



# City Auditor's Office Memorandum

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**DATE:** July 3, 2012  
**TO:** Horatio Skeete, Acting City Manager  
**FROM:** Candace MacLeod, City Auditor *cm*  
**SUBJECT:** Review of Process Followed for Tenant Improvements at the Glendale FBO

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At the request of the Fire Chief, the City Auditor's Office performed a review of the process that was followed by the Glendale Fire Department (Fire) to assist PHI, Inc. (PHI) with making tenant improvements to Air Evac space at the city's Fixed Based Operator (FBO). The objective of the review was to ensure that city procedures were followed and proper approvals were obtained before renovations were performed at the city's FBO. In order to complete this review, discussions were held with staff from Fire, Building Safety and the Glendale Municipal Airport.

In March 2011, Fire was contacted by PHI to assist them with finding space for their HALO Division as they needed to move out of their existing location in a hangar at the Glendale Municipal Airport. As part of the city's assistance to PHI, Fire:

- Researched suitable space for HALO at other city and non-city facilities, but were unsuccessful at finding a location. PHI subsequently entered into a sublease at the Glendale Airport with the current FBO (Copper State Turbine Engine Company).
- Agreed to obtain three bids for PHI for tenant improvements needed at their new FBO space from which PHI selected a contractor for the work.
- Agreed to reimburse PHI for one half of the cost of PHI's tenant improvements at the FBO.

Through review of documentation and discussion with staff, a number of recommendations have been made to reduce the risks associated with the process that was followed for the tenant improvements including:

- Ensuring that airport leases and subleases are obtained and reviewed by city staff, including the Airport, City Attorney's Office, Fire and Risk Management,

before tenant improvements are performed at city facilities to verify that terms and conditions of the leases are properly complied with. The PHI sublease was not reviewed by the City Attorney's Office or Risk Management and some of the terms relating to insurance and tenant improvements in the FBO lease were not accurate or complied with. The PHI sublease was dated prior to the city's lease with the FBO and Fire reported that HALO moved into their space at the FBO prior to the effective date of their sublease.

- Ensuring proper procedures are followed when bids are obtained and avoiding conflict of interest situations. One of three bids obtained for the PHI tenant improvements was received from a company that was contacted at the request of a Fire employee. The Fire employee worked with this company in their private construction business. The company's bid listed the Fire employee's initials and construction license number under their company name. This company was selected as the successful bidder by PHI and was also asked to obtain the two other bids for the tenant improvements.
- Documenting and ensuring appropriate approvals are obtained if an employee uses their personal contractor's license to perform work at a city facility. A Fire employee used their personal contractor's license to obtain permits for the tenant improvements. There is no documentation on file with Fire explaining or approving use of the Fire employee's license to obtain building permits. This situation has occurred in the past for other fire related projects at the city.
- Ensuring cost sharing and funding arrangements between the city and a third party are adequately documented. Fire stated that they were reimbursing one-half of the cost of the tenant improvements; however, there is no official documentation on file supporting this financial agreement.
- Developing internal operational procedures to ensure that Fire complies with city policies and procedures when projects are entered into with third parties.

Please let me know if you have any questions.

cc: Jim Brown, Interim Executive Director Human Resources & Risk Management  
Mark Burdick, Fire Chief  
Chris DeChant, Assistant Fire Chief  
Walter Fix, Airport Administrator  
Andy Jennings, Risk Manager  
Stuart Kent, Executive Director Public Works  
Deborah Mazoyer, Building Safety Director  
Jamsheed Mehta, Executive Director Transportation Services  
Sherry Schurhammer, Executive Director Financial Services  
Craig Tindall, City Attorney

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Risk	Recommendation	Department Action Plan
<p><b>FBO Lease and Air Evac Sublease</b></p> <p>Fire staff was not aware of the terms and conditions in the FBO lease with Copper State including receipt of the airport manager's approval in writing for building improvements, bonding and insurance requirements.</p> <p>The effective date of the FBO lease was July 1, 2011. The effective date of the PHI sublease with the FBO was May 1, 2011, which pre-dates the FBO sublease.</p> <p>According to Fire staff and documentation from PHI, Air Evac staff moved into the FBO space in April 2011, before the sublease with the FBO was signed.</p> <p>The sublease was not reviewed by the City Attorney's Office or Risk Management.</p>	<p>1. Fire should ensure that leases are obtained and reviewed by city staff before any actions are taken to ensure compliance with agreement terms and conditions, laws, regulations, city policies and procedures.</p>	<p>1. Concur. The Fire Department is immediately implementing a procurement, tenant improvement, and contract approval checklist. All items that are above \$5,000 will be approved by the fire chief or executive assistant chief. See Attachment A.</p>
<p><b>Funding for Tenant Improvements</b></p> <p>Fire and PHI stated that half of the cost of the tenant improvements would be reimbursed by Fire; however, no formal approval or official documentation of this agreement was prepared including time frames, funding arrangements, budgets and management's expectations.</p>	<p>2. Fire should ensure that financial agreements are properly approved and formalized in an official city document.</p>	<p>2. Concur. The Fire Department is immediately implementing a procurement, tenant improvement, and contract approval checklist. All items that are above \$5,000 will be approved by the fire chief or executive assistant chief. See Attachment A.</p>
<p><b>Tenant Improvements and Bid Process</b></p> <p>Per City Manager Directive (CMD) 17, acquisition of tenant improvement services should always follow approved procedures such as solicitation of bids or other approved methods. CMD 17 also states that only trained</p>	<p>3. Fire should ensure that laws, regulations, and city policies and procedures are followed when construction bids are</p>	<p>3. Concur. The Fire Department is immediately implementing a procurement, tenant improvement, and contract approval checklist. All items</p>

