



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

FINAL REPORT



Audit of the Metropolitan Nashville Historical Commission

Date Issued: December 3, 2012

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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
that reports directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY

December 3, 2012

Results in Brief	Background and Recommendations																		
<p>An audit of the Metropolitan Nashville Historical Commission was performed.</p> <p style="text-align: center;">Audit Objectives</p> <ul style="list-style-type: none"> • <i>Were Metropolitan Nashville’s Procurement policies for competitive bidding being followed?</i> Generally yes. However, some purchases for restoration of the Nashville City Cemetery were not in compliance with Metropolitan Nashville’s Procurement Regulations. • <i>Was the Historical Commission following attendance, payroll and leave policies and procedures as management intended?</i> Yes. No material discrepancies were found. • <i>Were the department’s fixed assets properly accounted for and adequately safeguarded?</i> Yes. The fixed assets are accounted for and adequately safeguarded. • <i>Were the historical preservation practices efficient and effective relative to benchmark peer cities?</i> Generally yes. However, incentives to encourage increased restoration, rehabilitation and renovation of designated historic structures should be considered. 	<p style="text-align: center;">Metropolitan Nashville Historical Commission</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="text-align: center;">FY 2012</th> <th style="text-align: center;">Budget</th> <th style="text-align: center;">Actual</th> </tr> </thead> <tbody> <tr> <td>Operating Expense</td> <td style="text-align: right;">\$619,100</td> <td style="text-align: right;">\$615,546</td> </tr> <tr> <td>4% Funds</td> <td style="text-align: right;">31,420</td> <td style="text-align: right;">9,470</td> </tr> <tr> <th colspan="3" style="text-align: center;">FY 2011</th> </tr> <tr> <td>Operating Expense</td> <td style="text-align: right;">626,100</td> <td style="text-align: right;">599,418</td> </tr> <tr> <td>4% Funds</td> <td style="text-align: right;">30,000</td> <td style="text-align: right;">18,580</td> </tr> </tbody> </table> <p style="text-align: center;">Recommendation</p> <p><u>Compliance with Metropolitan Nashville Procurement Regulations</u></p> <ul style="list-style-type: none"> • Ensure that when applicable, contracts with specific terms and legal requirements are entered into in accordance with the Metropolitan Nashville Procurement Regulations. • Work with the Procurement Division to encourage competition in the procurement process by ensuring that sole source designation is only used on a limited basis for those unique situations where it is warranted. <p><u>Financial Incentives for Historical Preservation Efforts</u></p> <ul style="list-style-type: none"> • Consider whether incentives similar to those of other municipalities are appropriate for the Metropolitan Nashville Government. • If such a determination is made, work with necessary parties to enable approval of special incentives for qualified historical preservation and restoration. 	FY 2012	Budget	Actual	Operating Expense	\$619,100	\$615,546	4% Funds	31,420	9,470	FY 2011			Operating Expense	626,100	599,418	4% Funds	30,000	18,580
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INTRODUCTION

Audit Initiation

The audit of the Metropolitan Nashville Historical Commission was conducted as part of the approved 2013 Audit Work Plan. The audit was initiated based on the number of years elapsed since the last audit was conducted in 2007.

Background

The mission of the Metropolitan Historical Commission is to provide historical and architectural information, preservation technology and advice, and design guidance to Nashville's neighborhoods, property owners, businesses, citizens, and visitors so they can incorporate the city's rich past into today's economy, culture and quality of life.

The department is comprised of two commissions that guide historic preservation projects for Metropolitan Nashville: the Historical Commission and the Historic Zoning Commission.

Organizational Structure

Historical Commission

The Historical Commission was created in 1966; its fifteen citizen members are volunteers and are appointed by the Mayor. The commission works to document history, save and reuse the built environment, and make the public more aware of the necessity and advantages of preservation.

Two Metropolitan Nashville employees support the Historical Commission, both Historic Preservationists.

Historic Zoning Commission

The Historic Zoning Commission is an architectural review board which reviews applications for work on properties that are within a historic overlay. Its nine volunteer members, appointed by the mayor and confirmed by Metropolitan Nashville Council, include representatives from zoning districts, the Metropolitan Nashville Planning Commission, the Historical Commission; architect(s), and other citizens of Davidson County.

A staff of four employees supports the Historic Zoning Commission: three Historic Preservationists and one Historic Zoning Administrator.

The Executive Director of the Historical Commission oversees that commission and the Historic Zoning Commission. An administrative employee provides support to both agencies.

Information Systems

Information systems used at the Historical Commission and Historic Zoning Commission are EnterpriseOne and KIVA.

