

**Performance Audit:
Aviation Grants Management
Federal Recovery Act**

June 2010

**City Auditor's Office
City of Atlanta**

File #09.08



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
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June 2010

Why We Did This Audit

We undertook this audit because use of federal recovery act (American Recovery and Reinvestment Act) funds is subject to special procurement, tracking, reporting, and transparency requirements. Aviation has been awarded \$34 million of the city's \$86 million recovery act grant funding as of April 21.

What We Recommended

The Aviation General Manager should:

- Discuss the integrity line or other methods to report suspected fraud in project administrative meetings.
- Post fraud awareness and reporting materials at construction sites.

The City Attorney should:

- Develop a standard provision in contracts informing contractors of the effect of fraud and mechanisms available to report suspected fraud.

The Chief Procurement Officer should:

- Develop specific contracting procedures for recovery act projects and provide training on specific requirements.
- Encourage vendors to promote fraud awareness and provide integrity line information to their employees.

The Executive Office should:

- Revise the city website to include job creation data, project status information, outcomes of grants, and Integrity Line information.
- Assess the potential for using the 0.5% allowed for oversight costs from recovery act grants and if feasible, develop a process to capture these funds.

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

Performance Audit:

Aviation Grants Management – Federal Recovery Act

What We Found

Aviation's project management processes appear sufficient to ensure that aviation complies with grant requirements and achieves the recovery act's intent to spur economic activity and invest in long-term growth. Although controls are in place and the allocation appears to be reasonable, the apron project could present compliance risks as federal agencies review the projects.

Aviation's project management processes mitigate risks of fraud inherent to fixed-price construction contracts; however, the department could strengthen fraud prevention and detection efforts by training employees in fraud awareness and promoting vendors' use of the city's hotline. Aviation procedures for paying invoices and testing materials mitigate risks of materials overcharging and product substitution, which are primary fraud risks in fixed-price construction contracts. The city's Integrity Line provides additional protection against fraud but vendors rarely call.

Aviation did not follow some recovery act provisions specific to project planning and procurement because the projects receiving funding were under way before the city entered into grant agreements with the federal agencies. The city's contract with the construction manager at risk excludes whistleblower protection and "Buy American" provisions. In addition, scopes of work do not specify the tasks to be grant-funded.

Aviation reported no spending or job creation for the apron in its first quarter report and has yet to report spending or job creation for the baggage inspection system, understating the real-time economic benefits of the grants. Legislation appropriating the funds delayed the reporting process.

The Executive Office convened a task force to coordinate the city's efforts in applying for recovery act funding. The group's role should focus more on monitoring and reporting now that new applications are declining.

The city's website contains incomplete information about the grant-funded projects. As of May 2010, the website reported that the city received approximately \$75 million rather than \$86 million and contained limited information on aviation's grants.

Management Responses to Audit Recommendations

Summary of Aviation Management Responses

Recommendation #1:	Discuss the integrity line or other methods to report suspected fraud in project administrative meetings.	
Response & Proposed Action:	We will discuss the integrity line or other methods to report suspected fraud in project administrative meetings.	Agree
Timeframe:	Immediately	
Recommendation #2:	Post fraud awareness and reporting materials at construction sites.	
Response & Proposed Action:	We will post fraud awareness and reporting materials at construction sites as appropriate.	Agree
Timeframe:	Immediately/as soon as signs can be fabricated	

Summary of the City Attorney's Response

Recommendation #3:	Develop a standard provision in contracts informing contractors of the effect of fraud and mechanisms available to report suspected fraud.	
Response & Proposed Action:	We will develop contract provisions about the city's process for dealing with contractors that commit fraud and include the city's integrity line.	Agree
Timeframe:	July 9, 2010	

Summary of Procurement Management Responses

Recommendation #4:	Develop specific contracting procedures for recovery act projects and provide training on specific requirements.	
Response & Proposed Action:	We will provide a memo to the taskforce regarding universal ARRA requirements.	Agree
Timeframe:	September 1, 2010	
Recommendation #5:	Encourage city vendors to promote fraud awareness and provide Integrity Line contact information to their employees.	
Response & Proposed Action:	We will include a notice on the City's webpage for potential vendors about the City's Integrity Line and encourage vendors to inform their subcontractors and employees about the City's Integrity Line.	Agree
Timeframe:	August 1, 2010	

Summary of Mayor's Office Responses

Recommendation #6:	Revise the city website to include job creation data, project status information, outcomes of grants, and Integrity Line information.	
Response & Proposed Action:	We will update the city's website to include the Integrity Line information immediately and include the reported recovery.gov information quarterly.	Agree
Timeframe:	Ongoing	
Recommendation #7:	Assess the potential for using the 0.5% allowed for oversight costs from recovery act grants and if feasible, develop a process to capture these funds.	
Response & Proposed Action:	We are getting more information to identify oversight costs that may be allowable and how to include them in recovery act projects.	Agree
Timeframe:	September 1, 2010	



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June 30, 2010

Honorable Mayor and Members of the City Council:

We initiated this audit because use of federal recovery act funds is subject to special procurement, tracking, reporting, and transparency requirements. Aviation has been awarded \$34 million of the city's \$86 million recovery act funding as of April 2010.