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<b>Risk</b>	<b>Recommendation</b>	<b>Department Action Plan</b>
<p>and licensed personnel should complete tenant improvements.</p> <p>Fire staff did not ensure that construction plans, internal cost estimates or construction schedules were prepared for the tenant improvements. These documents are critical if a project is going to be taken out to bid.</p> <p>A formal bid process was not conducted to obtain the three bids. One bid was obtained from a company at the request of a Fire employee who had worked with them in their personal development business. This company was awarded the project by PHI. The company was also asked to obtain the other two bids for the project which was inappropriate as bidders should not also obtain bids from other contractors. None of the bids were signed and there was no correspondence from either of the companies or Fire regarding the bid process.</p> <p>The company was not a licensed contractor. Their bid listed the initials and construction license number of the Fire employee at the top of the document under the company's name. Although the company was not licensed, the Fire employee stated that the sub-contractors that performed the tenant improvements were licensed. The Fire employee was not aware if the company was bonded or insured.</p> <p>The company received payments totaling \$37,090.82 from PHI for the tenant improvements. PHI notified the city that they would be requesting a payment from the city for half of this amount.</p>	<p>obtained and awarded.</p> <p>Conflict of interest situations should be avoided at all times.</p>	<p>that are above \$5,000 will be approved by the fire chief or executive assistant chief. See Attachment A. Additionally, the department will be requesting Materials Management staff to provide Special Operations and Resource Management division managers a procurement training class.</p>

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<p><b>Use of Fire Resource Employee's Contractors License</b></p> <p>A Fire employee contractor's license was used to obtain building permits for the tenant improvements and it has also been used in the past for other fire related projects including: Fire Station 153, fire abatement, and Fire Academy roof props.</p> <p>Nothing was provided in writing to the supervisor regarding use of the employee's personal contractor's license or any potential conflict of interest with the company that was hired to perform the tenant improvements per Human Resources (HR) policies and procedures.</p> <p>The Fire employee stated that funds would be saved by using the license; however, the city does not charge fees for work on city facilities. The Fire employee stated that time would be saved by using their license since the project would receive a desk review by Building Safety.</p> <p>The registrar of contractor's does not allow a license to be used by another licensed or unlicensed person and does not allow one to act in the capacity of a contractor.</p> <p>Liability for the project falls on the Fire employee if the work performed did not meet code requirements.</p>	<p>4. Fire should ensure that management and other applicable departments, including Human Resources and Building Safety, are notified and approve of the use of an employee's personal contractor's license.</p>	<p>4. Concur. The Fire Department is immediately implementing a procurement, tenant improvement, and contract approval checklist. All items that are above \$5,000 will be approved by the fire chief or executive assistant chief. See Attachment A.</p>
<p><b>Internal procedures</b></p> <p>Fire has not developed internal procedures for training staff and managing projects with partners, including tenant improvements.</p>	<p>5. Fire should develop internal procedures to manage city projects to ensure compliance</p>	<p>5. Concur. The Fire Department is immediately implementing a procurement, tenant improvement, and</p>

