

Metropolitan Nashville Airport Authority

MEMORANDUM

TO: Raul Regalado, President and CEO

CC: Monty Burgess, Senior Vice President and COO
Stan Van Ostran, Vice President and CFO
John Howard, Assistant Vice President of Properties and Business Development
Jim Graham, Director of Maintenance
Lynne Steck, Director of Purchasing and Inventory Management
Tom Bibb, Director of Properties
Amber Gooding, Director of Business Diversity Development
Jami McLeod, Controller
Rebecca Ramsey, Manager of Properties

FROM: Basil A. Dosunmu, Internal Auditor

DATE: May 26, 2009

SUBJ: MNAA Properties Corporation (“MPC”) Operational Review Audit Report

Background

On April 19, 2007, the Board of Commissioners of the Authority approved an inter-local cooperation agreement with the Industrial Development Board of the Metropolitan Government. As a result of this action, MNAA Properties Corporation (“MPC”), a Tennessee nonprofit corporation, was formed for the purpose of supporting and facilitating the operations of the Authority and to help the economic development of the surrounding area. The Commissioners of the Authority constitute the Board of Directors of MPC.

A capital contribution of \$9,000,000 was transferred from the Authority to MPC in August 2007, in anticipation of the acquisition of two separate multi-tenant buildings on Airport property.

On September 28, 2007, MPC Holdings, LLC (“MPC Holdings”), a limited liability company in which MPC is the sole member, purchased International Plaza Building (“IPB”) for \$7,500,000, the first of two purchases under consideration.

On September 28, 2007, Colliers Turley Martin Tucker Company (“Colliers”) entered into a Property Management Agreement with MPC Holdings. The Agreement granted Colliers the right to serve as the sole and exclusive listing agent to the IPB Property. The duties of Colliers includes, but not limited to the following:

- To supervise and direct the management and operation of the IPB on behalf of the Authority in an efficient and satisfactory manner.
- To submit to the Authority for approval in advance the estimated operating budget for each year.
- To collect all rentals, utility charges, common area charges, maintenance and insurance charges, real estate and personal property tax, assessment charges, and any other charges and income derived from the IPB.
- To negotiate contracts with independent contractors for any work of maintenance, and/or repair that Colliers deems necessary to the building provided that such contracts are for a term of one (1) year or less.
- To abide by all statutes, laws, rules, regulations, requirements, orders, notices, determinations and ordinances of any federal, state or local government, appropriate departments, commissions or boards with jurisdiction over the IPB.
- To negotiate contracts for electricity, gas, fuel, water, telephone, rubbish removal, and other like utility services for the IPB, provided that the nature and cost of such services to be contracted are included in the operating budget submitted to the Authority.

In October 2007, MPC Holdings entered into a term note in the amount of \$7,600,000 with a financial institution. Proceeds were used to replenish MPC Holdings’ cash balance shortly after its purchase of IPB for \$7,500,000 plus associated costs in September 2007. Principal payments are due in level monthly installments of \$31,667. The obligation matures in November 2012, at which time the remaining balance will be \$5,700,000.

In order to reduce its exposure to fluctuations in interest rates, MPC Holdings entered into an interest rate swap agreement (“2007 MPC Swap Agreement”) that fixes the interest rate at 5.67%.

In March 2008, MPC Holdings entered into a term note in the amount of \$1,360,000 with a financial institution. Proceeds were used to purchase a multi-purpose building (“MPB”) on airport property from a major tenant. Principal payments are due in level monthly installments of \$5,666. The obligation matures in February 2013, at which time the remaining balance will be \$1,020,000.

MPC Holdings entered into an interest rate swap agreement (“2008 MPC Swap Agreement”) that fixes the interest rate at 4.33%.

MPC’s partial year of operations in 2008 generated \$1,531,114 in space rent from its two properties. The gross receipt as of March 31, 2009 is as follows:

<u>Building</u>	<u>Gross Receipt</u>
IPB	\$1,191,863.00
MPB	\$407,377.00
	\$1,599,240.00

Objectives

The objectives of this audit were as follows:

1. Document and evaluate the Authority's current procedures in place to monitor MPC's operation;
2. Document compliance with Authority's procurement policies, procedures and operational requirements; and
3. Document and evaluate existing internal controls.