We found that aviations' project management processes appear sufficient to ensure the department complies with the grant requirements and achieve the act's intent. Although controls are in place and the allocation method appears reasonable, the apron project could present compliance risks as federal agencies review the projects. Some recovery act provisions for procurement and project planning were not followed because the projects were underway before the city entered into the grant agreements. The Executive Office's taskforce is not tracking potentially recoverable costs for oversight and its website on the funding has incomplete and inaccurate information.

We made recommendations to the Office of the Mayor, the Department of Law, and the Department of Procurement, as well as to the Department of Aviation. The departments agreed with all recommendations. Several other city departments are managing recovery act grants, and some have applied for additional grants. Consistent management focus on compliance requirements unique to the recovery act can mitigate ongoing risks and reduce risk of damage to the city's reputation from noncompliance, mismanagement, or fraudulent use of recovery act funds. 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 Code Compliance staff throughout the audit. The audit team for this project was Lesia Johnson, Sterling Thomas and Eric Palmer.

Handwritten signature of Leslie Ward in cursive.

Leslie Ward
City Auditor

Handwritten signature of Don Penovi in cursive.

Don Penovi
Audit Committee Vice Chair

Aviation Grants Management Federal Recovery Act

Table of Contents

Introduction	1
Background	1
City Awarded \$86 Million in Recovery Act Funds	4
Recovery Grants Fund Work at the International Terminal	5
Audit Objectives	8
Scope and Methodology	8
Findings and Analysis	11
Aviation Has Controls in Place to Comply with Recovery Act Going Forward	11
Aviation Controls Sufficient to Meet the Requirements and Intent of the Recovery Act	11
Contracts Preceded Grant Agreements; Some Recovery Act Provisions Excluded	14
Reporting Lag Understates Real-Time Economic Benefits	17
City Should Strengthen Central Oversight of Recovery Act Spending	18
Recommendations	23
Appendices	25
Appendix A Management Responses to Audit Recommendations	27
Appendix B Aviation’s Payment Request Approval Process	31

List of Exhibits

Exhibit 1 City Recovery Act Grant Awards	5
Exhibit 2 International Terminal Apron	7
Exhibit 3 Contract and Grant Award Dates	15
Exhibit 4 Database vs. Website Grant Information	19
Exhibit 5 Transportation Area Page	20

Introduction

We conducted this performance audit of the Department of Aviation's management of federal recovery act grants 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 March 2010.

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 because use of federal recovery act (American Recovery and Reinvestment Act) funds is subject to special procurement, tracking, reporting, and transparency requirements. Aviation has been awarded \$34 million of the city's \$86 million recovery act grant funding as of April 21, 2010. We focused our review on aviation and city controls in place to comply with recovery act grant requirements.

Background

President Obama signed the recovery act February 17, 2009, appropriating \$787 billion in emergency funds to respond to the country's economic crisis. The act is intended to:

- create new jobs and save existing ones
- spur economic activity and invest in long-term growth

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

- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits
- stabilize state and local government budgets to avoid or minimize service reductions and tax increases
- assist those most affected by the recession

Along with targeted tax cuts and increased entitlement funding, the act included \$275 billion funding for federal contracts, grants, and loans.

Public reporting fosters accountability. The recovery act promotes accountability and public transparency in government spending by requiring grant recipients to submit quarterly reports through the federal reporting website. The reports list:

- total amount of funds received and expended or obligated
- description of project
- project percentage completion status
- estimated number of jobs created or retained
- description of subcontracts and subgrants

The information is publicly available on the recovery.gov website within 30 days of the end of each calendar quarter.

Granting and recipient agencies must ensure spending meets the intent of the act. The act includes additional requirements to ensure that funds are used for appropriate purposes and that use of funds is transparent to the public. Funds may not be used for any casino or gambling establishment, aquarium, zoo, golf course or swimming pool. Federal agencies awarding grants are required to:

- give preference to projects that can be started quickly
- give priority consideration to projects that can be awarded within 120 days (June 17, 2009) and that can be completed within two years of enactment (February 16, 2011)
- ensure economic recovery funds supplement rather than supplant planned expenditures from airport-generated revenues or from other state and local sources for airport development activities
- ensure each grant identifies a useable unit of work that will be 100% funded

Federal agencies may recover and reobligate funds up to September 30, 2010.

Government agencies receiving grants are required to:

- provide certification from the chief executive that infrastructure improvements have received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars
- develop separate contract procedures specific to recovery act funding
- develop contract training on specific recovery act requirements
- award contracts through competitive processes and ensure contracts
 - are fixed price to the maximum extent possible
 - include “Buy American” provisions
 - include prevailing wage rate requirements
 - include whistleblower protection provisions
- register on the federal website with Dun and Bradstreet contractor numbers
- monitor contracts to ensure that performance, cost, and schedules are met
- track recovery act funds separately and prevent commingling with other funds
- report project status to federal agencies within 10 days of quarter end
- establish processes to ensure data quality
- provide current and accurate project status data on city website
- mitigate instances of fraud, waste and abuse

Multiple levels of government provide oversight. The recovery act created the Recovery Transparency and Accountability Board to oversee use of funds and to prevent fraud, waste and abuse. The board coordinates its activities with federal inspectors general, the GAO (Government Accountability Office), and state and local auditors.

