank you for meeting with the Public Safety Facilities team and providing is with an opportunity to comment on the draft report of your performance audit of the City Hall East Sale and Public Safety Facilities Construction Project. We are gratified that your report does not identity any instances of waste, fraud or abuse in the management of this project. The fact that these high-quality facilities were delivered on time and on budget with no major errors in execution is clearly a major accomplishment and we are pleased that your report is consistent with that conclusion.

We agree with your recommendations regarding some process improvements that could reduce execution risk in future projects of this type and we will work to implement them in a timely fashion. We do have a few general comments to make regarding some of your observations and we also believe it would be helpful to contextualize some of your findings.

Background and Context

The sale and redevelopment of City Hall East was initiated in 2002. The goal at the time was to improve the working conditions of the city employees then housed in that building and, at the same time, improve the use of an asset that was highly underutilized (the city occupied less than 30% of the available space at City Hall East and could not lease the unused space under the bond covenants associated with the original purchase of the property).

The program had five separate elements:

1. Selling the facility to a developer interested in creating a mixed-used development that would complement and accelerate the redevelopment of the surrounding neighborhood. This included issuing and reviewing responses to an RFP, managing the rezoning of the property through the NPU and neighborhood review process, and cleaning up several environmental issues with the property.
2. Building new public safety facilities including a headquarters building for APD and AFR, a Public Safety Annex to provide warehousing and customer service functions, and a new 911 call center.
3. The design, construction and financing of the Government Center Parking deck near City Hall.
4. The design, construction and financing of the Historic Fourth Ward park, and specifically the stormwater retention pond that will be the centerpiece of that park.
5. The relocation of the non-public safety departments that were formerly housed in City Hall East.

These five initiatives constitute the larger program that the Mayor's Office was responsible for planning and executing. All of these projects are inter-dependent and none of them could be implemented without careful coordination and alignment. This effort was managed out of the Office of the Mayor under the part-time supervision of the Senior Policy Advisor and Capital Projects Manager and with one full-time project manager. It is important to note that this rather complex set of activities was delivered with very little overhead.

While your audit is focused on the second element of this larger program, your report neglects to mention that this element is simply one part of a much larger and rather complex program. As I am sure you would acknowledge, mistakes are always made in the management and execution of complex projects, but in the absence of describing the larger context you run the risk of mischaracterizing the relative scope and scale of those mistakes.

In addition to successful executing these complex tasks, it is also important to note that they have been completed on time and on budget. Your report at times refers to the expanding scope of the project, which misrepresents the nature of the business decisions that were deliberately being made. For example, at no time did the project team request from the City Council additional funds for this project. At every point when a program solution needed be identified, the team made recommendations to the City Council regarding what that solutions should be and how they should be funded, at every juncture the City Council agreed with those recommendations. There is no question that alternative, cheaper solutions could have been implemented for all of these project elements. To the credit of the City Council, it chose options that would deliver first-rate solutions with 40-50 year time horizons. The City has historically chosen less optimal approaches to its infrastructure needs (which is why 15 years following its purchase the City needed to vacate City Hall East). As a consequence of this work, the City has solved its public safety facilities needs for the next two generations and received high value for its investment.

It is important to emphasize that every project within this program (e.g., the public safety headquarters, the public safety annex, the 911 call center, the Government Center Parking Deck, and the soon-to-be-completed Historic Fourth Ward Park) will be delivered at or below the budget approved by City Council. This is a substantial accomplishment with the credit entirely attributable to the Capital Projects Manager and our partners at Shaw/AIM.

The bottom line is that we have delivered three, first-rate new public safety facilities, a new public parking deck, and are under construction of a high-quality park that will provide a much-needed amenity to an under-served neighborhood, all at a very good price. Nothing in this report suggests otherwise.

With that context in place, we have some clarifications we would like to make regarding specific issues raised in your report:

The use of debt to finance the project. The report seems to suggest that the City took on debt to finance these projects against its original intentions. Yet no policy statement, no project documents, no statements to City Council or any other official statement is produced as evidence that the City ever intended to finance these projects without debt. Given the scope and scale of the endeavor, no such debt-free financing plan could ever be constructed and none ever was. The sole reference used in your report is a statement in the City Hall East RFP that the City wanted to consummate the sale of the building without taking on debt. As was explained to the audit team, that statement was used as a marketing device to maximize the potential bids on City Hall East. At no time did the Administration or the City Council ever produce a financing plan that did not include debt as a component of the financing.