Testing

1. Determined that some procedures are in place to monitor MPC's operation.
 - a) Determined, through discussions with the Assistant Vice President of Properties and Business Development, the procedures in place to monitor MPC's operations.
 - b) Determined, through discussions with Colliers, Colliers' understanding of the Authority's current operational procedures.
 - a. Performed procedures to verify Colliers' compliance with the current operational procedures.
 - c) Determined, through discussions with the Authority's Finance Department ("Finance"), procedures in place to track the income, expenses, and capital improvement projects of MPC related to the IPB and MPB.
 - d) Selected 3 months for detailed testing. For each month selected, obtained from Authority Accounts Receivable the monthly fixed rent invoices for the period August 1, 2008 through October 31, 2008 and verified that the rent amount received from IPB and MPB agreed to the schedule of rentals fees and charges due.
 - a. Reviewed data for mathematical accuracy.
 - b. Verified that the invoiced amount agreed to the schedule of monthly rates.
 - c. Reviewed report for timeliness of payment.
 - d. Determined rent receipts were properly remitted to the Authority.
 - e. Determined amount remitted to the Authority are properly recorded as to account, amount and period.
 - e) For each month selected, obtained from Finance the monthly expenses report for the period August 1, 2008 through October 31, 2008
 - a. Reviewed data for mathematical accuracy.

- b. Selected a sample of expenses to verify that the MPC expenses were:
 - i. Authorized based on the Authority policies and procedures.
 - ii. Supported by source documentation.
 - iii. Processed and paid in a timely manner.
 - iv. Properly recorded as to account, amount and period.
2. Determined compliance with Colliers Property Management Agreement effective September 28, 2007, by performing the following:
 - a) Determined compliance with duties of agent which includes, but not limited to.
 - i. Market available space within the property for lease.
 - ii. Supervise and direct the management and operation of the property.
 - iii. Negotiate independent contractors for services required in operating the property.
 - iv. Negotiate independent contractors for any work of maintenance required in the property.
 - v. Collect all rentals, utility charges, common area charges, maintenance and insurance charges, and any and all other charges due from tenants.
3. Determined, through discussion with the Authority's Purchasing Department ("Purchasing"), the procedures in place to determine compliance with Authority procurement policies and procedures.
4. Determined Colliers' compliance with the Authority procurement procedures when selecting independent contractors for service contracts required in the ordinary course of business while managing the property.
 - a) Noted that new service contracts were not generated by Colliers since the Authority acquired the IPB.
5. Determined Colliers' compliance with the Authority procurement procedures when selecting independent contractors for maintenance work and necessary repairs required for building and improvement of the property.
 - a) Noted that the new maintenance contracts were not generated by Colliers since the Authority acquired the IPB.
6. Determined Colliers' compliance with Authority procurement procedures when selecting independent contractors for capital improvement projects.
 - a) Note that the Authority approved procurement procedures were not consistently applied in selecting contractors for capital improvement projects.
7. Determined that Colliers maintained adequate insurance coverage.
 - a) Obtained a copy of the current certificate of insurance on file.
 - b) Verified that the required workers' compensation and unemployment insurance met the amount specified in the contract.
 - c) Verified that the required comprehensive secondary general liability insurance met the amount specified in the contract.
 - d) Verified that the required comprehensive crime insurance met the amount specified in the contract.
 - e) Verified that the certificate of insurance is current and adheres to all other contract terms.

8. Interviewed MPC, Colliers and Authority employees regarding the current internal controls in place.
9. Through inquiry and observation, reviewed the existing internal controls in place.

Conclusion

Based upon the audit, the following were determined with respect to the stated objectives:

1. Expired lease agreements are not renewed using the same lease agreement as noted in finding #1.
2. Telecommunication rooftop tenants do not have lease agreements with MPC as noted in finding #2.
3. The Authority's procedures for collecting unpaid rent have not been applied consistently to IPB tenants as noted in finding #3.
4. New services and maintenance contracts have not been negotiated since MPC Holdings acquired the IPB as noted in finding #4.
5. The approval required for cost less than \$10,000 should be revised for clarification and operational efficiency as noted in finding #5.
6. Everyday maintenance request is not handled consistently for MPC owned buildings as noted in finding #6.
7. The roof replacement project was not administered using the Authority's approved procurement procedure as noted in finding #7.
8. The elevator project was not administered using the Authority's approved procurement procedures as noted in finding #8.
9. The space preparation project for Suzie Espresso was not established using the Authority's approved procedure as noted in finding #9.
10. The MPC space preparation processes for tenants should be revised and streamlined for operational effectiveness as noted in finding #10.
11. The certificate of insurance for Colliers was not on file with Properties as noted in finding #11.

Finding #1

Observation

Expired lease agreements are not renewed using the same lease document.