Inspector generals review federal agencies’ management of recovery funds to verify that projects meet legal and administrative requirements. GAO monitors and reports on the use of recovery act funds by selected states and localities every two months. State and local auditors conduct single audits – a standardized audit required

by federal law to provide assurance that recipients' use of federal assistance funds complied with applicable laws and grant provisions, including examination of internal controls; conduct performance audits of grant-funded programs; operate hot lines; investigate allegations of fraud, waste, and abuse; and some audit organizations have implemented continuous monitoring, which uses information technology data extraction tools to flag unusual financial transactions.

Georgia is one of 16 states GAO has selected for ongoing review and GAO has designated Atlanta as a locality of interest. In addition, inspectors general for the federal Department of Transportation and Homeland Security are reviewing aspects of the Department of Aviation's use of recovery act grant-funding.

City Awarded \$86 Million in Recovery Act Funds

Eleven different programs have awarded the city a total of \$86 million in federal recovery act funds. Exhibit 1 shows grants and amounts awarded to the city as of April 2010. The city is the prime grant recipient for about \$60.2 million and a sub-recipient of the state for about \$25.8 million.

Exhibit 1 City Recovery Act Grant Awards

Department	Recipient Type	Award Amount	Project/Program
Aviation	Prime	\$20,000,000	MHJIT In-line Baggage Screening System
Aviation	Prime	\$13,977,695	Apron Pavement MHJIT Ramp 8
Police	Prime	\$11,209,300	Community Oriented Policing Services (COPS) Hiring Grants
Mayor	Prime	\$5,890,200	Energy Efficiency and Conservation Block Grant
Police	Prime	\$3,470,633	Byrne Justice Assistance Grants
Finance – Grants Management	Prime	\$3,441,091	Homelessness Prevention and Rapid Re-Housing (HPRP)
Finance – Grants Management	Prime	\$2,249,040	Community Development Block Grant – Recovery (CDBG-R)
Public Works	Sub-Recipient	\$16,409,134	Highway Infrastructure Investment Grant: Transportation Enhancements
Atlanta Workforce & Development	Sub-Recipient	\$4,936,489	Training and Employment Services (Youth Training & Summer) 2009
Atlanta Workforce & Development	Sub-Recipient	\$3,300,000	Training and Employment Services (Youth Training & Summer) 2010
Mayor	Sub-Recipient	\$1,161,481	Clean Cities FY09 Petroleum Reduction for Transportation Sector
TOTAL		\$86,045,063	

Source: Mayor's Office Stimulus Tracking Database

Recovery Grants Fund Work at the International Terminal

About \$34 million of the recovery act grants is funding portions of two projects that are part of the Department of Aviation's international terminal (Maynard H. Jackson International Terminal). The city was awarded \$14 million by the FAA (Federal Aviation Administration) for construction of part of the west apron and \$20 million by the TSA (Transportation Security Administration) for installation of a baggage inspection system.

The international terminal comprises 26 construction projects including 10 common-use gates, a new federal inspection services facility, a separate baggage facility, and a landside transportation facility. It was part of aviation's November 1999 master plan that envisioned a \$5.4 billion development program to be implemented by 2010. The March 2008 budget for the international terminal was \$1.5 billion - 96% funded by passenger facility charges, general airport revenue bonds, and other sources; and 4% funded by

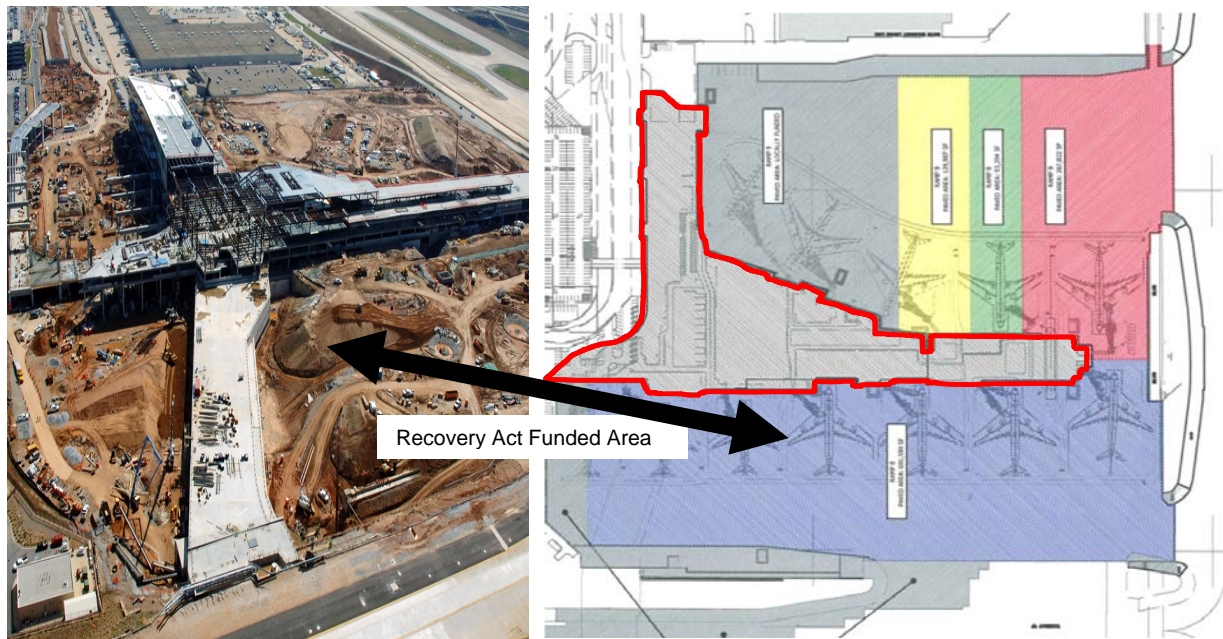
potential TSA and FAA recovery and other grants. As of April 2010, the federal grants fund only 3% of the budget.

