



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit



Audit of the First Tennessee Ballpark Construction Project

Issued: April 24, 2017

Revised: September 11, 2017

(Supplement support added in Appendix B)

EXECUTIVE SUMMARY

April 24, 2017



Why We Did This Audit

The audit was conducted because the First Tennessee Ballpark project cost was significant and exceeded the project cost estimate.

What We Recommend

Contract proponents of future capital projects should ensure:

- Budgets are entered in the Finance Department *Capital Improvement Status Report*.
- Agreements are approved by all parties prior to delivery of services.
- Guidance is provided concerning Metropolitan Nashville Travel Policy and contract documentation retention requirements.
- Documentation is retained demonstrating all qualifying providers are considered for receiving Internal Revenue Service Section 179D Energy tax deduction allocations.

Audit of the First Tennessee Ballpark Construction Project

BACKGROUND

The Metropolitan Nashville Council approved a new ballpark project on December 10, 2013. The first game played at First Tennessee Ballpark on April 17, 2015; approximately 13 months after construction began.

The ballpark construction and land acquisition cost \$69.8 million, \$9.8 million (16 percent) over the November 2013 \$60 million estimate presented to the Metropolitan Nashville Council. The Sounds Baseball Club contributed \$2.2 million offsetting some of the expense.

Initial cost estimates were based on a two-year-old feasibility study and did not factor a compressed design and construction schedule to complete the project for the Spring 2015 season opening game.

Exhibit 1 – Ballpark and Ancillary Investments

Project Description	Improvement	Land	Total Investment
Ballpark Construction	\$56,030,316	\$13,769,141	\$69,799,457
Parks Greenway Improvements	5,600,000	3,886,171	9,486,171
North Nashville Infrastructure	5,580,000		5,580,000
Flood Related Improvements	3,550,000		3,550,000
MWS Water Infrastructure	1,677,000		1,677,000
MWS Stormwater	513,000		513,000
Ballpark Garage Design	472,613		472,613
	<u>\$73,422,929</u>	<u>\$17,655,312</u>	<u>\$91,078,241</u>

Source: Metropolitan Nashville Government EnterpriseOne Financial System

OBJECTIVES AND SCOPE

The objective of this audit is to determine if controls ensure the fiscal management and administrative oversight for the First Tennessee Ballpark construction project.

WHAT WE FOUND

The ballpark was constructed in an expedient manner. General Services Department representatives reviewed and monitored the quality and financial aspects for the project. The actual cost of the ballpark exceed the \$60 million November 2013 estimate presented to the Metropolitan Nashville Council. Infrastructure and greenway related expenses, \$16.9 million, were 23 percent of the total project improvement cost. Some construction services were completed before a purchase order had been approved.

GOVERNANCE

The Sports Authority of the Metropolitan Nashville Government is responsible for the financing and building of all sports related projects. The Sports Authority entered into an Intergovernmental Agreement with the Metropolitan Nashville Government’s General Services Department to manage the construction of the First Tennessee Ballpark. The General Services Department then assigned Capital Project Solution/Gobbell Hayes Partners LLC to serve as project managers on behalf of the Metropolitan Nashville Government.

The organizational structure of the construction project is presented in Exhibit 5.

ADDITIONAL INFORMATION

Exhibit 2 shows project spend was \$73.4 million for ballpark construction, Parks Department greenway system, flood abatement, and infrastructure improvements. Exhibit 3 shows land assembly costs was \$17.7 million; this excludes the \$4.6 million from Metropolitan Nashville Public Schools and \$2.1 million from Metropolitan Nashville General Services Department in capital funds the project received for the Tennessee Preparatory School land and facilities. Total overall project spend was \$91.0 million for ballpark construction, greenway improvement, infrastructure improvement, and land acquisition. Also, \$128,627 for pre-construction services provided by Gobbell Hays, Populous, and Capital Project Solutions are not included in Exhibit 2 or Exhibit 3.