Background

An objective of this audit is to ensure compliance with Authority's operational requirements which includes consistent application of policies and procedures.

Prior to MPC's acquisition of the IPB, there were tenants in the building with lease agreements generated by the predecessor owner. After MPC Holdings acquired the building, some of the existing tenant's lease agreements expired and had to be re-established. The

expired lease agreements were either amended or renewed with new MPC lease documents. The Authority has not been consistent in the treatment of expired lease agreements, 6 out of the 10 expired lease agreements were renewed using new MPC lease documents.

The following is a listing of the tenants whose expired lease agreements were not renewed using the new MPC lease documents rather their original lease agreements with prior owner were amended and extended.

<u>Tenant Name</u>	<u>Suite</u>	<u>Agreement Status</u>	<u>Agreement Originator</u>
Automotive Finance Corporation	104	Renewed - original	Prior Owner
Collins & Company, Inc.	103	Renewed - original	Prior Owner
Cunningham Lindsey U.S., Inc.	214	Renewed - original	Prior Owner
Magnetek, Inc.	500	Renewed - original	Prior Owner

It should be noted that terms and conditions of the Authority’s lease agreement was included in the amended lease agreements.

Recommendation

The Authority should utilize the same procedures and documentation in renewing expired lease agreements to ensure consistency and compliance with Authority approved procedures and lease agreement documentation.

Management Response

Management concurs with the audit recommendation. MPC provided the management company, Colliers, an approved template for leases to be used with all future renewals or new tenant leases. The four above listed leases were renewed with older versions of lease documents used by Colliers, but were later amended to include the necessary language requested by the Authority.

Finding #2

Observation

Telecommunication rooftop tenants do not have lease agreements with MPC.

Background

There are five (5) rooftop telecommunication tenants on the IPB that were inherited from the prior property owner. These rooftop tenants have lease agreements that are managed by High Pointe Group, LP, Management Company that was retained by the predecessor owner. MPC currently does not have any existing agreement with the rooftop tenants or the management company. It was determined that High Pointe Group, LP collects rent from the

rooftop tenants and forwards the balance to Colliers after management fees have been deducted for inclusion in the total rent received on the IPB. The following is a listing of the rooftop telecommunication tenants.

<u>Rooftop Telecommunication Tenants</u>	<u>Gross Monthly Rent</u>	<u>Mgmt Fee Percent</u>
Cingular Interactive, LP,	\$2,387.04	10%
Sprint Spectrum, LP,	\$3,090.00	10%
Clearwire US, LLC,	\$2,993.00	15%
Powertel Memphis, Inc dba T-Mobile, and	\$2,918.00	10%
New Cingular Wireless PCS, LLC.	\$3,226.98	10%

It should be noted that the existing lease agreement between High Pointe Group, LP and the rooftop telecommunication tenants are being reviewed but have not been approved by the Authority.

Recommendation

To mitigate potential risk and liability, MPC should assume the management of the rooftop telecommunication tenants either through a third party management agreement or direct service agreement with the rooftop tenants.

Furthermore, as MPC assumes management of the rooftop telecommunication tenants, the collection and accounting of the rent received should be accounted for according to Authority approved processes.

Management Response

Management concurs with the audit recommendation. Upon purchase the IPB, MPC permitted the former management company High Point Group, LP, to continue to administer the rooftop telecommunication tenants on month-to-month contracts until completion of the roof replacement. Negotiating new agreements may have delayed the installation of the new roof, which required immediate attention. The impact from the roof installation upon rooftop tenants was also unknown. Final acceptance of the new roof is expected in May 2009. Management has identified potential management companies with telecommunications expertise and will initiate a Request for Proposal (RFP) in the next 45-60 days. The new management company will assist the Authority with negotiating new contracts for rooftop tenants at that time.

Finding #3

Observation

The Authority's procedures for collecting unpaid rent have not been applied consistently to IPB tenants.

Background

During audit inquires, Finance provided the collection procedures applied to all Authority and MPC unpaid invoices.

According to Finance procedures for collection of unpaid rent, “Receivables covered by a formal agreement:

1. When the invoice is 45 days old, Finance sends a letter and possibly makes a telephone call.
2. At the 90-day mark (now 45 days later), if no results, the necessary information is forwarded to the Authority’s Properties Department (“Properties”).
3. Properties sends a notice to cure letter with a 10-day or 30-window.
4. If that window lapses, the customer’s delinquency history goes to the Authority’s Legal Department.
5. Finance writes off balances at least annually of outstanding balances. If there is a settlement later, it’s a credit to the allowance account.”

