

October 21, 2008

Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: Post Audit Review of 21st Century Waterfront, 07-11

Dear Mayor Littlefield and City Council Members:

On April 2, 2008, the Internal Audit Division released an audit on the 21<sup>st</sup> Century Waterfront. We performed certain procedures, as enumerated below, with respect to activities of the Chattanooga Downtown Redevelopment Corporation (CDRC) in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 07-11 were that:

1. Although the Management agreement was not procured per City guidelines, it does not appear the CDRC's Bylaws or Charter require the City's policies or code be followed.
2. Other than some instances where RiverCity failed to maintain complete and detailed records, it appears RiverCity was in compliance with guidelines specified in the Development Management Agreement.
3. Competitive bids were not obtained in some instances, as required by the City's purchasing policies.

4. Some contracts were not approved by the CDRC, as required.
5. It does not appear that all 21<sup>st</sup> Century Waterfront projects were completed properly.
6. RiverCity's total expenditures agreed to the City's total expenditures.
7. Some of the land purchases and transfers do not appear reasonable and proper, as noted in findings ("Appraisals not Performed" and "No CDRC Board Approval") of the audit.

The audit contained 5 recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendation #5 was implemented, #1 and #3 were not implemented and #2 and #4 are not applicable at this time.

### **Recommendation Implemented (5)**

We recommended (Recommendation #5) that the CDRC further investigate to determine if contract work was properly completed and seek legal counsel to determine if contractors and/or RiverCity should be held liable due to poor construction.

In discussion with the CDRC President, she stated that all issues concerning the Passage have been addressed by the CDRC Board and the City Council. Also, the City Attorney has been contacting vendors to determine any liability that they may have due to poor construction.

### **Recommendations Not Implemented (1, 3)**

We recommended (Recommendation 1) that the CDRC should seek legal counsel to determine the possibility of recouping funds from RiverCity due to their failure to competitively bid some contracts.

The CDRC President restated her opinion as expressed in the audit report, that the RiverCity Development Agreement did not require RiverCity to follow the practices and procedures of the City. Furthermore, they feel that RiverCity generally adhered to the City's purchasing policies.

We recommended (Recommendation 3) that the CDRC should determine if RiverCity, as required by the Management Agreement, has kept a complete set of detailed records.

Based upon statements from the CDRC President, they have not reviewed the 21<sup>st</sup> Century Waterfront records held by RiverCity for completeness.

### **Recommendations Not Applicable At This Time (2, 4)**

We recommended (Recommendation 2) that in the future CDRC have appraisals performed on all land purchases and exchanges before the settlement is performed or transaction closed.

The CDRC President indicated that they have not had any real estate transactions in the last 6 months. However, they now do require appraisals before property is sold or swapped.

We recommended (Recommendation 4) that all contracts or agreements should be reviewed and discussed in full detail with the CDRC Board prior to completion of the transaction.

The CDRC President indicated that they have not had any real estate transactions in the last 6 months. However, the CDRC Board is approving all transactions over \$10,000 now and if the transaction is in the name of the City then Council approval is required.

We thank Daisy Madison, President of CDRC, for her assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,

Stan Sewell, CPA, CGFM

Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Daisy Madison, President of CDRC  
Paul Brock, President of RiverCity  
Mike McMahan, City Attorney