The city contracted with HMMH (Holder, Manhattan, Moody, and Hunt, Joint Venture) to construct the international terminal as the construction manager at risk. The contract has a guaranteed maximum price of \$1.19 billion, which encompasses 19 components with individual scopes of work and guaranteed maximum prices. HMMH is responsible for completing all required work within the stated cost limitations of the construction budget, in accordance with each component agreement, and within all component and project substantial and final completion dates. The project is scheduled to be substantially completed in April 2012.

In September 2009, the FAA awarded aviation a \$14 million grant to fund a portion of the international terminal's apron—one of the 19 components in the overall contract. The apron component incorporates design and construction of the apron and taxiway, including grading, sitework, relocation of utilities, and a fueling system. The apron refers to the area around the terminal where aircraft are parked, loaded, unloaded, refueled, etc. The fueling system encompasses a hydrant system around the international terminal and supply fuel lines crossing Taxiway 'D'.

The recovery act grant is funding about 21% of the apron project. In August 2009, aviation agreed to a component guaranteed maximum price of \$65.6 million for the apron. HMMH contracted with Archer Western Contractors, Ltd., in July 2009 for \$44 million to construct the apron. Aviation decided to fund a portion of the west side of the apron with the recovery act funds. The west apron covers 691,599 square feet; the total apron project covers 1,767,403 square feet. Exhibit 2 shows the apron project. The picture on the left shows the international terminal site as of February 23, 2010. The graphic on the right depicts the planned apron around the terminal. The portion shaded blue is the recovery act funded portion of the west apron. The grey shaded portions are aviation locally funded areas (PFCs, revenue bonds and other), and the red, green and yellow are other federally funded areas. The arrow shows the location of the grant-funded work on the apron.

Exhibit 2 International Terminal Apron



Source: Aviation project management files

In September 2009, the TSA awarded aviation \$20 million to fund modifications at the international terminal for a baggage inspection system. The project involves modifying the terminal to support a new checked baggage inspection system with explosive detection and trace detection systems within the baggage screening area. TSA is responsible for acquisition, delivery, installation and testing of the explosive and trace detection systems equipment.

The recovery act grant is funding about 32% of the baggage screening system project. In August 2009, aviation agreed to a component guaranteed maximum price of \$62 million for the baggage screening component. HMMH contracted with Jervis B. Webb in December 2008 for \$56 million to construct the baggage system.

We reviewed the airport's project management controls in previous audits. In 2006 we reviewed cost increases to the upgrades for the central terminal and in 2007 we conducted a performance audit of the airport's development program. We concluded that the airport had established adequate controls to address the financing and managing risks for major capital projects. However, we noted problems with the timing of cost estimates and delays contributing to overall program cost escalation. We made recommendations to improve the reliability and usefulness of budget and program

reports. In 2007, we contracted with KPMG to review construction of the consolidated rental car facility. The review found that management controls were in line with industry standards but procedures were not consistently followed for the project. Aviation responded to the recommendations and we plan to follow-up on implementation in 2011.

Audit Objectives

This report addresses the following objectives:

- Does aviation have controls in place to meet the compliance requirements and goals of the American Recovery and Reinvestment Act?
- Does aviation have controls in place to prevent and detect fraud related to the use of recovery act funds?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our analysis of aviation's compliance with recovery act grants focused on activity from September 2009 through April 2010.

Our audit methods included:

- reviewing recovery act requirements
- reviewing and assessing OMB and FAA recovery act guidance
- interviewing city staff and contractors to understand policies, procedures and controls in place to meet recovery act requirements
- reviewing project documents to assess whether controls were followed
- assessing and testing funding allocation methods used to allocate costs among grant funds for recovery act projects
- reviewing city code and processes in place to mitigate the risk of fraud
- reviewing and assessing recovery act data found on the city's and recovery.gov websites

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.

Findings and Analysis

Aviation Has Controls in Place to Comply with Recovery Act Going Forward

The Department of Aviation's project management processes appear sufficient to ensure that aviation complies with grant requirements and achieves the recovery act's intent to spur economic activity and invest in long-term growth. The department has also developed controls to ensure accurate and timely reporting of spending and job creation going forward. While the department's project management processes mitigate risks of fraud inherent to fixed-price construction contracts, the department could strengthen fraud prevention and detection efforts by training employees in fraud awareness and promoting vendors' use of the city's hotline.

Because the recovery act is funding portions of contracts that were under way before the city entered into the grant agreements, the department did not follow some project planning and procurement requirements contained in the act. The city's contract with the construction manager at risk excludes whistleblower protection and "Buy American" provisions. In addition, scopes of work do not specify the tasks to be grant-funded. Aviation developed methods to allocate apron costs between recovery act and local funds that appear to be reasonable, but could present compliance risks as federal agencies review projects.

The department reported no spending or job creation for the apron in its first quarter report and has yet to report spending or job creation for the baggage inspection system, thus understating the real-time economic benefits of the grants. The apron project was under way in August 2009 and the baggage inspection system was under way in January 2010. Legislation appropriating the grant funds was approved several months after work began.