The following IPB tenants have greater than 90 days unpaid rent which has not been forwarded to the Authority's Legal Department for proper action.

Tenant Name	Suite	Balance	Months Past Due	Notes
Greg Holland (TRC Staffing)	108	\$14,499.35	7	09/08 - 03/09
Young Harris (Lunch N Snack)	102	\$4,469.31	6	10/08 - 03/09
Sprint Spectrum	ANT1	\$565.63	5	Supplementary Electricity charges
ATC Healthcare Services Inc (Heartland Medical Staffing, LLC)	406	\$1,268.17	2	10/08 - 11/08
Automotive Finance Corporation	104	\$1,280.40	10	Incorrect posting of unpaid rent as paid.
Standard Register Company	306	\$2,501.62		09/08 common area maintenance charge
		<u>\$24,584.48</u>		

Through audit inquires it was determined that in October 2008, Greg Holland (TRC Staffing) moved out of the building and abandoned the lease agreement. Later in November 2008, Young Harris (Lunch N Snack) a sub-tenant of Suk Won Choi and Jung Yea Son agreed to surrender its sub-lease agreement to MPC for new tenant space expansion instead of waiting for the lease agreement to expire in December 31, 2009. In return, MPC would write-off Lunch N Snack’s unpaid rent. MPC plans to utilize the approximately 797 square feet space for relocation of the mail room and the vending machines on the lower level of the IPB. However, these lease agreements were still been billed on a monthly basis.

Recently, Finance decided to assume direct management of the receipt of monthly rent from Colliers effective May 1, 2009 to better manage the unpaid rent accounts.

Recommendation

Finance should apply the necessary collection process to the unpaid rent or discontinue the accrual of rent as soon as possible.

Going forward, the Authority's procedures for collection of unpaid rent should be applied consistently to all outstanding MPC rent invoice.

Management Response

Management generally concurs with the findings and recommendation. Finance will cease the accrual of rent upon a tenant vacating the building, but will continue to collect unpaid rents, whether accrued or not, if rent is due and payable under the terms of the lease contract.

Colliers' process for the collection and reconciliation of unpaid rent was determined to be inconsistent with Authority policies. Colliers made a staffing change of the onsite property manager upon determining the Authority's collection process was not being followed. As of March 2009, Finance assumed the collection and accounting duties from Colliers and will ensure these collections are accomplished consistent with Authority policies. MPC also intends to bring some management duties for the IPB in-house to help ensure the property is administered consistent with Authority practices.

Finding #4

Observation

New services or maintenance contracts have not been negotiated since MPC Holdings acquired the IPB.

Background

As part of the acquisition of the IPB, MPC inherited service and maintenance contract from the predecessor owner, see listing below. Through Audit inquires, it was determined that there have not been any new services or maintenance contracts negotiated on the IPB.

- Security system,
- Janitorial,
- Landscape,
- HVAC maintenance,
- Water Treatment,
- Plant beautification,
- Elevator maintenance,
- Energy efficiency, and
- Parking lot maintenance.

The current service and maintenance contracts were generated prior to MPC Holdings' acquisition of the IPB and the terms of these contracts have not been revised to reflect the Authority's terms and conditions.

It should be noted that Purchasing has merged the following MPC agreement with BNA's to reduce cost.

- Waste Management,
- Pest Control, and
- Security patrol.

The service and maintenance contracts could either be awarded as separate MPC service and maintenance contracts, or they could be reviewed and combined with the existing Authority service and maintenance contracts if it would provide cost savings to the Authority. However, MPC should still be billed separately for its portion of the work performed by the contractor.

As these options are being considered, the overall focus of the Authority to promote the SMWBE Program should not be neglected.

Recommendation

All service and maintenance contracts originated prior to MPC Holdings' acquisition of the IPB should be re-bid using the Authority's approved procurement procedures.

Management Response

Management concurs with the audit findings. The Authority, at the advice of the current management company, left many service contracts in place until completion of certain capital improvement projects. MPC also determined that these contracts were competitive with similar contracts held by the Authority. In November 2007, the Authority evaluated these contracts again and determined there were advantages, through economies of scale, to convert 3 of the 12 existing contracts.

Purchasing is currently preparing "specification and scope" to bid the remaining service and maintenance contracts. With the assistance of the Office of Business Diversity Development ("BDD"), Purchasing will be looking at efficiencies and possible contract opportunities for SMWBE firms. New contracts should be awarded within the next 3 months.

Finding #5

Observation

The approval required for cost less than \$10,000 should be revised for clarification and operational efficiency.