The report also suggests that the City should evaluate alternative uses of debt before it commits it to specific project. We agree. However, in this case the largest component of our debt financing – the $50 million in bonds used to build the Public Safety Headquarters – was derived from Public Safety Facilities Bonds and could only be used for the purpose of building public safety facilities. So the advice – while helpful in general - in this context is of limited application.

It is also worth noting that the City has a $750 million public and operating infrastructure backlog. Absent this investment in these new public safety facilities, that backlog would be $850 million.

The role of Shaw/AIM in managing construction costs. At several points in the report issues are raised regarding Shaw/AIM's role in managing construction costs. Shaw/AIM at all times provided the services for which they were assigned and paid. The City spent approximately 10% of its program budget on architectural design and construction management fees, which is consistent with best practices standards. It is the City's project management team's responsibility to make the final decisions with respect to all project spending. However Shaw/AIM staff took actions daily to manage the costs of the project and to keep the project on budget. All program changes were discussed, evaluated and documented. The schedule was tracked and discussed at least weekly. The value received by the City was analyzed and attested to for each Pay Application. The fact that the projects were delivered on budget clearly suggests that the construction costs were effectively managed.

Meeting the final completion date. The report suggests that the contractor was not held to the final completion date. The report states that the "Final Completion of the Work (Certificate of Occupancy) shall be achieved on or before October 4, 2008 while the certificate of occupancy for the headquarters was issued June 2, 2009". While this is true, it is important to note that the delay in the issuance of the Certificate of Occupancy had nothing to do with the project construction schedule. The original CO target date was set as a consequence of the original move-out schedule from City Hall East. When the closing date for City Hall East slipped, there was no reason to artificially stick to the original CO date. The delay was associated with the purchasing of the furniture, scheduling the physical move of the public safety agencies, and developing an alternative solution for the parking deck exterior to satisfy the Department of Planning. The bottom line is that the contractor was prepared to meet the contract schedule but there was no good business reason to force them to the original schedule.

Management of the $4.6 million change order. The report suggests that the $4.6 million change order was not managed properly. First of all, it is important to make clear that the $4.6M change order does not equate to an increase in project costs. All of these costs were either originally budgeted elsewhere or were paid for out of project contingency funds. This change order contained three major categories of changes:

1. *Design improvements ($1.7)*

Items that were changed either from the original RFP design concept made during the design development stage to better suit APD's, AFD's, and/or OEAM's needs for such things as more optimized office space, more security zones, refined JOC operation design, and more efficient/maintainable central utility area. (See OCNLs- Owner Change Notice Letters)

2. *Unforeseen construction occurrences ($250k)*

Items such as poor soil that was not discovered by the original soil borings and the complications with re-routing the AT&T duct bank for which TRO's solution provided in the contract proposal would not have provided as much assurance of no- destruction that both the City and AT&T concluded was worth paying for. AT&T contributed the lion share of the cost. (See OCNLs)

3. *Addition of the "Special Systems" to the TRO contract rather than have the procured through DOP. ($2.7M)*

The original program plan was to purchase these systems – Digital Cabling, Security Access Control, Security Cameras, Special Audio/Visual Systems, and Office Furniture - independently. They were not included in the original scope for the construction of the building because the project team at the time believed that we could procure those items at a lower cost than we would have received through a construction bid and to ensure that we purchased the latest versions of this critical equipment. As the project advanced, it was decided - for logistical and management reasons - that it made more sense to procure these items through the contractor contract. Since the installation of these systems is integral to the construction of the facility, we felt more comfortable placing the responsibility into the hands of contractor alone. We therefore asked the contractor to bid these items out to make sure that they could be procured at a cost that was within our budget. These procurements were successful in that respect.

It is standard practice to bundle these types of changes (Categories 1-3) into a single change order at an appropriate point in the project. In February 2008 the Project Manager initiated the change order process to cover these expenses. Under normal circumstances, the Project Manager would have followed standard procedures by encumbering the funds through Oracle directly. The Project Manager was not able to follow the normal process of encumbering the $4.6M for the items on the change order because the funds that had been budgeted for this purpose had been removed from the Public Safety Facilities capital accounts (without the knowledge of the PMO) as part of the end-of-year close out. So no change order could be processed.

As the Project Manager began discussions with DoF about the restoration of the funds, the project schedule dictated the systems be procured without delay (since they have to be installed as the building is being constructed). The Capital Projects Officer signed an authorization to allow the contractor to move forward with the procurement of these systems under the assumption that the funds would materialize and the change order would ultimately be processed.

By November, 2008 no funds had been restored by the Department of Finance. At that time the CFO agreed that due to accounting errors in the Capital Finance Fund, approximately $8.9M should be restored to the Public Safety Facilities account. However, due to a lack of funds in the Capital Finance Fund, the CFO suggested that he authorize payment for the $4.6M to pay for the change order. The CFO suggested that he use a direct pay to cover the $4.6M.