Exhibit 2 – Ballpark Program Top Construction Vendors

Construction Vendor	Amount	Purpose
Barton Malow/Bell/Harmony	\$65,725,000	Construction Manager
Capital Project Solutions	4,911,854	Project Management and Other Program Services
• Capital Project Solutions/ Gobbell Hays Partners	2,092,171	
• Populous	1,604,196	
• Tuck Hinton	399,731	
• Gobbell Hays	389,317	
• Barge Cauthen	121,287	
• PSI	107,285	
• Ensafe	87,014	
• TRC Solutions	69,153	
• Other Subcontractors	41,700	
Hastings Architecture Associates	2,361,992	Architecture Design
Professional Services Industries	334,160	
Nashville Electric Services	71,074	
All Other Vendors	165,572	
Heery International Journal Entry	8,041	Ballpark Commissioning
Accounting Net Journal Entries	(151,568)	
Travel and Repair Expense not Capital	(3,194)	
Total – Construction - Capital	\$73,422,931	

Source: Metropolitan Nashville Government EnterpriseOne Financial System

Exhibit 3—Ballpark Program Land Acquisition Vendors

Vendor	Amount	Purpose
Tennessee Department of General Services	\$23,003,101	State Land (Ballpark site and TN Preparatory School Property)
Metropolitan Nashville Public Schools Capital Funds	(4,615,000)	TN Preparatory School
Metropolitan Department of General Services Capital Funds	(2,125,000)	TN Preparatory School
First American Title	4,015,507	Purchase of Embrey Development Property
Sale of 1001 4th Avenue	(3,062,153)	Sale of Metro Land to Embrey Development Project
Sulphur Dell Land LLC	270,716	Land Swap True-Up
Contribution of Capital - Land	121,000	Piedmont Natural Gas
Piedmont Natural Gas Company	43,617	
Energy Land & Infrastructure LLC	3,525	
Total - Land	\$17,655,313	