Background

The Authority has in place a procurement procedures manual that was generated to (i) ensure the fair and equitable treatment of all Bidders, Respondents, and Contractors competing for Contract Awards by the Authority; (ii) establish administrative procedures for protests in connection with Solicitations and/or Awards by the Authority; and (iii) establish procurement procedures that are in compliance with applicable state and federal laws and regulations.

The procurement procedures include threshold amount of (i) Ten Thousand Dollars (\$10,000) for maintenance or the purchase of goods or services contract; (ii) Fifty Thousand Dollars (\$50,000) for all contracts for Professional Services which involve a department other than Planning, Design and Construction ("PDC"); and (iii) One Hundred Thousand Dollars (\$100,000) for contracts arising out of PDC.

According to the procurement procedures, the process for expending amounts below the established threshold amounts are at the discretion of the department management. The current process is not the most efficient process. During audit inquires it was determined that MPC approved all expenses below the threshold amounts including cost for everyday maintenance and upkeep items such as light bulbs, operational supplies, etc.

It should be noted that other Authority departments procure goods and services through the Maintenance planners. The Maintenance planners service all maintenance team leaders and they interface with all other Authority departments from time to time. Items requested through the Maintenance planners are sourced by Purchasing and they are shipped to the inventory management department for receiving and distribution to the requesting department. This process allows for proper tracking and control using MP2 and better coordination of returning damaged or short shipment by Purchasing.

For operational efficiency, MPC should also utilize the Maintenance planners for request of goods and services. An MPC control person can be assigned to monitor and submit the MPC request in MP2.

Recommendation

MPC's process for approving cost less than \$10,000 should be streamlined for operational efficiency.

Management Response

Management concurs with the audit findings and notified the property management firm, Colliers, in March 2009 to process requests for goods and services under \$10,000 consistent with the Authority policies. Colliers was also provided contact information for Purchasing and Maintenance staff consistent with these policies.

Finding #6

Observation

Everyday maintenance request is not handled consistently for MPC owned buildings.

Background

Maintenance is responsible for tracking and managing repair and maintaining Authority owned facilities. It is Maintenance's practice to handle maintenance requests using the following classifications.

1. **Emergency** – these are emergency requests that are responded to immediately to clear unsafe circumstances. For example, removing the debris from collapsed parking lot, security breach, conditions that threaten life or injury.
2. **Critical** – these are requests that must be corrected or will result in loss of operation or could create adverse impact on customer service. These are scheduled and assigned to staff within 1 – 2 days.
3. **Preventative** - these are routine checks that are scheduled periodically throughout the year. For example, preventive maintenance, safety inspections, etc.
4. **Customer Service** – these are requests that must be done to maintain satisfactory level of customer service and productivity. These are scheduled and completed within 14 days.
5. **Scheduled** – these are routine requests that are not critical to operations. These are scheduled and completed beyond 14 days.
6. **Inspection Project** – these are additional project that arise during the year, which are scheduled based on available resource. These have the least response time.

Through audit inquiries it was determined that Maintenance has limited involvement in MPC owned properties. Currently, the IPB is maintained through MPC's management agreement with Colliers which includes providing maintenance and repair support for the building. Any maintenance work that requires significant expertise is being outsourced by Colliers to an outside firm. The records of the work performed by Colliers or any outside consultants are not provided to Maintenance.

Unlike the IPB, MPB engages the services of Maintenance to provide the day-to-day support, emergency request support, routine maintenance, preventive maintenance, and support for significant maintenance work requiring outside consultants.

It is essential that Maintenance serve as the oversight unit on all major maintenance required on MPC buildings. This will help the Authority establish comprehensive maintenance and repair history on MPC buildings; it will also serve as cost control and tracking measure for all the work performed on MPC buildings.

A streamlined consistent and efficient maintenance management process should be established for MPC buildings and a proper history on the MPC owned properties should be maintained by Maintenance. The streamline process could include the following.

1. MPC point person(s) to inform Maintenance of maintenance requests.
2. Maintenance generating work order to detail the requested service.
3. Maintenance tracking and close-out of work order request.
4. For major maintenance requests, Maintenance obtaining necessary approval from MPC before expenditure.

5. For requests that are beyond the scope or man-power of Maintenance, engagement of outside consultants using the Authority approved procurement procedures, while Maintenance guides and/or supervise the work performed.

Recommendation

For consistency and proper tracking of work required and performed in the MPC buildings, Maintenance should be involved or required to assess significant work required by MPC. This will provide the history needed to track and monitors the works performed on MPC buildings such as HVAC, Chiller, Roof, etc.