The notion that "adequate support" for these payments is lacking is inaccurate. For every individual change included in the change order, a Change Order Request form was submitted and approved by the Capital Projects Manager.

Paying the Contractor in advance of work completed. The report suggests that the City paid the contractor about $785,000 in advance of work completed. It is important to note that at no time did the contractor have more funds from the City of Atlanta than value delivered by the contractor. When the S4.6M check was issued by DoF there was less than $250k of value remaining to be completed. This is documented by the Substantial Completion date of September 4, 2008. Our intent was to pay for the City's documented obligations to the contractor (which needed to pay subcontractors who were waiting on payments). At the same time, the City wanted to retain enough financial leverage to assure final project completion. With the check in existence the subcontractors returned to the project to complete the punch list items (such as blemished paint, damaged floor tile, and/or unacceptable concrete curbing which happens on all construction jobs). The Capital Projects Officer did not give TRO the check until these punch list items were essentially complete and signed off on by Shaw-AIM.

Unfortunately, there were outstanding design and code disagreements around the exterior finish of the parking deck that needed to be resolved. The Capital Projects Officer and Shaw-AIM estimated the cost associated with resolving these issues would not exceed $250k. Since we did not believe that is was appropriate to delay the payment of $4.5M+ for the work that had been completed due to a issue involved less than $250k worth of work, the Capital Projects Officer gave the contractor the $4.6M check in exchange of a $650k check made out to the City of Atlanta.

This was more than 2.5 times what the Capital Projects Officer and Shaw-AIM felt was remaining to be accomplished by the contractor. Several other means of handling this complex payment situation were considered, such as the contractor creating an escrow account with payments to subcontractors being made only with joint signatures from the Capital Projects Officer. All of the other alternatives discussed would have created accounting and administrative problems within the contractor's joint venture.

Process for managing the Wachovia loan fund. The report suggests that the process for managing these funds is flawed. We agree. However, the process that was used was developed by the Department of Law and the Department of Finance, not the Project Management team. And there is no evidence to suggest that the City did not receive the items purchased through this process. Since the Department of Finance had no standard operating procedures in place at that time to manage lease/purchase agreements, your recommendation that they adopt such a procedure is one we support.

Again, we appreciate the chance to make these comments on your report, and we also appreciate the spirit in which you have engaged our team and incorporated our input over the course of this audit. We are pleased that no instances of waste, fraud or abuse have been identified, and no evidence that the City has not received good value for its money has been put forth. It is indeed satisfying to know that the City can execute a complex program such as these sets of projects with so few mistakes.

Sincerely,

David Edwards
Senior Policy Advisor
Office of the Mayor

Appendix C
Chief Financial Officer Comments on Public Safety Building

CITY OF ATLANTA
68 MITCHELL STREET, S.W., SUITE 11100
ATLANTA, GEORGIA 30303-0312
TEL (404) 330-6453 FAX (404) 658-6667

SHIRLEY FRANKLIN
MAYOR

JAMES W. GLASS
CHIEF FINANCIAL OFFICER
jiwglass@atlantaga.gov

TO: Leslie Ward

FROM: Jim Glass, Chief Financial Officer

COPY: Eric Palmer
Allison Lehr

SUBJECT: Comments on Public Safety Building

DATE: December 11, 2009

My first day of work as CFO of the City of Atlanta was November 5, 2008. Late in that month, I had a meeting with David Edwards and Greg Giornelli and was informed that there were some bills for the construction of the Public Safety Complex which had to be paid for work or the construction would be stopped. I asked if there was funding for it and Mr. Edwards informed me that there had been funding but this funding had been moved at some point in time to other things. Mr. Giornelli emphasized to me that the City simply could not shut down the work on the complex and we really needed to pay the bills. Subsequent to that meeting I was provided with a copy of a journal entry which showed the movement of funds out of the Capital Finance Fund into another fund at the close of fiscal year 2007 (June 30, 2007). When I inquired of why the entry was made of Monique Laws, Director of Accounting, I was told that it had to be made to close out the MARS G system and at that point I felt that an improper entry had been made and so stated that. However, a subsequent analysis of the Capital Finance Fund showed that this fund had always operated in a deficit conditions. Even though there was an appropriation, there was no cash funding to support the appropriation. Mr. Edwards also briefed me about the multiple transactions associated with the Public Safety complex and where his group managing this project thought they had sufficient budget and funding to meet the project. At the conclusion of that meeting I told Mr. Edwards that the fact is they never really had full funding to meet this without borrowing from the Capital Finance Fund which was a fund in a deficit position as it stood.