Source: Metropolitan Nashville Government EnterpriseOne Financial System

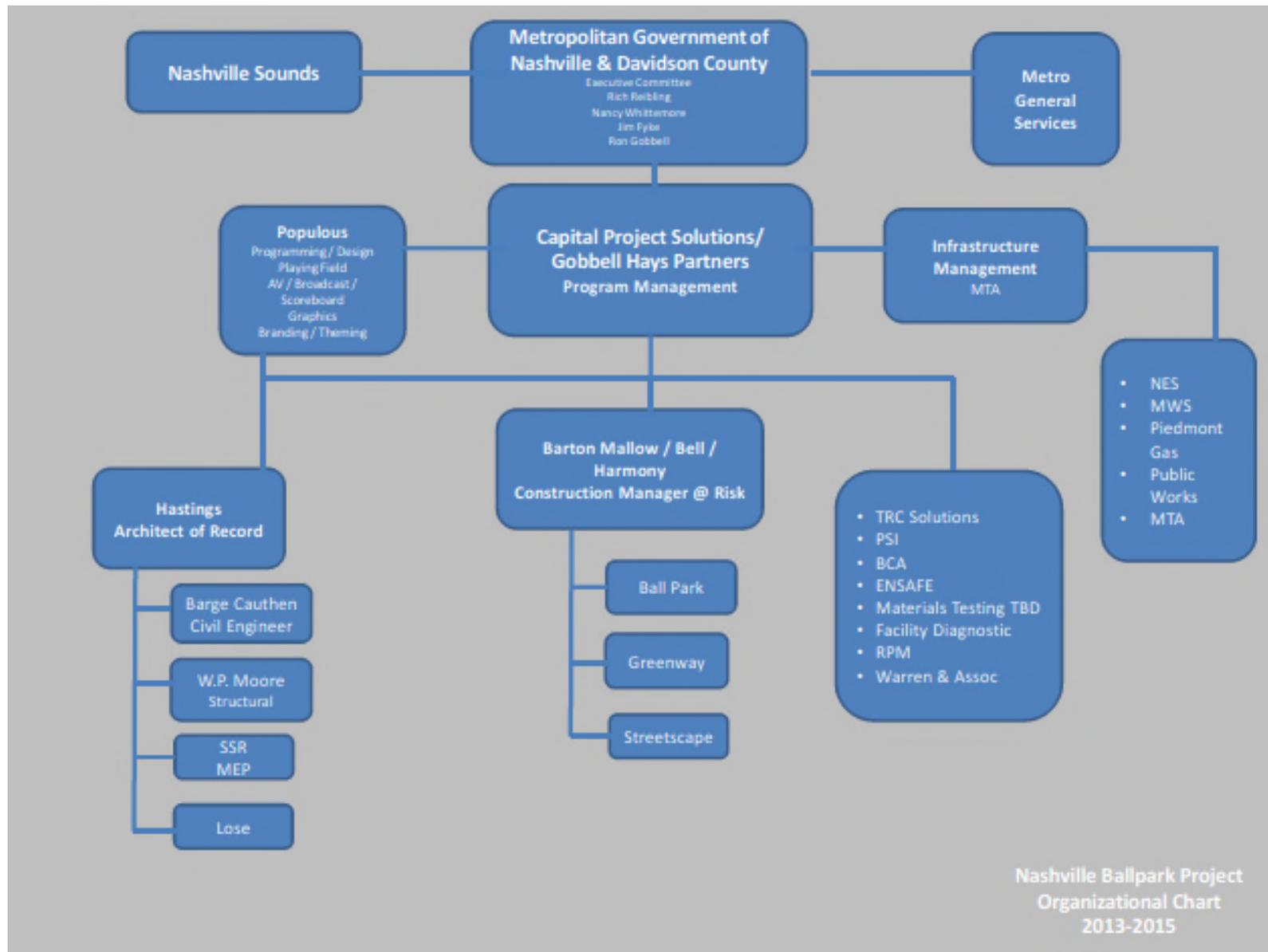
Contract Guaranteed Maximum Price

The final contract guaranteed maximum price, \$65,725,000 with Barton Malow/Bell/Harmony was not agreed upon until July 2015. The construction manager prepared an initial cost estimate in February 2014 and 100 percent design cost estimate in September 2014 see Exhibit 4. The February draft schematic design does not include estimates for some infrastructure, flood mitigation, audio visual and other expenses, while the later September 2014 construction manager CSI cost breakdown is encompassing cost not included the prior schematic design estimate.

Exhibit 4 – Ballpark Construction Estimates

Construction Estimate	Ballpark Construction
Metro Feasibility Study Building and Site Costs in 2013 Dollars (November 2011)	\$58,350,000 (HIGH) \$39,975,000 (LOW)
Metro Council Presentation (November 2013)	\$37,000,000
Construction Manager Draft Schematic Design Estimate (February 2014)	\$56,345,200
Construction Manager CSI Breakdown (September 2014)	\$61,784,890
Contract Amendment #13 Final Guaranteed Maximum Price (July 2015)	\$65,752,000
Construction Manager Final Application for Payment (October 2015), \$56,030,316 allocated for Ballpark.	\$65,725,000

Exhibit 5 - Organizational Structure of Park Design and Construction



OBJECTIVES AND CONCLUSIONS

1. *Are controls in place to ensure fiscal management and administrative oversight for the First Tennessee Ballpark construction project?*

Generally, yes. The cost charged to the ballpark were supported, reviewed, and approved. There were over 100 scope additions or change orders during the approximate 13 months of construction included in 13 contract amendments. The scope additions and change orders were managed, accounted for and included in approved contract amendments. The fee collected by the construction manager, Barton Malow/Bell/Harmony, complied with contractual terms. However, additional contract monitoring activities should be considered for future construction projects. (See Observation A.)

AUDIT OBSERVATION

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observation listed is offered to assist management in fulfilling their internal control responsibilities.