Management Response

Management concurs with the audit findings. Management previously directed Colliers to handle major maintenance requests, with oversight from Maintenance. A recent change in Management provided guidance to align the procurement process for IPB consistent with existing Authority practices, especially purchasing policies. As previously stated Colliers was provided contact information to Authority staff responsible for administering maintenance and directed to handle maintenance requests consistent with Authority practices.

Finding #7

Observation

The roof replacement project was not administered using the Authority's approved procurement procedure.

Background

As previously stated, the Authority has in place a procurement procedures manual that was generated to (i) ensure the fair and equitable treatment of all Bidders, Respondents, and Contractors competing for Contract Awards by the Authority; (ii) establish administrative procedures for protests in connection with Solicitations and/or Awards by the Authority; and (iii) establish procurement procedures that are in compliance with applicable state and federal laws and regulations.

In addition, the procurement procedure include threshold amount of (i) Ten Thousand Dollars (\$10,000) for maintenance or the purchase of goods or services contract; (ii) Fifty Thousand Dollars (\$50,000) for all contracts for Professional Services which involve a department other than PDC; and (iii) One Hundred Thousand Dollars (\$100,000) for contracts arising out of PDC.

According to the procurement procedure, the process for expending amounts that exceeds the threshold amount requires adherence to the Authority's formal procurement procedure. The Authority's procurement procedure for capital improvement projects ("CIP") requires generating request for qualification ("RFQ") or request for proposal ("RFP") from qualified

firms. The RFQ or RFPs submitted are reviewed and a selection is made by a review committee. The selected firm will be required to provide:

1. Detailed professional assessment of work required; and
2. Recommendations on repairs required to restore reviewed asset to a functional state.

The MPC Roof Replacement Project No. 0873 detailed below involved assessing and repairing the IPB roof leakage. According to the Authority's procurement procedure, a detailed professional assessment of the roof damage was needed to develop a scope of services for the work required to repair the roof leakage. The scope of services is to be publicized for response from qualified firms either through bids or proposals addressing the various components of the assessment.

<u>Project Description</u>	<u>Vendor</u>	<u>Service Negotiated By</u>	<u>Project Amount</u>	<u>SMWBE % of Project Amount</u>
Roof replacement specification write-up	Moody Nolan, Inc.	Colliers	\$10,030.00	4.2%
Roof replacement labor and material cost	Genesis Roofing	Colliers	\$202,000.00	1.7%
Roof overflow drains	Merryman - Farr	Colliers	\$24,290.00	0.0%
Total			<u>\$236,320.00</u>	<u>1.6%</u>

Moody Nolan, Inc. was engaged to provide the detailed professional assessment of the roof damage without utilizing the Authority's procurement procedures.

Furthermore, Genesis Roofing was contracted to correct the leakage on the IPB roof and Merryman-Farr was contracted to complete the roof low drains. These services were engaged without utilizing the Authority's formal selection and approval process.

Genesis Roofing was contracted to provide material and labors required and to perform the roof replacement and tie back anchors while Merryman – Farr was contracted to repair the overflow drains for the roof. The works of the contractors were not in sync and the project was not completed timely and properly because the responsibility for completion was unclear between the two contractors involved.

If the Authority approved procurement procedure was engaged and adhered to, the general contractor on the project would have been responsible for coordinating the completion of the project with the selected sub-contractor(s). The two contracts could have been managed as one contract with sub-contractor(s) retained by the general contractor to complete the supplementary aspects of the project. As a result, the project could have been co-ordinated efficiently, which could have eliminated conflicts during the project.

It should be noted that Purchasing has been providing training to individuals involved with MPC to help increase understanding and requirement of the Authority's procurement procedures.

Recommendation

The Authority's approved procurement procedure should be adhered to and utilized in engaging outside firms to provide goods, services and construction support to MPC.

In addition, the Authority's procurement procedure requires advance planning and preparation for timely and effective completion. As CIPs are anticipated by MPC, the various departments involved in the project such as PDC, Purchasing, BDD should be contacted for input and planning. This would allow for timely and effective completion of projects while reducing lag time.

Management Response

Management agrees with the audit findings. Prior to the acquiring the IPB, the Authority contracted with the Trane Corporation to provide a detailed assessment of the building and necessary improvements. Colliers, as part of their management duties, requested information from interested bidders following their internal procedures. Prior management at the Authority endorsed this practice.