EnterpriseOne

EnterpriseOne is the primary accounting software system used to record and report all financial reporting transactions of the Metropolitan Nashville Government.

KIVA

The KIVA software is a developmental management system used for many land related activities within the Metropolitan Government. It includes four integrated modules (Land, Professionals, Permitting, and Request for Service/Violation tracking).

Fifteen departments, including the Historical Commission and Historic Zoning Commission use KIVA for querying permits and signing-off permit related activities. Additionally, KIVA land and permit information is used in several public inquiry and geographical information system applications.

Financial Information

The Historical Commission and Historic Zoning Commission receive the majority of their funding from Metropolitan Nashville’s General Fund. In addition, the agencies receive Four Percent Reserve Funds and a Historical Community Grant from the Metropolitan Housing and Development Agency. The Historical Commission also reviews the effects of federally-funded or licensed projects through the Section 106 process, per the National Historic Preservation Act of 1966.

For fiscal years 2011 and 2012, expenditures for the Historical Commission and Historic Zoning Commission were \$599,418 and \$615,546, respectively.

Exhibit A – Historical Commission – Financial Highlights

	Fiscal Year 2011		Fiscal Year 2012	
	Budget	Actual	Budget	Actual
Revenues & Transfers				
Revenues & Transfers	\$ 20,000	\$ 5,948	\$ 20,000	\$ 2,790
Expenditures				
General Fund	626,100	599,418	619,100	615,546
4% Reserve	30,000	18,580	31,420	9,470
Total Expenditures	\$656,100	\$617,998	\$650,520	\$625,016

Source: Metropolitan Nashville’s EnterpriseOne Financial System

**Exhibit B – Top Five Historical Commission Paid
Vendors/Contractors**

Vendor	Fiscal Years 2011 –2012	Purpose
1. Ashworth Environmental Design	\$31,152	Interpretive Signage at Nashville City Cemetery
2. Sewah Studios, Inc.	18,580	Materials for Metropolitan Nashville Historical Markers
3. Nashville Electric Service	12,824	Electricity for Historical Commission Office
4. A&S Co., Inc.	12,393	Structural and Artistic Repairs on Nashville City Cemetery Monuments
5. Grau General Contracting, LLC	10,012	Iron Fencing at Nashville City Cemetery

Source: Metropolitan Nashville's EnterpriseOne Financial System

OBJECTIVES AND CONCLUSIONS

1. *Were the historical preservation practices efficient and effective relative to benchmark peer cities?*

Yes. However, incentives to encourage increased restoration, rehabilitation and renovation of designated historic structures should be considered.

- a. *How does the size, scope and resources of Nashville's Historical Commission compare to peer cities?*

The methodologies implemented by the Historical Commission were similarly designed as those considered established best practices.

- b. *How do incentives (tax, zoning, etc.) used to enhance efforts compare to peer cities?*

The Historical Commission does not provide any local incentives for historical preservation efforts. Incentives similar to those available in several other cities could encourage an increased amount of restoration; rehabilitation and renovation of designated historic structures (see Observation B).

- c. *Were ethics training and requirements comparable to peer cities?*

All employees received initial Metropolitan Nashville ethics training. Further, both full-time employees of the Historical Commission complete annual financial disclosures in accordance contained in the Metropolitan Code of Laws § 2.222, Standards of Conduct, which specifies expected conduct and requires certification of compliance.

2. *Were Metropolitan Nashville's Procurement policies for competitive bidding being followed?*

- a. *Were major contracts being monitored?*

Generally yes. Most contract awards were found to be within requirements. However, several provisions of the Metropolitan Nashville Procurement Code were not complied with for much of the \$2,250,000 ultimately paid for preservation and restoration efforts at the Nashville City Cemetery. Purchases from seven vendors totaling \$1,659,315 were made without obtaining competitive bids. The sole source justification for one of these vendors was based on a total estimated purchase price of \$47,830, although the total paid to the vendor was \$833,177 (see Observation A).

b. *Were credit card purchases made in accordance with Metropolitan Nashville's Credit Card Policy?*

Yes. Controls and processes were in place and working to ensure credit card related expenditures were made in accordance with Metropolitan Nashville's Procurement Code.

c. *Were travel related expenditures made in accordance with Metropolitan Nashville's Travel Policy?*

Yes. Other than mileage reimbursement, no travel expenses were disclosed during the time period of the audit scope. The Historical Commission has not had a travel budget for the past few years.

3. *Were the department's fixed assets properly accounted for and adequately safeguarded?*

Yes. The fixed assets were accounted for and adequately safeguarded.

