



CITY OF ATLANTA

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Honorable Mayor and Members of the City Council:

We contracted with KPMG to conduct this review of the Department of Aviation's Consolidated Rental Car Facility Project (CONRAC) at the request of the City Council. The City Council passed Ordinance 07-O-0976, as amended by the Finance/Executive Committee, requesting an independent evaluation of the project, after the Aviation General Manager reported at an April 2007 joint work session of the Council's Transportation and Finance/Executive committees that the CONRAC element would require approval of additional funds. This is the third independent review of the Hartsfield-Jackson Development Program (HJDP) or its components issued by my office. We conducted a limited scope audit of the Central Passenger Terminal Complex (CPTC) cosmetic upgrades projects in March 2006 and a performance audit of the HJDP in June 2007.

This review focuses on management of risks specific to the CONRAC element in five areas: project strategy, organization and administration; financial management; procurement; project controls and risk management; and scheduling. Their findings and conclusions include the following:

- Management controls described in HJDP policies and procedures are mostly in line with industry standards, but procedures and organizational structure appeared to be in flux and procedures were not consistently followed in managing the CONRAC.
- Delays occurring prior to the start of construction – particularly in design and procurement – pushed the construction phase of the CONRAC into a period of higher inflation and local labor shortages, resulting in significant cost increases. The first approved budget for CONRAC was \$479.4 million in 2003; the current draft budget is \$600.3 million. Intervening cost estimates did not take into account changing market conditions. Aviation management's delay in agreeing to a guaranteed maximum price for the contractor-at-risk has kept pricing risk with the city, reducing the potential benefit of the Construction Manager at Risk (CMR) contracting approach.
- Scheduling poses the most critical risk currently facing CONRAC. Current completion schedules project about a six-month delay in completing the Customer Service Center, a key interface between the two major contractors working on the project.

- HJDP risk management procedures have been inadequate for a program the size and complexity of CONRAC. The department recently has taken steps to strengthen their risk management practices and methods.

Several of these findings echo previous audits conducted internally for the Department of Aviation and independently by my office. A series of audits conducted for the department in 2003 and 2004 recommended improvements in HJDP policies and procedures, financial controls and organizational structure. We reported problems with cost estimates and their timing in our recent audit of the HJDP and our review of the CPTC cosmetic upgrades. We also reported that delays contributed to overall program cost escalation and made recommendations intended to improve the reliability and usefulness of budget and program reports.

The KPMG report makes 19 recommendations to speed procurement cycles and to strengthen cost estimation, cost reporting, cost control, scheduling, change control and risk management practices. These recommendations complement our previous recommendations and provide more industry-specific guidance to the department.

The Aviation General Manager agrees that the department has opportunities to tighten controls and ensure consistent application of procedures, and he describes steps the department has already taken to address some of the problems identified in the report. Going forward, he agrees to use the lessons learned in the CONRAC project as the basis for improving project delivery. However, he disagrees that management decisions in implementing the CMR have increased the city's pricing and coordination risks. He also disagrees with the report's characterizations of the Element Level Information Packages (ELIPs) as a management tool.

Because of time constraints, we did not request the department to provide detailed responses and plans to implement the recommendations. The Aviation General Manager reviewed the draft report and provided a written response indicating his general position on the content and recommendations. His response is included with the report as a separate document. My office will request additional information on the department's implementation of the recommendations according to our audit follow-up policy.

We appreciate the cooperation of department staff and HJDP consultants throughout the review and look forward to continuing a productive working relationship with them.

Leslie Ward
City Auditor