In November 2008, Colliers onsite staff was notified to follow Authority practices for all procurement activities, as received training from the Properties, Purchasing and BDD departments for the procurement of goods, services and construction capital improvements. Future procurements will observe Authority policies in this area.

Finding #8

Observation

The elevator project was not administered using the Authority's approved procurement procedure.

Background

As previous stated, the Authority has in place a procurement procedures manual that was generated to (i) ensure the fair and equitable treatment of all Bidders, Respondents, and Contractors competing for Contract Awards by the Authority; (ii) establish administrative procedures for protests in connection with Solicitations and/or Awards by the Authority; and (iii) establish procurement procedures that are in compliance with applicable state and federal laws and regulations.

According to the procurement procedure, the process for expending amounts that exceeds the threshold amount requires adherence to the Authority's formal procurement procedures. The Authority's procurement procedure for capital improvement projects ("CIP") requires generating request for qualification ("RFQ") from qualified firms. The RFQs submitted are reviewed and a selection is made by a review committee. The selected firm will be required to provide:

1. Detailed professional assessment of the required work; and
2. Recommendations on repairs required to restore reviewed asset to a functional state.

The MPC Elevator Project No. 0880 involved the elevator cabs, controllers and emergency feeder installation. The Authority's procurement procedure requires detailed professional assessment of services needed to repair the elevator. The scope of services should

be publicized for response from qualified firms either through bids or proposals addressing the various components of the required repair.

The elevator CIP project cost enumerated below involves the elevator cabs, controllers and emergency feeder installation which requires adherence to the Authority's procurement procedures.

Project Description	Vendor	Service Contracted	Project Amount
Elevator repair assessment	Lerch Bates	Colliers	\$24,100.00
	Total		<u>\$24,100.00</u>

Lerch Bates was engaged to provide the detailed professional assessment of the repairs needed on the elevator without utilizing the Authority's approved procurement procedures. Lerch Bates was contacted directly and awarded the contract to provide the elevator assessment.

In addition, the contract documents signed by the contractors were not generated using the Authority's approved contracting documents; it was generated by the property manager.

Recommendation

The Authority's approved procurement procedure and contracting documentation should be adhered to and utilized in engaging outside firms to provide goods, services and construction support to MPC.

As previously stated, the Authority's procurement procedure requires advance planning and preparation for timely and effective completion. As CIPs are anticipated by MPC, the various departments involved in the project such as PDC, Purchasing, BDD should be contacted for input and planning. This would allow for timely and effective completion of projects while reducing lag time.

Management Response

Management concurs with the audit findings. Prior to the acquisition of the IPB, the Authority had contracted with the Trane Corporation to provide a detailed analysis of the building with recommendations for necessary improvements. Only four certified commercial elevator operators were found eligible to bid on the elevator project and returned a wide range of responses and alternatives in price and possible scope of work. Due to the condition and age of the elevator, it was determined that more defined "scope of work" was needed. Lerch Bates was contracted to complete this scope of work but will not be eligible to bid on the work.

As previously mentioned, in November 2008, Collier's onsite staff was notified to follow Authority practices for all procurement activities, as received training from the Properties, Purchasing and BDD departments for the procurement of goods, services and construction capital improvements. Future procurements will observe Authority policies in this area.

Finding #9

Observation

The space preparation project for Suzie Espresso was not established using the Authority's approved procedure.

Background

The space preparation project in the IPB detailed below for Suzie Espresso (Project numbers 879 and 971) was not established using the Authority's approved procedure.

<u>Project Description</u>	<u>Project Amount</u>
Updating Lobbies and Common Area	\$10,332.00
Relocating Commissary	\$316,084.00
Total	<u>\$326,416.00</u>

Through audit inquiries, it was determined that The Hannah Jones Group - Hannah and Associates, Inc (“Hannah & Associates”) was engaged to provide the architectural drawing for the space preparation project without adhering to the Authority’s procedures. It was also determined that the original architectural drawing submitted by Hannah & Associates did not include all of the essential details of the project and had to be revised by PDC in a 28-page addendum document. This resulted in re-work and over 45 days delay in initiating the construction phase of the project.

The Authority's procedure requires the engagement of a qualified consultant to design the project. The engaged design consultant would be responsible for providing the architectural drawing, evaluating construction proposals submitted by contractors and to overseeing the completion of the project to specification.

Furthermore, the Authority developed the Tenant Improvement Manual (“Manual”) to develop and maintain safe, secure, efficient, and aesthetically pleasing facilities. The Manual defines uniform design and construction standards for Authority tenants in the construction of new or modification of existing facilities.