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	with laws, regulations and city policies and procedures.	contract approval checklist. All items that are above \$5,000 will be approved by the fire chief or executive assistant chief. See Attachment A.
<p><b>Glendale Airport Procedures</b></p> <p>The current airport administrator had not reviewed the specific terms of the FBO lease to ensure that the PHI sublease was in compliance with the terms and conditions of the FBO lease, including requiring city approval to sublease.</p> <p>The PHI sublease was not forwarded to the City Attorney's Office or Risk Management for review. Additionally, there are three other subleases at the FBO that have not been forwarded to the City Attorney's Office or Risk Management for review.</p> <p>Subsequent review of the insurance sections in the FBO lease and Air Evac sublease by Risk Management identified numerous changes that need to be made to ensure insurance provisions are adequate.</p> <p>The insurance certificate for PHI expired on May 1, 2012.</p> <p>The Glendale Airport has not developed formal leasing or tenant improvement policies.</p>	<p>6. The Airport should work with the City Attorney's Office and Risk Management to ensure that all leases and subleases meet city requirements.</p> <p>7. The Airport should develop a leasing policy and ensure that all leases and subleases comply with city policies and are properly reviewed, approved and monitored.</p> <p>8. The Airport should develop a tenant improvement policy that details procedures a tenant must follow if they want to make changes to their leased space.</p>	<p>6. Concur. Recommendations for leases/subleases are underway with the City Attorney's Office and Risk Management. The estimated date of completion is June 1, 2012.</p> <p>7. Concur. An Airport leasing policy will be developed and approved by City Council for proper city compliance and as a component of the Airport's corrective action plan with the FAA. The estimated date of completion is March 1, 2013.</p> <p>8. Concur. All tenant improvement stipulations shall be included in any future lease agreements. A tenant improvement policy will be included in the proposed leasing policy. The estimated date of completion is March 1, 2013.</p>



## Attachment A GFD Project Checklist



Date: \_\_\_\_\_

Employee submitting item: \_\_\_\_\_

Division submitting item: \_\_\_\_\_

Item title: \_\_\_\_\_

Subject matter expert (SME) name: \_\_\_\_\_

Contact info for SME: \_\_\_\_\_

Budget Impact of Project: \_\_\_\_\_

Account Name, Fund, Account and Line Item Number: \_\_\_\_\_

Assistant Chief approval: \_\_\_\_\_ Date: \_\_\_\_\_  
(Up to \$10,000)

Fire Chief or designee approval: \_\_\_\_\_ Date: \_\_\_\_\_  
(Up to \$49,999)

### New purchases

- A review of COG procurement policies has been completed and procedures are being followed.  
<http://gnn.glendaleaz.com/MaterialsManagement/PurchasingProcess.cfm>
- A review of COG City Manager Directive 30 has been completed and procedures are being followed.  
<http://gnn.glendaleaz.com/CityManager/documents/031901-CMD30SoleSourcePurchases.pdf>
- A review of COG HR policy 504, has been completed and procedures are being followed.  
<http://gnn.glendaleaz.com/HumanResources/documents/No.504-EmployeeConduct.pdf>
- A review of COG HR policy 506, has been completed and procedures are being followed.  
<http://gnn.glendaleaz.com/HumanResources/documents/No.506-ConflictofInterest.pdf>
- A review of the company's ability to do business in the State of Arizona has been completed.

*Attachment A*  
*GFD Project Checklist*

Emergency purchase

- A review of COG City Manager Directive 10 has been completed and procedures are being followed.

*If you are unsure which procurement process should be followed please contact a staff member from Materials Management:*

<http://gnn.glendaleaz.com/MaterialsManagement/MaterialsManagementStaff.cfm>

Grant funded purchases

- Grant manager approval: \_\_\_\_\_ Date: \_\_\_\_\_

Grant guidance has been reviewed and purchase is approved (please include documentation from grant).

- A review of COG City Manager Directive 12 has been completed and procedures are being followed.

<http://gnn.glendaleaz.com/CityManager/documents/081806CMD12GrantApplicationandAdministrationPoliciesandProcedures.pdf>

Contracts

New contract

- A review of COG City Manager Directive 3 has been completed and procedures are being followed.

<http://gnn.glendaleaz.com/CityManager/documents/081707-CMD03Contracts.pdf>

Existing contract extension or amendment

- A review of the contract has been completed to assure that all components are aligned with current practice.

- A review of COG City Manager Directive 3 has been completed and procedures are being followed.

<http://gnn.glendaleaz.com/CityManager/documents/081707-CMD03Contracts.pdf>

Construction/tenant improvements

City owned buildings

- A review of COG City Manager Directive 17 has been completed.

<http://gnn.glendaleaz.com/CityManager/documents/040105-CMD17ProceduresforCompletionofImprovementsToCityFacilities.pdf>

*Attachment A*  
*GFD Project Checklist*

Approval (i.e. permits, etc.) has been obtained through the COG Building Safety Department

Approval has been obtained through the Airport Administrator if the building is on airport property.

Leased buildings

Lease has been reviewed to assure that tenant improvement is acceptable.

Approval (i.e. permits, etc.) have been obtained through the COG Building Safety Department.

Funding

Funding source has been reviewed and approved by Executive Staff Budget Manager.

COG Attorney's Office

Fire Chief or designee approval for submission to city attorney's office.

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COG City Manager's Office

Council communication has been reviewed by executive staff.

Fire Chief or designee approval for submission to city attorney's office.

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