Aviation Controls Sufficient to Meet the Requirements and Intent of the Recovery Act

Aviation has project management controls in place to ensure that grant-funded work meets cost, schedule, and quality requirements. Aviation's procedures for paying invoices and testing materials mitigate risks of materials overcharging and product substitution,

which are primary fraud risks in fixed-price construction contracts. The city's hotline provides additional protection against fraud but vendors rarely call. We recommend the city provide fraud awareness training and promote use of the hotline among city and vendor employees.

Project management controls keep projects on track. The recovery act requires that agencies receiving funds have controls in place to monitor contracts to ensure performance, cost, and schedules are met. Aviation meets this requirement by conducting weekly project and administrative meetings and bi-weekly component meetings to keep projects on track. Staff document discussion items and decisions in project logs and meeting minutes.

City staff meets weekly with the construction manager at risk, sub-contractors, and architects to discuss overall project status including schedule variance, quality of work, design coordination, questions or requests for information requiring resolution, and project safety. The group also meets weekly to discuss administrative matters and logistics, such as pre-construction activities, purchasing schedules, project calendars, and closeout. City staff meets twice a week with the construction manager at risk and sub-contractors to discuss progress on specific tasks in the scope of work for the different project components.

While aviation has sufficient controls in place to monitor project cost, quality, and schedule, the apron project could extend beyond the planned completion date. Earth work and a cement curing process that requires a lengthy waiting period may delay completion of the apron project, but Aviation believes the risk to be low.

Payment process controls reduce risk of fraud and error. The recovery act requires that agencies receiving funds have controls in place to ensure that funds are used for authorized purposes and to mitigate risk of fraud, waste, and abuse. Aviation meets this requirement through use of its cost management system, use of the city's financial system, and comprehensive review of payment requests and supporting documentation.

Aviation loads the schedule of values associated with a contract into its cost management system and OLIS (On-Line Invoicing System), upon contract commencement. The schedule of values itemizes the expected costs for tasks in the scope of work and is used as the basis for submitting and reviewing progress payments. Aviation enters all payment requests into OLIS as the project progresses to ensure that the payment request is consistent with the schedule of values.

Access to OLIS is limited to authorized users. Aviation also creates a purchase order in Oracle with line items and funding matching the schedule of values associated with the contract. Purchase orders and line items are checked prior to payment to ensure that funding is available. If funding is not available on appropriate purchase order and line item, the Oracle system will not allow payment.

Payment requests undergo multiple levels of review and approval before payment to:

- verify the request is consistent with contract requirements
- confirm calculations are accurate
- reconcile the final payment request amount to invoices
- verify invoices are not duplicated
- verify sub-contractors were paid
- ensure funds are available in the appropriate purchase order and line item in Oracle

Appendix B describes in detail the roles of the construction manager, invoice compliance administrator, invoice compliance manager, project manager, assistant general manager, and the city's accounts payable section in reviewing and approving invoices.

We reviewed supporting documents for the international terminal payment request number 74 to ensure that aviation followed its payment approval procedures. The request was for \$23.6 million and covered work completed from January 25, 2010 through February 25, 2010.

Quality assurance controls mitigate risk of product substitution. Independent materials testing also mitigates risk of materials overcharging and product substitution, which are primary fraud risks in fixed-price construction contracts. Aviation and the construction manager at risk implemented a quality assurance/quality control program for the international terminal in which an independent firm is responsible for testing subcontractors' work. Tests include daily and random inspections and independent tests of soil, asphalt, and concrete. The firm has authority to report findings and authorize removal of defective materials. The firm is responsible for identifying problems to the construction manager at risk, confirming corrective actions, and compiling test results in a database.

City's hotline encourages reporting of fraud. The recovery act encourages reporting of alleged fraud. The city's Integrity Line, established in April 2006, is a telephone hotline for employees,

customers, business partners, and citizens to report unethical, fraudulent, or illegal activity without fear of retaliation. The Integrity Line meets the intent of the act; however, few calls come from vendors. Hotline awareness efforts have been primarily geared toward city employees. Expanding vendor awareness might encourage more vendor reporting of suspected fraud. We recommend:

- Aviation discuss the hotline or other methods to report suspected fraud in project administrative meetings.
- City departments post fraud awareness and reporting materials at construction sites.
- Procurement and Law develop a standard provision in contracts informing contractors of the effect of fraud and mechanisms available to report suspected fraud.
- Procurement encourage vendors to include a fraud awareness and reporting document with employees' payroll checks.

Contracts Preceded Grant Agreements; Some Recovery Act Provisions Excluded

Aviation did not follow some recovery act provisions specific to project selection and procurement because the projects receiving funding were under way before the city entered into grant agreements with the federal agencies. Established city processes mitigate some, but not all, of the risks these provisions were intended to address. We recommend that the Department of Procurement develop specific contracting procedures for recovery act grants and training for city departments if the city plans to seek additional funding.

Because the projects were under way before the city received recovery act funding, the contracts do not specify the tasks to be grant-funded. The grants should specify a "useable unit of work" that will be 100% grant-funded. The TSA baggage inspection system grant is funding modifications to the terminal's infrastructure, which are directly identifiable in the schedule of values. The FAA apron grant, however, does not specify tasks that are identifiable in the schedule of values. Aviation instead has developed allocation methods that appear to be reasonable, but could present compliance risks as federal agencies review projects.