Adherence to the procedures, standards, and requirements of this Manual will maintain a consistent aesthetic tone, and assure the installation of materials of high quality in appearance, maintenance, security, and energy-conscious characteristics.

The Manual describes the Authority review and approval procedures, standards for design and construction, materials, utility services, and other tenant improvement requests (“TIR”). The Manual applies to all TIR and is written pursuant to terms contained in all tenant lease agreements and/or contracts concerning development, modifications or improvements to facilities.

Prior to any new construction, additions, renovations, modifications or change in use, MPC's tenants should be required to submit to the Authority the plans for improvements and modification along with other required information such as plans, surveys, design calculations, test reports, etc.

Adherence to the Authority's procedure would have:

1. Resulted in proper communications amongst the necessary departments involved in the project such as PDC, Purchasing, etc;
2. Clarified the Authority's requirement on the project;
3. Encouraged submitting the required documentation to plan and implement the project timely and efficiently;
4. Eliminated re-work required to correct the incomplete architectural drawing; and
5. Timely completion of the project.

Recommendation

The Authority's approved procedure should be adhered to for all MPC space preparation projects. This would ensure the selection of firms that are aware of the specific requirement of the Authority, and timely completion of projects.

In addition, the Authority established TIR process should be utilized for MPC tenant improvement requests.

Management Response

Management concurs with the audit findings. Processes are currently being developed consistent with Authority policies by Purchasing, with the assistance of BDD. The process will require future tenant build outs to be evaluated by PDC for possible in-house planning and design based on department's availability. Once designed Maintenance will be notified for possible in-house construction based on department availability.

Purchasing, in coordination with PDC, Maintenance and BDD will prepare a list of pre-certified architects and construction companies, that can rotated based on availability and required scope of work. This process is currently being further refined through a six sigma process.

Finding #10

Observation

The MPC space preparation processes for tenants should be revised and streamlined for operational effectiveness.

Background

It was determined through audit inquiries that on the average, potential tenants usually require two (2) months or sometimes less time to have new space planned, designed and

constructed before it is occupied. The planning, design and construction of new space for tenants include the following:

1. Developing the drawing for the new space for review and approval by the tenant,
2. Constructing the space after all necessary approvals have been obtained, which could take 4 – 6 weeks.

The Authority's current procurement process for space preparation includes design phase and construction phase. Each of which requires public announcement soliciting qualified firms to submit either RFQ or proposal. These processes are lengthy and could take 3 – 6 months to complete depending on the size of the project.

Due to the quick turnaround time required to prepare space for new tenants before occupancy, the space preparation process for MPC should be streamlined. The streamlined process could be either of the suggestions below.

1. Generating a fast track process to identifying and approving firms for the completion of new tenant space. This process could streamline the process of procuring architect and contractors needed to design and develop the new space for a timelier completion time. It would require condensing some of the traditional time required by the Authority's process.
2. For small construction projects below the threshold amounts, the alternative could be to generate a listing of pre-qualified firms that can be retained on "stand-by" status to design and prepare space when needed for potential tenants. This option would allow the Authority ample time to identify qualified firms in advance before space preparation is needed. The retained firms would be awarded space design and preparation projects as they become available. This would significantly reduce the time spent in reviewing and selecting firms for space preparation requests.
3. Another option might entail assessing the possibility of having PDC and Maintenance complete space preparation requests. This would also reduce the time spent in reviewing and selecting firms for space preparation requests.

Furthermore, as these options are been considered, BDD should be involved to ensure the Authority's overall focus on promoting the Authority's SMWBE Program is not overlooked.

Recommendation

MPC should develop a process to prepare space in a timely manner.

Management Response

Management concurs with this audit findings. As previously stated, a process is currently being developed to address MPC space preparation.

Finding #11

Observation

The certificate of insurance for Colliers was not on file with Properties.

Background

Properties is responsible for the management of agreements entered into by the Authority and other entities. This is to ensure that the various component of the agreement such as insurance requirements, required annual submission, and contract rates are adhered to consistently and timely. Properties did not have on file a copy of the certificate of liability insurance for Colliers.

Recommendation

Properties should consistently manage MPC lease agreements for compliance with Lease Agreement.

Management Response

Management concurs with the audit recommendation and now has the insurance documentation on file. The Properties department discovered the insurance certificate while reviewing archives of the former CFO and Cash Manager. The Properties department is currently reviewing MPC files for missing documentation and has created a "checklist" to ensure all necessary documents are on file in the Properties' department files.