Observation A – Construction Project Monitoring Improvement

The General Services Department, on behalf of the Sports Authority, provided oversight for the Frist Tennessee Ballpark construction project primarily through their contractor Capital Project Solutions. The following project monitoring concerns were observed:

- The Metropolitan Nashville Finance Department's *Capital Improvement Status Report* did not include an amount budgeted for construction of the ballpark.
- Although the designer of the First Tennessee Park, Populous, had been paid over \$1.5 million during the period November 2013 through December 2014, the subcontract proposal from them was not submitted until December 23, 2014, and the ensuing purchase order with Capital Project Solutions was not signed until December 30, 2014.
- A signed copy of the program management agreement for Capital Project Solutions /Gobbell Hays Partnership which established the monthly and maximum amounts that General Services was to be billed, could not be located by General Services Department or Capital Project Solutions.
- Barton Mallow/Bell/Harmony did not retain documentation of unsuccessful subcontractor for competitive solicitation bids. Lack of documentation of unsuccessful competitive solicitation bids makes it difficult to demonstrate to the public that the best value provider was selected.
- Documentation that all qualifying architects, engineers, contractors, or energy services providers eligible for receiving the Internal Revenue Service Section 179D Design and Construction of Energy Efficient Properties were provided an opportunity to participate in this tax deduction was not available.
- Several contractors travel expenses were not in compliance with Metro Travel policy.

Criteria:

- COSO, Control Activities — Principle 16 – The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- Contract 334224 between the Metropolitan Government of Nashville and Davidson County and Barton Malow/Bell/Harmony, A Joint Venture, LLC response to Request to Qualifications 467568-2 paragraph 1.b states: “.. the Barton Malow/Bell/Harmony team will ... competitively procure the major subcontracts...”
- Metropolitan Nashville Travel Policy #18.

Recommendations for contract proponents of future capital projects to ensure:

1. Project budgets are entered in the Finance Department *Capital Improvement Status Report*.
2. Agreements/contracts are approved by all parties prior to delivery of services.
3. All qualifying architects, engineers, contractors, or energy services providers are considered for receiving Internal Revenue Service Section 179D tax allocations.
4. When competitive procurement for sub-contractors is used, guidance is provided to construction managers concerning minimum competitive procurement internal control expectations. This guidance should include unsuccessful subcontract bid documentation retention requirements.
5. Metropolitan Nashville Government Travel Policy is communicated to all contractors and travel charges are checked for compliance with the policy.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Metro Nashville Department of General Services and Metro Nashville Sports Authority.
- Interviewed key personnel within the project management firm for the construction of the ballpark, Capital Project Solutions, Inc., and the primary construction company for the First Tennessee Park, Barton Malow/Bell/Harmony, A Joint Venture, LLC.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse.
- Reviewed and analyzed documentation for compliance contracts.
- Reviewed select samples to determine the effectiveness of internal controls.

AUDIT TEAM

Herman G. Henry, CPA, CGFM, CGMA, In-Charge Auditor

Mark Swann, CPA, CIA, CISA, ACDA, Metropolitan Auditor

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Metropolitan Government
of Nashville and Davidson County

Megan Barry, Mayor
Nancy Whittemore, Director



Department of General Services
Richard H. Fulton Campus
P.O. Box 196300
730 2nd Avenue South
Nashville, TN 37219-6300
615-862-5050, 615-862-5035 (fax)

April 20, 2017

Mark Swann, Metropolitan Auditor
Metropolitan Nashville Office of Internal Audit
404 James Robertson Parkway, Suite 190
Nashville, Tennessee 37219

RE: Audit of the First Tennessee Ballpark Construction Project

Mr. Swann,

This letter acknowledges that the Department of General Services has received the First Tennessee Ballpark Construction Project audit completed by your office, and we concur with its five recommendations.

As you know, the First Tennessee Ballpark construction was a complex and multi-faceted project, and we understand that your audit of it could be characterized the same. We believe, all things considered, that the ballpark construction was successfully completed despite the fast-track schedule and challenging, unforeseen circumstances— including the unanticipated excavation of centuries old artifacts. Likewise, we conclude that the ballpark construction audit successfully highlights opportunities for future construction project improvements.