In late November/early December, Mr. Shelor and Mr. Edwards met with me again and advised me that the contractor was contemplating legal action to force us to pay and that we could either go ahead and pay or wind up paying and incur legal expenses. I asked Mr. Shelor, do we actually owe the money under the contract and the response I received was yes and if we don't pay the contractor will pull the project to a stop and yes we owe the money. It was again emphasized to me that the City could not afford to have this work stopped. Ms. Lehr's, Controller, first day on the job was December 5th. We discussed this situation and in consulting with her staff, I was told that I had to authorize a direct pay.   While I may have told Edwards and Shelor that I would have to do a direct pay, it was not a casual suggestion since such are done as last resort to ensure the City meets its obligations. Based on all of the above factors with the belief that we were protecting the City from a law suit from its contractor, I authorized the payment.

I am not certain as to why my predecessor would have allowed legislation to take place to charge the Capital Finance Fund without ensuring adequate actual funding was in place. However, I can assume that she felt that such funding would be in place with the sale of City Hall East and agreed to allow expenditures to be made against the Capital Finance Fund.   Even so, since the funding from GMA for the work associated with the Oracle conversion never fully materialized, this fund was still in a deficit and was in no position to loan funds to a project.   Since Oracle was still a project underway, she may not have realized the true condition of the fund since the City did not have a "real time" financial system.

I briefed the City's Audit Committee at its Winter meeting on this situation and also requested an audit of this transaction. In March, 2009 at the City Council's retreat, I also briefed the Council on the condition of the Capital Finance Fund as part of my financial presentation and what has led to it being in a deficit position.

Appendix D
City Auditor's Comments on the Senior Policy Advisor's Responses

Government Auditing Standards require us to explain in the report our reasons for disagreeing with comments from the audited entity if they conflict with the audit's findings and recommendations or when planned corrective actions do not adequately address the recommendations. Our comments elaborate on the audit evidence that calls into question some of Mr. Edwards' assertions.

While it is true that we report no specific instances of fraud in this audit, the report does not provide assurance that no such instances occurred. The scope of our review of project controls was limited primarily to the city's expenditure controls. We found weaknesses that increase risk, and we did additional testing because of our assessment of the risk. However, the additional testing necessary to provide a high degree of assurance about the absence or existence of fraud would be much more extensive.

Based on the evidence we were provided, it is implausible to say that the public safety facilities were delivered on time and on budget. It is true that project expenditures have not exceeded financing proceeds and appropriations of funds that occurred over a five-year period. However, the administration did not propose and the City Council did not adopt a budget for the project. Both the project manager's internal budget figures and the cost estimates provided to City Council increased over time, as shown in Exhibit 2 and discussed on page 11 of the audit report. And while sources of *financing* were proposed and adopted, the *revenue streams* to repay the financing rely on the city's general fund and a real estate contract that has expired without a sale. Even if the proceeds from phase 2 of the City Hall East sale had been realized, they wouldn't have covered the $24 million in bank loans and the $11 million "bridge loan" from the Capital Finance Fund which remains in deficit. Further, some of the expenses included in the project manager's internal budget – primarily moving costs for some City Hall East operations – were absorbed by departments' operating budgets.

On-time completion of the facilities also appears to have been a moving target. The March 2008 legislation (Resolution 08-R-0406), extending the closing date for City Hall East from August 2008 to June 15, 2009, cited the following reason:

> "…due to construction delays caused by current market conditions, the completion of the new Public Safety Facility has been delayed, which has delayed the relocation of agencies out of City Hall East;…"

The circumstances of the city's $4.6 million payment to the contractor for the headquarters building remain problematic. The audit report clearly describes the limited support for payments that we were provided by Shaw/AIM staff who were designated as custodians of all construction–related documents that we might need for the audit. The change order request forms referenced in Mr. Edwards' letter are upfront *estimates* for change order costs, which often change when negotiating the amount of a change order; they don't constitute support for payment of an invoice after the work is completed. Further, these forms were present for some of the items for which we reviewed payments, but for others they were not present.

The Capital Projects Officer's handling of the contractor's $650,000 for remaining work also is troubling. He signed an agreement with the contractor pledging not to deposit the check, which he held personally for a month. At a minimum, the check should have been turned over to Finance and deposited, then refunded to the contractor when the work was completed. Preferably, the $4.6 million city payment would not have included amounts for which the city had not yet been billed. This seems a far simpler course of action, and we have yet to hear a convincing reason why it was not done.