Contracts signed before specific grant requirements were known. As detailed in Exhibit 3, aviation amended its contract with the

construction manager at risk and agreed to both guaranteed maximum price components before entering into grant agreements to receive recovery act funding. As a result, aviation was unaware of and did not follow specific act requirements regarding procurement. Neither aviation nor the department of procurement developed separate contracting procedures or training for recovery act projects. The city's contract with the construction manager at risk lacks required provisions for buying American-made products and protecting potential whistleblowers. The construction manager at risk's contracts with firms working on recovery act projects also exclude whistleblower protection. The contract with Archer Western for work on the apron includes a provision for buying American-made products; the contract with Jervis Webb for work related to the baggage inspection system excludes the buy-American provision.

Exhibit 3 Contract and Grant Award Dates

Contract	Date of Contract	Grant Agreement	Date of Agreement	Grant Amount
COA – HMMH(CMR)	Jun-22-2009 Orig. Date Nov-1-2004			
CGMP 14 (Apron)	Aug-03-2009	FAA – Apron	Sep-14-2009	\$13,977,695
CGMP 16 (Baggage System)	Aug-28-2009	TSA – Checked Baggage	Sep-22-2009	\$20,000,000
Archer Western (Subcontract - Apron)	Jul-10-2009			
Jervis B. Webb (Subcontract – Baggage System)	Dec-11-2008			

Source: Aviation International Terminal Contracts and Grant Agreements

Established city processes compensate for some of the recovery act requirements that were not followed. Use of the construction manager at risk reduces the risk of cost padding, and the city code provides whistleblower protection for city employees and a debarment mechanism for fraudulent contractors.

Some contract elements are consistent with recovery act requirements. The contracts were competitively bid. All contracts meet the recovery act requirement of fixed-pricing to the maximum extent possible, which protects the city from responsibility for

charges beyond the original contract amount. The city is also registered with the federal website and Dun and Bradstreet as required by the recovery act. These registrations provide greater financial visibility for the city and streamline federal applications and interactions. The projects meet the intent of the act to start quickly to spur economic activity, and funding for each project is tracked separately to avoid commingling of funds.

Because the projects were under way before the city received recovery act funding, the contracts do not specify tasks to be solely grant-funded. FAA Guidance states that grants must identify a “useable unit of work” that will be fully funded by the grant award. The TSA baggage inspection system grant is funding modifications to the terminal’s infrastructure, which are directly identifiable in the schedule of values. The FAA apron grant is funding construction of ramp 8 on the west side of the terminal. Because not all tasks associated with constructing ramp 8 are individually listed in the schedule of values, aviation developed a five-tiered method to allocate apron costs among the different sources of funds.

The allocation method for the apron project is more complex than the direct charge method for the baggage inspection system. The method allocates costs for work on the apron among five funding sources. Costs are first allocated based on where the work takes place and then based on the square foot percentage of the work area. We reviewed the allocation method and tested its application for \$10 million of work completed between August 26, 2009 and January 24, 2010. The allocation appears to be reasonable, but could present compliance risks as federal agencies review projects.

The recovery act requires federal funds to supplement planned funding and not supplant other revenue sources. We conclude that the grants supplement planned funding by covering a portion of the \$56 million funding gap identified in March 2008. At the time, aviation planned to fund about 96% of the international terminal through passenger facility charges, airport revenue bonds, and city funds with unidentified grants and other local funds paying for the balance. As of April 2010, the percentage funded by passenger facility charges, airport revenue bonds, and city funds has increased to 97% (\$1.5 billion); and the funding gap covered by unidentified grants has decreased to 3% (\$45 million). Therefore, we conclude the recovery act grants supplement planned and local funding. Some risk exists that federal agencies will interpret this requirement differently.

If the city plans to seek additional recovery act grants, we recommend that the Department of Procurement develop specific contracting procedures for recovery act projects and provide training to departments on specific requirements.

Reporting Lag Understates Real-Time Economic Benefits

While the apron project was progressing when the city received recovery act funding, aviation reported no spending or job creation in its first quarter report due October 2009. Work on the baggage system modifications started in January but the department has yet to report spending or job creation. The City Council had not yet passed legislation authorizing appropriation of the grant funds and aviation had not sought reimbursement of expenses. The delay resulted in understating the real-time economic benefits of the recovery act grants. Aviation has developed a reporting process to comply with recovery act requirements going forward.

Aviation reported no activity before drawing down funds.

Aviation reported no project activity for the first six months of both recovery act projects due to time-consuming city procedures for appropriating and accounting for grant funds. When a city department is awarded a grant, it must work with law and finance to draft legislation authorizing receipt of the funding, create a financial tracking structure, record and encumber available funds, receive approval of a payment request, and prepare a separate drawdown request. Completing these steps created a lag between when work on the projects started and when aviation drew down funding and reported job creation and spending. Work on the apron project started August 2009, but aviation reported no progress until January 2010. Modification work for the baggage inspection system project started January 2010, but aviation has yet to report progress. The next quarterly report is due July 2010.

Aviation has sufficient controls for meeting reporting requirements going forward.

The recovery act requires that agencies receiving funds have a process to ensure data quality. Aviation has developed controls to meet this requirement, including management review and tracking. Aviation reviews spending and job creation information it plans to submit to recovery.gov with federal agencies before submission and has developed a schedule to meet the required reporting dates. Aviation's job creation calculation method is consistent with guidelines and appears reasonable with documentation supporting job creation data. The

recovery act requires a process to ensure reporting data accuracy; aviation has this in place for both expenses and job creation.