4. *Was the Historical Commission following attendance, payroll and leave policies and procedures as management intended?*

Yes. The Metropolitan Nashville Office of Internal Audit reviewed payroll, leave and timekeeping records of all eight employees for the audit scope of July 1, 2010, to June 30, 2012. There were no significant issues or control observations noted.

5. *Was computer equipment adequately safeguarded?*

Yes. The computer equipment was adequately safeguarded.

6. *Were petty cash accounts and change funds properly safeguarded and were expenditures properly approved?*

Yes. Petty cash expenditures were properly approved and safeguarded.

OBSERVATIONS AND RECOMMENDATIONS

A – Purchases for Preservation and Restoration of Nashville City Cemetery

Good business practice to promote lower costs for services through intensive price competition was not demonstrated for approximately 74 percent of the \$2,250,000 paid for the preservation and restoration efforts of the Nashville City Cemetery. Procurement for this project was substantially completed prior to the current director being appointed.

- Purchases from seven vendors totaling \$1,659,315 for preservation and restoration efforts for the Nashville City Cemetery were made either on a sole source basis or without obtaining competitive quotations. The amounts and vendors are itemized below:

A & S Company, Inc.	\$ 833,177
Cumberland Research Group, Inc.	342,250
Grau General Contracting LLC	136,266
TRICOR	124,809
Poteet Tree Service	121,575
W L Hailey & Co., Inc.	65,000
Rio Grande Fence Co., Inc.	36,238
	<u>\$1,659,315</u>

- A total estimated purchase price of \$47,830 was recorded by the Historical Commission on the sole source justification form submitted to the Department of Finance, Division of Purchases for work to be done by the A & S Company, Inc. on the Nashville City Cemetery. However, as shown in the schedule above, the total amount paid to that company for the project was \$833,177, which is just over 17 times the estimated price recorded on the sole source justification form. After the initial work began, the project scope increased and no further sole source justification was documented and competitive quotes were not obtained. The contractor, A & S Company, Inc., was one of three companies who expressed interest in performing work of this type on the project.
- The services obtained from Cumberland Research Group, Inc. for \$342,250 was similar to those provided by A & S Company, Inc. and was paid for under similar circumstances. No sole source justification form could be produced for audit review.
- Contracts or contract amendments with specific terms and legal requirements were not entered into with the vendors listed above. Rather, purchase orders were used to document the purchase price for the services or items provided. Without a contract, provisions to regulate the terms for completion of the work could not be applied since no document specified the conditions.

- Certified cost or pricing data was not obtained and analyzed as required for purchases over \$100,000.

Criteria:

- Procurement Code Section R4.12.030.06.02 requires that all procurement of goods or services in excess of \$10,000 shall be published to the public.
- Procurement Code Section R4.060.02 *Conditions for Use of Sole Source Procurement*. Sole source procurement is not permissible unless a requirement is available from only a single supplier.
- Procurement Code Section R4.12.130.02 *Requirement for Cost or Pricing Data*. Except as provided in Subsection R4.12.130.02.2 of this Section, cost or pricing data is required to be submitted in support of a proposal when any contract expected to exceed \$100,000 is to be awarded by competitive selection.
- *COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Written contract agreements provide the necessary resource for monitoring the work performed to help ensure payments for services are in accordance with contract terms.

Risks:

- Unforeseen legal ramifications.
- Unexpected liabilities.
- Perception of favoritism to current vendor.
- Vendor strategy to increase reimbursement costs.
- Undocumented agreements of corrective actions.
- Potential legal conflicts.

Recommendations:

Management of the Historical Commission should:

1. Ensure that, when applicable, contracts with specific terms and legal requirements are entered into in accordance with the Metropolitan Procurement Code.
2. Ensure that cost or pricing data is obtained when required.
3. When cost or pricing data are required, require that it be submitted to the Purchasing Agent prior to beginning price negotiations for the contract.
4. Require the offeror to certify as soon as practicable after agreement is reached on price that the cost or pricing data submitted are accurate, complete, and current as of a mutually determined date prior to reaching agreement.

5. Work with the Procurement Division to encourage competition in the procurement process by ensuring that sole source designation is only used on limited basis for those unique situations where it is warranted.

B – Financial Incentive for Historical Preservation Efforts

The Metropolitan Nashville Government does not provide local incentives for historical preservation efforts. Incentives similar to those available in several other cities could encourage an increased amount of restoration, rehabilitation and renovation of designated historic structures within Metropolitan Nashville Government.

