

Final Audit Follow-Up

As of September 30, 2011



Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP
City Auditor

Gaines Street Revitalization Project

(Report #1111 issued June 2, 2011)

Report #1205

February 16, 2012

Summary

Seven of the eight action plan steps established to address the issues identified in our audit of the Gaines Street Revitalization Project (report #1111) have been completed and/or resolved. Because of appropriate actions taken to date in regard to the one remaining action plan step, responsibility for ensuring finalization of that step is being turned over to City management.

In audit report #1111, we noted the City is making significant strides in realizing a revitalized Gaines Street corridor and adjacent area. As reported, new land code regulations and accompanying guidelines have been established to direct and control redevelopment of the area. Attractive properties have been acquired and are being marketed for preferred redevelopment. A few redevelopments have been completed and/or are in progress. We reported construction had commenced to reconfigure the first segment of the roadway and related travel corridor.

We also reported that City funds had generally been properly and appropriately spent for project purposes and that the City was performing due diligence in identifying and addressing contamination and hazardous materials within the corridor and surrounding area. Additionally, we noted that the City had informed and involved affected entities/individuals and the general public in the project.

Only a few issues were identified by our audit for which recommendations were made. Eight action plan steps were developed by applicable City management to address those issues. In our follow up review we found management has appropriately resolved and/or addressed each of those eight action plan steps, as explained in the following:

- Expenditures for the Gaines Street Revitalization Project and the related FAMU Way Project are now being budgeted and accounted for separately. Adjustments to previously recorded expenditures have been made to provide more accurate accountings of those projects' expenditures. (3 steps) (**Public Works**)
- Property Management Division staff has taken actions to ensure competitive procurement methods are used for all applicable acquisitions related to the project. (1 step) (**Property Management Division**)
- Public Works staff has taken actions to ensure required levels of management approval are obtained in regard to acquisitions of various engineering design services. (1 step) (**Public Works**)
- Public Works staff is ensuring payments for goods and services are in accordance with applicable contractual terms and provisions, and staff has been instructed to execute appropriate contractual amendments in the event deviations from those terms and conditions are warranted. (1 step) (**Public Works**)

- The Electric Utility recovered the \$497 overpayment from the applicable contractor. (1 step) (*Electric Utility*)
- City Real Estate Policy 136 has not yet been revised to require notification to all nearby property owners when the City intends to sell City-owned property, regardless of the reason for the sale. However, for a subsequent sale of a property adjacent to the Gaines Street corridor (former City Utility Payment Center located at 556 West Madison Street), the Property Management Division notified all nearby property owners of the City's intent to sell that property to a developer of student housing. The Property Management Division also stated the intent to consider revising City Policy 136 as recommended. Accordingly, responsibility for finalization of this action plan step is turned over to City management. (1 step) (*Property Management Division*)

We commend City management for their efforts in the timely completion of these action plan steps. We also appreciate the cooperation and assistance provided by staff of the Public Works Department, Property Management Division, and Accounting Services during this audit follow-up.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Report #1111

The objectives of report #1111 included determining and/or disclosing (1) the project's history and significant events that had occurred to date; (2) the current status of the project and remaining significant steps and actions necessary to successfully complete the project; (3) the funding established for the project and the current status of that funding; (4) whether project activities and expenditures incurred to date were proper and appropriate, in compliance with controlling laws and regulations, and properly recorded and supported; (5) whether the City performed due diligence in identifying and addressing potential contamination in City-owned properties and other applicable properties within the Gaines Street corridor; and (6) whether the City's efforts to inform and involve the public were adequate and appropriate.

Based on the stated audit objectives, the scope of the initial audit inherently included activity since the project's inception.

Report #1205

This is our first and only follow-up on action plan steps identified in audit report #1111. The purpose of this follow up is to report on the progress and status of efforts to complete action plan steps due for completion as of September 30, 2011. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

The current Gaines Street Revitalization Project evolved out of various preliminary studies and visions dating back to the early 1990s. The primary objectives and purposes of the project include:

- Transitioning the properties, businesses, and residences within and adjacent to the corridor in a manner that revitalizes obsolete industrial areas, preserves historical resources, creates a livable downtown urban area, and enhances opportunities for racial and economic diversity.

- Establishing a unique urban corridor with outstanding aesthetic quality, natural park areas, and scenic landscapes.

To accomplish those objectives is requiring a multi-year and multi-task approach. Evolving events and decisions have required flexibility in regard to designing, planning, and performing tasks. The primary tasks performed/being performed to meet the stated objectives included:

- Establishing new development and use requirements.
- Fostering desired redevelopment.
- Reconfiguring the corridor.