City Should Strengthen Central Oversight of Recovery Act Spending

Decentralized management controls increase the city's risk of noncompliance with federal recovery act requirements. Recovery act spending is subject to special tracking, reporting, and oversight requirements, and federal guidance on meeting the requirements has evolved since the passage of the act. The city received \$86 million in recovery act funding through April 2010 either as a direct recipient from a federal granting agency or as a sub-recipient of the state. Failure to comply with grant requirements could result in sanctions including repayment of funds. Federal agencies can recover and reobligate recovery act funds until September 2010.

While the Executive Offices convened a task force to coordinate the city's efforts in applying for funding, its role has been limited. The task force was not tracking potentially recoverable costs of up to 0.5% of direct grant amounts for oversight and audit of recovery act spending. The city has yet to develop a process to track these costs.

The city's website contains information about the grant-funded projects as required by the act, but we noted that the information was incomplete and, in some cases, inaccurate. As of May 2010, the website inaccurately reported that the city received approximately \$75 million and contained limited information on the funding specific to aviation.

Controls are decentralized. The city lacks an office or staff responsible for central oversight of grants and compliance with grant requirements. The city also lacks processes to ensure data reported on its website or reported as sub-recipient activities are accurate. The recovery act appears to envision a role for central oversight; the act requires the chief executive to certify that funds are being used for intended purposes. Decentralized controls increase the risk of inconsistent reporting methods and data errors. Reporting inaccuracies misrepresent grant effectiveness and may limit future funding opportunities. While the Department of Aviation has developed controls to meet project and reporting requirements, other departments may lack the resources and experience to establish effective controls.

Role of task force evolving. The Executive Offices established a task force to help departments identify funding opportunities and investigate requirements. The task force conducts bi-weekly meetings with department representatives to discuss updates, problems, and concerns related to recovery act-funded activities. Staff told us that the task force would start to focus on monitoring and reporting. The task force set up a tracking database for departments to record grant activities, but had not checked the internal database information against actual submissions and had not yet begun to exercise an oversight role as of February 2010. The recovery act allows the city to recover up to 0.5% of direct grant amounts for oversight and audit costs. The city has yet to develop a process to track these costs.

City website information is incomplete and difficult for readers to use to track individual projects. The recovery act requires grant recipients to provide information to allow the public to assess whether tax dollars are being used in accordance with the intended purposes of the act. The city maintains information on its website to meet this requirement; however, we noted discrepancies between the city’s tracking database and its website (see Exhibit 4).

Exhibit 4 Database vs. Website Grant Information

Grant Category	Database Amount	Website Amount
Transportation	\$50,386,829	\$47,686,229
Public Safety	\$14,679,933	\$14,679,933
Energy & Environmental	\$7,051,681	\$7,051,681
Housing & Homelessness	\$5,690,131	\$5,690,131
Job Training & Arts	\$8,236,489	\$0
Total	\$86,045,063	\$75,107,974

Source: Mayor’s Office Stimulus Tracking Database and City Website - March 2010

Further, the website aggregates information in a way that obscures project status. The grants organized into five categories with distinct pages: energy, public safety, transportation, housing, and job training and the arts. The transportation page summarizes grant activity and briefly describes individual programs with links to additional information (see Exhibit 5). The summary information, however, groups all financial activity and the additional links provide federal-level program information. As a result, a viewer never sees how much funding an individual project received or

updated project information. Not all information in the tracking database is on the website; for example, the website does not provide specific information for aviation's two grants or the number of jobs created. Although the city's website links to the federal tracking website, some amounts on the city's website do not match because of timing differences, because the city's website includes grants for which the city is a sub-recipient of the state, and because aviation and police have different DUNS number from the rest of the city. As a result, not all city grants are readily identifiable as such on the federal website.

Exhibit 5 Transportation Area Page

TRANSPORTATION

Summary

5	Targeted Programs
4	Approved Applications
0	In-process Applications
\$341,008,534	Total Funds Seeking
\$0	Funds Awaiting for Approval
\$47,686,229	Funds Committed to the City of Atlanta
\$32,626,245	Additional Benefit Committed to Atlanta (within city limits)

Last updated 03/23/10

Individual Programs

[Aviation Explosive Detection Systems](#)
Planned use: explosive detection systems and checkpoint screening equipment

[Discretionary Grants for Airport Improvement](#)
Planned use: new international terminal ramp project

[Competitive Surface Transportation Grants](#)
Application Denied

[Highway Infrastructure \(and Surface Transportation Grant\) – benefits the City, does not need City application](#)
Planned use: local street, sidewalk, and bridge maintenance (resurfacing Jonesboro Rd and RDA, repairing Mitchell Street bridge)

Georgia Department of Transportation Infrastructure Grants
Planned use:
Midtown Atlanta Signal & Intersection Improvements: Streetscape Improvements on Nassau St from Centennial Olympic Park Dr to Spring St and on Walton St Centennial Olympic Park Dr to Cone St.

14th Street Streetscapes: Streetscape Improvements on Marietta St from Peachtree St to Park Av and on Centennial Olympic Park Dr from Marietta St to Andrew Young International Blvd.

Fairlie-Poplar Streetscapes: Streetscape Improvements on Nassau St from Centennial Olympic Park Dr to Spring St and on Walton St Centennial Olympic Park Dr to Cone St.