A primary responsibility of the Historical Commission is to assist the city with the preservation of historic resources and the fulfillment of sustainability goals. Incentives such as those implemented in other cities could be implemented to protect Metropolitan Nashville's unique historic resources. The Historic Zoning Commission does have a brochure titled "Preservation Incentives" which describes incentives available other than local historical preservation incentives. One example is the Federal Historic Preservation Tax Credit for Rehab that provides a ten percent or twenty percent tax credit for the rehabilitation of qualifying properties.

As stated in the brochure, preservation is environmentally, economically, socially and culturally sustainable; protects and increases property values, and protects community identity among other benefits.

Possible benefits of local incentives for designated properties that undergo a substantial rehabilitation include the following:

- Stabilize and improve property values and enhance the property tax base of the city by encouraging improvement of designated structures.
- Improve the appearance of designated historic landmarks and historic districts, thereby enhancing their appeal as places to live, to work, or to visit.
- Encourage more restoration, rehabilitation, and renovation of designated historic structures.
- Encourage local designation as a historic landmark or historic district.

Examples:

The City of Jacksonville Florida approved an ad valorem tax exemption for locally designated properties that undergo a substantial rehabilitation. An eligible property that has completed a qualifying improvement project would be exempt from that portion of ad valorem tax levied by the city on 100 percent of the increase in assessed value

resulting from the improvement project during the designated exemption period.

In San Antonio, Texas, a tax exemption is available for designated local landmarks and properties within local historic districts that undergo a substantial rehabilitation. Following substantial rehabilitation of residential properties, city property taxes are frozen at the assessed value prior to rehabilitation for up to ten years. Substantially rehabilitated commercial properties are eligible for the 5 Zero/5 Fifty tax exemption: no City property taxes are owed for the first five years, and for the next five years the City taxes are assessed at 50 percent of a post-rehabilitation appraisal.

Portland, Oregon and the State of Oregon have a number of financial programs—primarily grants, loans, and tax benefits—that support historic preservation, renovation and rehabilitation projects and programs. One of these programs, administered by the State Historic Preservation Office, part of the Oregon Parks and Recreation Department, is a historic preservation tax incentive that “freezes” a property’s assessed value for ten years. This allows the owner to restore or improve the condition of the property and not pay additional taxes on the resulting increase in the property’s value until the ten-year benefit period has expired.

Risks:

- Loss of private investment to the historic core of Metropolitan Nashville.
- Missed opportunities to enhance property values and augment revenues for the local government.
- Lessen the occurrences of moderate and low-income housing creation in historic buildings.
- Non-use of abandoned or underused schools, warehouses, factories, churches, retail stores, apartments, hotels, houses and offices.
- Loss of appeal of designated historic landmarks and historic districts as places to live, to work, or to visit.

Recommendations:

The Historical Commission should:

1. Consider whether incentives similar to those of other municipalities are appropriate for Metropolitan Nashville and Davidson County.
2. If such a determination is made, work with necessary parties to enable approval of special incentives for qualified historical preservation and restoration.

Special note:

The Tennessee Preservation Trust, the state’s non-profit organization that promotes historic preservation, is working on proposed legislation

that would allow municipalities to enact legislation for abatement of increased property taxes resulting from improvements. In order to be considered, this legislation would be required to be on the Tennessee State ballot during an election where the Governor's seat is on the ballot (every four years).

GENERAL AUDIT INFORMATION

Statement of Compliance with GAGAS

This audit was conducted from August to October 2012, 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 observations 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.

Scope and Methodology

The audit focused primarily on the period July 1, 2010, through June 30, 2012. The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, conducting interviews, observations, performing substantive tests and tests of internal controls on the entity's financial information, written policies and procedures, contracts and other relevant data.

Criteria

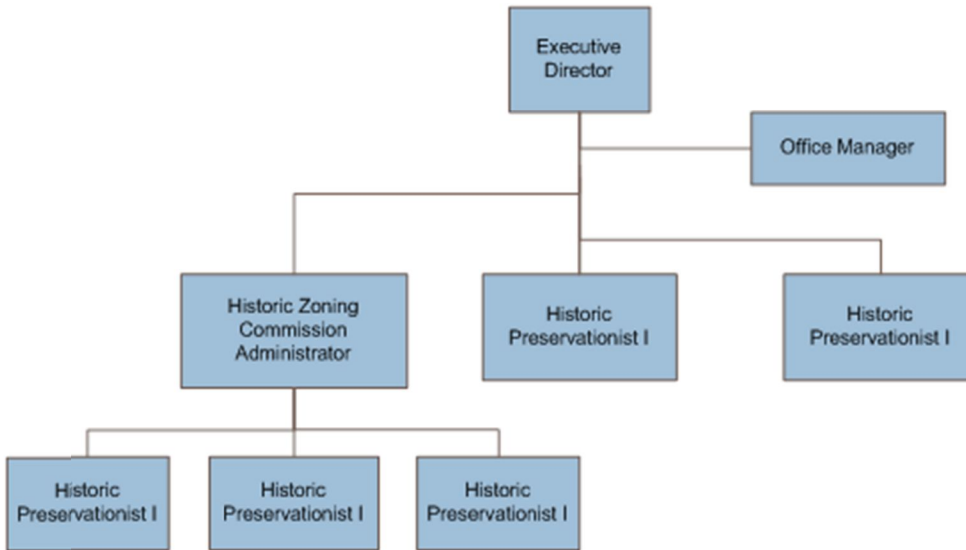
In conducting this audit, the existing processes were evaluated for compliance with:

- Metro Nashville Civil Service Policies
- Metro Nashville Procurement Code
- Historic Zoning Commission Procedure Manual, February 4, 2011
- Historical Commission and Historic Zoning Commission Departmental Rules
- *Tennessee Code Annotated* 13-7-403, Historic Zoning Commission – Regional Historic Zoning Commission
- The Charter of the Metropolitan Government of Nashville and Davidson County, Titles 16 and 17
- Resolutions and Ordinances including:
 - BL2000-365
 - BL2005-863
 - BL2005-864
 - BL2006-936
 - BL2011-834
 - RS2011-1587

Audit Staff

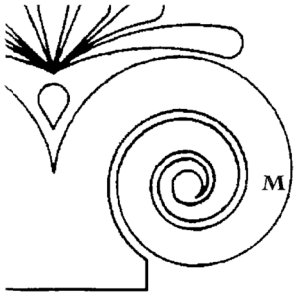
Roxanne Caruso, CIA, In-Charge Auditor (Planning)
Jack Henry, CPA, CGFM, In-Charge Auditor (Fieldwork & Reporting)
Carlos Holt, CPA, CFF, CIA, CFE, CGAP, Quality Assurance

APPENDIX A. ORGANIZATION CHART



APPENDIX B. MANAGEMENT RESPONSES

- Management's Responses Starts on Next Page -



M E T R O P O L I T A N
H I S T O R I C A L
C O M M I S S I O N

November 15, 2012

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

Dear Mr. Swann,

The appropriate administrative staff of the Metro Historical Commission and Metro Historic Zoning Commission has reviewed your department's audit of our Commissions and have accepted your recommendations under Section A and are partially accepting the recommendations under Section B. We have provided a response to your findings and have established a timeline for corrective action.

We look forward to working with you further regarding this matter.

Sincerely,

W. Tim Walker
Executive Director,
Metropolitan Historical Commission
Metropolitan Historic Zoning Commission

Metropolitan Nashville Historical Commission Management Response to Audit Recommendations

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
A. Management of the Historical Commission should:			
1. Ensure that, when applicable, contracts with specific terms and legal requirements are entered into in accordance with the Metropolitan Procurement Code.	Accept	Tim Walker	11/15/2012
2. Ensure that cost or pricing data is obtained when required	Accept.	Tim Walker	11/15/2012
3. When cost or pricing data are required, require that it be submitted to the Purchasing Agent prior to beginning price negotiations for the contract	Accept.	Tim Walker	11/15/2012
4. Require the offeror to certify as soon as practicable after agreement is reached on price that the cost or pricing data submitted are accurate, complete, and current as of a mutually determined date prior to reaching agreement.	Accept.	Tim Walker	11/15/2012
5. Work with the Procurement Division to encourage competition in the procurement process by ensuring that sole source designation is only used on limited basis for those unique situations where it is warranted.	Accept.	Tim Walker	11/15/2012
B. Management of the Historical Commission should:			
1. Consider whether incentives similar to those of other municipalities are appropriate for Metropolitan Nashville and Davidson County.	Partially Accept. We have and continue to evaluate available incentives that are used by other municipalities to promote preservation.	Tim Walker	11/15/2012
2. If such a determination is made, work with necessary parties to enable approval of special incentives for qualified historical preservation and restoration.	Partially Accept. The two most commonly used preservation incentives, Property Tax Abatement and a State Income Tax Credit, are not permitted by the Tennessee State Constitution; We have been in discussions over the past 18 months with Metro Planning, Metro Legal, the Nashville Downtown Partnership, and the Tennessee Preservation Trust, the statewide non-profit for historic preservation, on creating incentives that promote preservation and	Tim Walker	11/15/2012

**Metropolitan Nashville Historical Commission
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
	restoration of historic buildings.		