Multiple City departments are involved in the project. Funding for the project has come from the City and Leon County's respective shares of sales tax extension revenues, State of Florida for roadway transfers, and utility revenues and bond proceeds. Those funds have and are being used for:

- Installation of new and reconfigured utility infrastructure and services.
- Acquisition of preferred properties within and adjacent to the corridor (to be subsequently enhanced/improved and sold for desirable redevelopment).
- Improvements/enhancements to other City-owned properties within or adjacent to the corridor also being considered for desirable redevelopment.
- Reconfiguration of the roadway.

Future Audits

The Office of the City Auditor intends to continue auditing the Gaines Street Revitalization Project as that project progresses. Audit reports will be issued periodically that address that progress and any identified issues.

Previous Conditions and Current Status

In report #1111 we noted that, while much work and redevelopment remains, the City is making significant strides in realizing a revitalized Gaines Street corridor and adjacent areas. As reported, new land code regulations and accompanying guidelines have been established to direct and control redevelopment of the area. Attractive properties have been acquired and are being marketed for preferred redevelopment. A few redevelopments have been completed and/or are in progress. We reported construction had commenced to reconfigure the first segment of the roadway and related travel corridor.

Also, we reported that City funds had generally been properly and appropriately spent in connection with the redevelopment and reconstruction/reconfiguration. Furthermore, we noted the City was performing due diligence in obtaining environmental assessments to identify and address contamination and hazardous materials within the corridor and surrounding area. And lastly, we reported the City had informed and involved affected entities/individuals and the general public.

Only a few issues were identified for which recommendations for improvements or corrective actions were made. Eight action plan steps were established by City management to address those issues. As shown below, seven of those eight steps have been addressed and completed. Appropriate actions have been taken in regard to the remaining step. Accordingly, responsibility for ensuring completion of that remaining action plan step is turned over to City management.

We commend City management for their efforts in the timely completion of these action plan steps.

Table 1
Action Plan Steps from Audit Report #1111
Due as of September 30, 2011, and Current Status

Action Plan Steps Due as of September 30, 2011	Current Status
Enhance accountability and management oversight (Public Works)	
<ul style="list-style-type: none"> • Future expenditures for the Gaines Street revitalization efforts and the more recent FAMU Way project will be budgeted and accounted for separately. Assistance from DMA will be obtained as needed to complete this action. 	<ul style="list-style-type: none"> ✓ Public Works is now accounting for and charging expenses relating to the FAMU Way Project to a separate project code established for that project, whereas expenses relating to the Gaines Street Revitalization project are tracked (accounted for/charged to) a unique project code established for that project.
<ul style="list-style-type: none"> • Expenditures specifically for the FAMU Way Project previously charged to the Gaines Street revitalization project will be identified and “transferred” to the capital project established for the FAMU Way Project. Assistance from DMA will be obtained as needed to complete this action. 	<ul style="list-style-type: none"> ✓ Appropriate adjustments were made to identify and transfer the applicable expenses from the Gaines Street Revitalization Project to the FAMU Way Project.
<ul style="list-style-type: none"> • The expenditure charged to the Gaines Street revitalization project for roadway reconstruction and reconfiguration that should have been more appropriately charged to the capital project established for land acquisition will be “transferred” to that project (i.e., the \$585,000 down payment for land acquisition). Assistance from DMA will be obtained as needed to complete this action. 	<ul style="list-style-type: none"> ✓ The applicable land acquisition charge was transferred from the roadway reconstruction and reconfiguration project to the land acquisition project.
Ensure proper and efficient acquisition of services (Property Management Division)	
<ul style="list-style-type: none"> • Management will review future proposed acquisitions to ensure staff acquire goods and services using the most appropriate procurement methods in accordance with City procurement policy and good business practices. 	<ul style="list-style-type: none"> ✓ In the initial audit, we identified an instance where the Property Management Division should have obtained competitive quotes when acquiring a temporary fence for one of the acquired properties within the Gaines Street corridor. Our follow up review disclosed one instance where goods or services (building demolition) were subsequently acquired for which competitive quotes were required or appropriate. In that instance competitive quotes were obtained and the service awarded to the lowest bidder. Management in the Property Management Division also reminded staff of the requirement to use competitive procurement methods for future acquisitions when applicable. Our discussions with that staff