Downtown Atlanta Pedestrian Improvements: Streetscape Improvements on Marietta St from Peachtree St to Park Av and on Centennial Olympic Park Dr from Marietta St to Andrew Young International Blvd.

Cascade Mayes Streetscapes: Streetscape Improvements along Cascade Rd/Beecher Rd/ Benjamin E. Mays Dr triangle.

Memorial Drive Sidewalk

Barge Road at Campbellton Road Intersection Improvement

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Source: City Website April 2010

We recommend updating all information on the city's website so that it is accurate and consistent with database information and provides individual project information regarding funding, status, and jobs created.

Recommendations

The Aviation General Manager should:

1. Discuss the integrity line or other methods to report suspected fraud in project administrative meetings.
2. Post fraud awareness and reporting materials at construction sites.

The City Attorney should:

3. Develop a standard provision in contracts informing contractors of the effect of fraud and mechanisms available to report suspected fraud.

The Chief Procurement Officer should:

4. Develop specific contracting procedures for recovery act projects and provide training on specific requirements.
5. Encourage city vendors to promote fraud awareness and provide Integrity Line contact information to their employees.

The Executive Offices should:

6. Revise the city website to include job creation data, project status information, outcomes of grants, and Integrity Line information.
7. Assess the potential for using the 0.5% allowed for oversight costs from recovery act grants and if feasible, develop a process to capture these funds.

Appendices

Appendix A Management Responses to Audit Recommendations

Report # 09.08	Report Title: Aviation Grants Management - Federal Recovery Act	Date: 06/04/2010
Recommendation Responses - Aviation Management		
Rec. # 1	Discuss the integrity line or other methods to report suspected fraud in project administrative meetings.	Agree
<p><u>Proposed Action:</u> We will discuss the integrity line or other methods to report suspected fraud in project administrative meetings.</p> <p><u>Implementation Timeframe:</u> Immediately</p> <p><u>Responsible Person:</u> Aviation Assistant General Manager - P&D/Capital</p>		
Rec. # 2	Post fraud awareness and reporting materials at construction sites.	Agree
<p><u>Proposed Action:</u> We will post fraud awareness and reporting materials at construction sites as appropriate.</p> <p><u>Implementation Timeframe:</u> Immediately/as soon as signs can be fabricated</p> <p><u>Responsible Person:</u> Aviation Assistant General Manager - P&D/Capital</p>		

Report # 09.08	Report Title: Aviation Grants Management - Federal Recovery Act	Date: 06/29/2010
Recommendation Responses - City Attorney		
Rec. # 3	Develop a standard provision in contracts informing contractors of the effect of fraud and mechanisms available to report suspected fraud.	Agree
<p><u>Proposed Action:</u> We will develop specific contract provisions that address the city's process for dealing with contractors that commit fraud and include the city's integrity line information for reporting suspected fraud.</p> <p><u>Implementation Timeframe:</u> July 9, 2010</p> <p><u>Responsible Person:</u> Angela Hinton</p>		

Report # 09.08

Report Title: Aviation Grants Management - Federal Recovery Act

Date: 06/30/2010

Recommendation Responses - Chief Procurement Officer

Rec. # 4	Develop specific contracting procedures for recovery act projects and provide training on specific requirements.	Agree
<p><u>Proposed Action:</u> The Department of Procurement will provide a memorandum to the Mayor's Executive Office taskforce regarding universal ARRA requirements - with guidance that City agencies and departments expending ARRA Funds must include in the scope of work those requirements, and any other requirements, that are specific to the particular grant for which the scope of work is being procured.</p> <p><u>Implementation Timeframe:</u> September 1, 2010</p> <p><u>Responsible Person:</u> David Chapman (Procurement) and Angela Hinton (Law)</p>		
Rec. # 5	Encourage city vendors to promote fraud awareness and provide Integrity Line contact information to their employees.	Agree
<p><u>Proposed Action:</u> The Department of Procurement will include a notice on the City's webpage for potential vendors that suspected fraud should be reported to the City's Integrity Line. The department's solicitation documents including, but not limited to, proposals and contracts, will encourage vendors to inform their subcontractors and employees about the City's Integrity Line.</p> <p><u>Implementation Timeframe:</u> August 1, 2010</p> <p><u>Responsible Person:</u> David Chapman</p>		

Report # 09.08	Report Title: Aviation Grants Management - Federal Recovery Act	Date: 06/30/2010
Recommendation Responses - Mayor's Office		
Rec. # 6	Revise the city website to include job creation data, project status information, outcomes of grants, and Integrity Line information.	Agree
<p><u>Proposed Action:</u> We will update the website to include the Integrity Line information immediately. We will update the website to include the job creation data, project status information, and grant outcomes reported to Recovery.gov and will update it quarterly.</p> <p><u>Implementation Timeframe:</u> On-going</p> <p><u>Responsible Person:</u> Caroline Fooshee</p>		
Rec. # 7	Assess the potential for using the 0.5% allowed for oversight costs from recovery act grants and if feasible, develop a process to capture these funds.	Agree
<p><u>Proposed Action:</u> We are getting more information to identify oversight costs that may be allowable and how to include them in recovery act projects.</p> <p><u>Implementation Timeframe:</u> September 1, 2010</p> <p><u>Responsible Person:</u> Caroline Fooshee</p>		

Appendix B Aviation's Payment Request Approval Process