Please find attached Department of General Services responses and plans relating to each of the audit recommendations, along with associated target dates for completing those corrective actions.

Please let me know if you have any questions.

Sincerely,


Nancy Whittemore, Director
Department of General Services

Attachment

NW/rb

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for contract proponents of future capital projects to ensure:</i>		
<p>A.1 - Project budgets are entered in the Finance Department <i>Capital Improvement Status Report</i>.</p>	<p>Agree. Typically, a person in the department’s fiscal office enters/includes relevant information for each capital project as a part of the <i>capital improvement budget request</i>. After detailing information for and submitting this budget request, General Services does not have access to manage the extent of capital project budget information maintained by the Finance Department.</p> <p>Again, Finance Department management maintains the data that is included in the <i>Capital Improvement Status Report</i>. General Services staff receive final, approved project details from the Finance Department when all required approvals are completed.</p> <p>General Services management will direct responsible staff (who are assigned capital project management and oversight duties) to seek and document Finance Department confirmation that each capital project budget is entered for the <i>Capital Improvement Status Report</i>. Toward making this requirement a component of routine business, it will be included as an initial step/task specified by the standard project checklist used by BOSS staff in managing each capital project.</p>	07/01/2017

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>A.2 - Agreements/contracts are approved by all parties prior to delivery of services.</p>	<p>Agree.</p> <p>General Services management understands that contractor service is not properly authorized before relevant agreements/contracts are signed by the parties. Ensuring that proper sequence is, of course, General Services practice notwithstanding the circumstances of the instant construction project.</p> <p>General Services management will formally reiterate this fundamental requirement with staff who are assigned capital project management and oversight duties and who are primarily responsible for approving payment of related invoices.</p>	<p>07/01/2017</p>
<p>A.3 - All qualifying architects, engineers, contractors, or energy services providers are considered for receiving Internal Revenue Service Section 179D tax allocations.</p>	<p>Agree.</p> <p>Despite the identified lack of adequate documentation to the effect for the instant construction project, it is General Service practice to ensure that all capital project architects, engineers, contractors, and energy services providers are properly considered as to whether each qualifies for an IRS Section 179D tax deduction (by having contributed to enhancing energy efficiency in HVAC, hot water, or interior lighting systems or the building envelope of a government-owned building) and the associated allocation letter process.</p> <p>Toward formalizing and better documenting the practice, General Services management will specify this requirement as a standard step detailed by the project checklist (requiring the subject project manager to complete a written statement identifying each contractor/sub-contractor considered and the resulting determination).</p>	<p>07/01/2017</p>

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

<p>A.4 - When competitive procurement for sub-contractors is used, guidance is provided to construction managers concerning minimum competitive procurement internal control expectations. This guidance should include unsuccessful subcontract bid documentation retention requirements.</p>	<p>Agree.</p> <p>While we believe and audit work confirmed that the selection of sub-contractors in the instant construction project did adhere to competitive process requirements, the audit recommendation is a reasonable course that we expect prime contractors will appreciate as well.</p> <p>In the case of projects that provide for Metro contractor selection of one or more sub-contractors, General Services will require that the prime contractor follow specific guidelines for such selections. The guidelines will direct a competitive process in each instance and the maintenance of associated documentation. Specifically, the contractor will be expected to:</p> <ul style="list-style-type: none"> · solicit bids from at least 3 potential subcontractors for completing required work; · request all such bids by means of a solicitation document that includes a clear, precise description of required work, the payment methodology and rate structure with which bids must agree, and a bid deadline; · require sealed bids that are opened together; and · fairly evaluate each bid against one another in terms of cost as well as apparent experience, quality, and ability to meet scheduling requirements. <p>The contractor will also be required to maintain (and be able to provide as may be requested) the following for a period of 6 years after contract end:</p> <ul style="list-style-type: none"> · a list of potential sub-contractors solicited; · a copy of the written solicitation; · a copy of each proposal/bid submitted; and · a written synopsis of proposal/bid evaluations with the specific reasons supporting selection. <p>Toward formalizing the communication of these and other requirements (reference below),</p>	<p>07/01/2017</p>
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APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
	<p>General services management will direct BOSS management to detail the information in a new, standard document summarizing contractor compliance expectations, which, as a standard practice, is to be delivered to construction prime contractors as well as any contractors engaged to manage construction on behalf of Metro.</p>	
<p>A.5 - Metropolitan Nashville Government Travel Policy is communicated to all contractors and travel charges are checked for compliance with the policy.</p>	<p>Agree.</p> <p>While compliance with Metro Travel policy as it pertains to contractors and travel charges is General Service practice, we believe that those standards may not have been adequately communicated to the contractor engaged to manage the ballpark construction project on behalf of Metro.</p> <p>As with the recommendation and corrective action immediately above, General Services management will direct BOSS management to detail both Metro Travel policy and related expectations within the new, standard document summarizing contractor compliance expectations (and to routinely give the document to construction project contractors).</p>	<p>07/01/2017</p>