	<p>confirmed their understanding of those requirements. Accordingly, this step is considered addressed and resolved.</p>
<p>Ensure proper and efficient acquisition of services (Public Works)</p>	
<ul style="list-style-type: none"> • Required levels of management approval will be obtained for future change orders in accordance with established City requirements. 	<ul style="list-style-type: none"> ✓ In the initial audit, we identified one instance where the appropriate approval was not obtained after change orders increased the amount of a previously authorized contract to an amount requiring higher levels of approval (i.e., change orders resulted in a higher contract amount that exceeded the approval threshold required before the changes.) While we reported nothing was identified to suggest the change orders and related services were not appropriate for the project, we recommended that Public Works and Procurement Services ensure proper authorizations and approvals are obtained in future similar circumstances. During our follow up review, Public Works management indicated staff had been instructed to obtain required additional approvals when change orders increased the contractual amounts above initial approval thresholds. During our follow up efforts we did not identify any additional instances where those circumstances occurred. Furthermore, our review of contracts executed subsequent to the initial audit showed proper authorization and approvals were obtained in accordance with City Policy. Accordingly, this action plan step is considered resolved.
<p>Ensure proper disbursement of City funds (Public Works)</p>	
<ul style="list-style-type: none"> • Management will ensure proper and appropriate contract amendments are executed in future instances where payments for goods and services necessitate and justify a departure from initial contract terms and conditions. 	<ul style="list-style-type: none"> ✓ In the initial audit, we identified an instance where complexities relating to the revitalization project combined with the evolving design decisions resulted in a justified variation from contractual provisions that established payment terms and conditions. Specifically, the applicable contract provided that payment would be made only upon timely delivery of the contracted deliverable, which was a complete set of construction plans and documents. However, as the project evolved additional services were requested resulting in six change orders over a 16-month period. Because of the additional services the contractor billed and the City paid for reasonable portions of the work as it was completed, but before the final deliverable was

	<p>completed and provided to the City. We did not dispute the fairness and appropriateness of that variation, but recommended in future similar circumstances the Public Works Department consider executing a formal contract amendment that provides a change in the initial payment terms and conditions. The department agreed with our recommendation and has informed staff to execute contract amendments in future similar circumstances.</p> <p>In our follow up review we did not identify any similar circumstances. Furthermore, our review of payments made to contractors for services rendered subsequent to the initial audit showed the payments were made in accordance with contractually established terms and conditions. Accordingly, this issue is considered resolved.</p>
<p>Ensure proper disbursement of City funds (Electric Utility)</p>	
<ul style="list-style-type: none"> • The \$497 overpayment to the electrical contractor will be recovered. 	<ul style="list-style-type: none"> ✓ As reported in the initial audit report, the Electric Utility promptly recovered the \$497 overpayment from the contractor.
<p>Ensure real estate activity is conducted in the most appropriate and fair manner (Property Management Division)</p>	
<ul style="list-style-type: none"> • During the next update to City Real Estate Policy 136, consideration will be given to making revisions that require notification to nearby property owners in all instances (not just surplus property) where City-owned property is marketed and considered for sale. 	<ul style="list-style-type: none"> ➤ The Property Management Division indicated consideration will be given to revising City Real Estate Policy 136 as recommended at the next update. Additionally, the Property Management Division provided evidence where the recommended practice of notifying all nearby property owners of the City’s intent to sell property, in connection with economic and redevelopment efforts, has subsequently been implemented. Specifically, in May 2011, nearby property owners were notified of the City’s intent to sell property adjacent to the Gaines Street corridor (former City Utility Payment Center located at 556 West Madison Street) to a developer of student housing. Accordingly, responsibility for ensuring finalization of this action plan step (revising City Policy 136) is turned over to City management.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and resolved.
- Activity has not occurred to which corrective actions can be applied; appropriate intentions stated so responsibility for finalization of action step turned over to management.

Conclusion

Table 1 above shows City management successfully completed and/or addressed and resolved the action plan steps established to address the issues identified in our initial audit. Responsibility for ensuring final completion of one of those steps is turned over to City management. We commend City management for their efforts in the timely completion of these action plan steps.

Appointed Official's Response

City Manager:

The Gaines Street initiative has been an important project for both this organization and the community. I am extremely pleased that the staff has demonstrated a diligent approach to ensure that each aspect of the effort is carefully monitored and executed in accordance with established regulations and internal procedures. As reflected in the follow up audit, the City is well on its way to completing all actions identified in the original audit and I am confident that the remaining item will be resolved in the near future. I once again extend my appreciation to the City Auditor and his staff for their assistance and support throughout this endeavor.

Copies of this final audit follow-up #1205 or audit report #1111 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit follow-up conducted by:
T. Bert Fletcher, CPA, Sr. Audit Manager
Sam M. McCall, Ph.D., CPA, CGFM, CIA, CGAP, City Auditor