APPENDIX B – FOLLOW-UP QUESTIONS

The Metropolitan Nashville Council Budget and Finance Committee was briefed on Monday, August 14, 2017, concerning this audit report. Appendix B is included to provide additional support in response to questions received from individuals responsible for governance during this meeting.

Executive Summary Exhibit 1 Ballpark and Ancillary Investments has been expanded on the next page to document the funding sources for the First Tennessee Ballpark and other related projects.

**Audit of First Tennessee Ballpark Construction Project
Use and Sources of Funds**

USE			SOURCE			
Category	Improvements	Land	Funding Amt	Capital Spending Plan Project	Funding Source	Fund
Ballpark Construction	56,030,316		61,008,271	64429010 SPA Ballpark Construction 2013	2013 Public Improvement Revenue Bonds	40290
Ballpark Construction		13,769,141		64429010 SPA Ballpark Construction 2013	2013 Public Improvement Revenue Bonds	40290
Ballpark Construction			6,201,046		Jefferson Street Tax Increment Financing	40290
Ballpark Construction			2,200,000		Sounds Contribution	40290
Ballpark Construction			125,000		Sounds FY2015 Lease Payment	40290
Ballpark Construction			139,625		Metro Investment Pool + Trust Agent Intrest	40290
Ballpark Construction			121,000	79701000 - NTTC Surplus Fund	Nashville Thermal Transfer Corporation Fund	30079
	56,030,316	13,769,141	69,794,942			
GSR North Nashville Infastructure	3,680,000		3,680,000	10405011 GSR North Nash Infastructure	GSD FY11 Capital Projects Fund	40011
GSR Greenway	5,600,000		5,600,000	10412014 GSR North Nashville Greenway	GSD FY14 Capital Projects Fund	40014
Parks Greenway		2,013,655	2,013,655	4041103 PAR North Nashville Greenway	GSD FY13 Capital Projects Fund	40013
Parks Greenway		1,601,800	1,601,800	40415011 PAR North Nashville Greenway	GSD FY11 Capital Projects Fund	40011
Parks Greenway		270,716	270,716	79701000 - NTTC Surplus Fund	Nashville Thermal Transfer Corporation Fund	30079
ITS North Nashville Infastructure	1,900,000		1,900,000	14406015 ITS *North Nash Infastrurcture	GSD FY15 Capital Projects Fund	40015
Flood Related Improvements	3,550,000		3,550,000	15404011 FIN * Flood Related Projects	GSD FY11 Capital Projects Fund	40011
MWS Water Infastructure	1,677,000		1,677,000	65490180 W&S North Nashville Water Line	W&S FY10 Construction Capital Projects	47410
MWS Stormwater	513,000		513,000	657575780 W&S Stormwater North Nashville	Stormwater	37100
Ballpark Garage Design	472,613		472,613	10406013 GSR Infastructure	GSD FY13 Capital Projects Fund	40013
Total	73,422,929	17,655,312	91,073,726			
		Report Total	91,078,241			
		Difference	4,515			