

BILL PURCELL  
MAYOR



## **METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

DEPARTMENT OF FINANCE  
OFFICE OF FINANCIAL ACCOUNTABILITY  
222 THIRD AVENUE NORTH, SUITE 315  
NASHVILLE, TENNESSEE 37201

June 30, 2004

Mr. David Manning,  
**Metropolitan Government of Nashville and Davidson County**  
Department of Finance  
225 Polk Avenue  
Nashville, TN 37201

Dear Mr. Manning:

Staff from the Office of Financial Accountability (OFA), formerly the Division of Grants Monitoring, conducted a review of Metropolitan Nashville Government administration of the TIIP grant. The review assessed the effectiveness and efficiency of the current process and Metro's compliance with the requirements of the program.

### **Background Information**

The Tennessee General Assembly established the Tennessee Industrial Infrastructure Program (TIIP) in 1988. The primary purpose of the Department of Economic and Community Development, which administers the program, is to provide funds for infrastructure improvements and/or for job-specific workforce training for industry in Tennessee. TIIP grant funds cannot be used for speculative purposes. Creation and retention of additional jobs are important goals of the program.

The TIIP grants generally directly benefit private industries, but the funds are awarded to cities, counties, industrial development boards, or other entities recognized as special purpose units of local governments. Each applicant may receive up to \$750,000 per project. Applicants are required to contribute a portion of the total project cost based on their ability, as assessed by the pay index established by the State of Tennessee. A summary of allowable activities for TIIP funds is outlined below:

Water Systems: Source Development, intake structures, treatment plants, storage facilities, transmission lines, and other improvements associated with the provision of public water service.

Wastewater Systems: Collection Lines, treatment plants, and other improvements associated with the provision of public wastewater service.

Transportation Systems: Access roads, rail sidings port facilities, airport improvements, other improvements associated with the provision of public transportation service.

Other Utility Systems: Improvements to electrical systems, gas systems, and telecommunication systems.

Site Improvements: Leveling, grading, or drainage of real property in order to make the property more suitable for the location or expansion of industries.

Employee Training: Provision of job-specific training to new or existing employees.

The following table shows the history of the TIIP grants to Metro and its component units since the inception of TIIP program (*It does not include TIIP grants in Davidson County to the City of Hendersonville*):

**Table 1**

Year	Applicant	Amount	Beneficiary Private Industry	Activity
1990	Metro Airport Authority	91,447.00	FFV Aerotech	Water, Sewer
1993	Metro Industrial Development Board	134,925.00	Brandau Craig Dickerson	Site, Water, Sewer
1993	Metro Industrial Development Board	181,114.00	BMI and Sony Tree	Sewer
1994	Metro Industrial Development Board	210,000.00	Mac Millian Bloedel	Rail, Water, Sewer, Site
1994	Metro Industrial Development Board	225,000.00	Mid-South Press	Site, Water, Sewer
1994	Metro Industrial Development Board	85,978.00	West Enterprise	Water
1994	Metro Industrial Development Board	24,480.00	Wright Industries	Site
1995	Metro Industrial Development Board	120,000.00	CNI	Site, Water, Sewer
1995	Metro Industrial Development Board	250,000.00	Roadway Package System	Site
1996	Metro Industrial Development Board	75,000.00	American Paper & Twine	Site
1996	Metro Industrial Development Board	41,775.00	Jamison Bedding	Water, Sewer
1996	Metro Industrial Development Board	159,500.00	Better Quality Cassettes	Site, Water, Sewer
1997	Metro Industrial Development Board	148,100.00	Wright Industries	Site, Water, Sewer
1997	Metro Government	90,000.00	Direct to Metro	Planning & Technical Assistance
1998	Metro Government	90,000.00	Direct to Metro	Planning & Technical Assistance
1998	Metro Industrial Development Board	67,524.00	Binding Technology	Water
2000	Metro Industrial Development Board	47,458.00	Bath Fitter	Sewer Line Extension
2001	Metro Industrial Development Board	750,000.00	Dupont Nonwovens	Rail
2001	Metro Industrial Development Board	168,228.00	Wise Industries	Rail, Sewer Line Extension, Gas Line Relocation

As shown in Table 1, the recent beneficiaries have been Bath Fitter, DuPont and Wise Industries. Metro's participation in the TIIP grants has been through the Industrial Development Board. The Greater Nashville Regional Council (GNRC), the Mayor's Office of the Community Development and the Division of Grants Coordination within the Finance Department also play a major role in the administration and oversight of the grants on Metro's behalf.

### **The Role of the Industrial Development Board**

The Industrial Development Board (IDB) is a component unit of the Metropolitan Government of Nashville and Davidson County with the sole purpose of promoting, developing, and assisting in the planned growth of Nashville and Davidson County's business and industrial community. The IDB, governed by a Board of Directors, consists of representatives from all the districts in the city and leaders in private business.

Currently, the Industrial Development Board is the primary Metro agency that administers the TIIP grants on behalf of Metro. In that role, the IDB is supposed to work with beneficiary private industry and the GNRC to assemble necessary documentation. The IDB then applies for the grant to the State, executes the contract, files claims for reimbursement, receives grant funds from the State, and disburses the funds to the beneficiary grant recipient(s) and contractor(s) on the project(s).

### **The Role of Greater Nashville Regional Council (GNRC)**

The GNRC is the regional planning and economic development organization of the 13 counties and 52 cities of the Greater Nashville Region of Middle Tennessee. The GNRC serves Cheatham, Davidson, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson and Wilson counties. The agency plays an important role in the way TIIP grants are processed and implemented in the Metro area.

The GNRC helps to facilitate the grants process by serving as a liaison between the State, Metro, the IDB, and the various businesses who benefit from TIIP funds. The agency assists businesses and local county governments with applications to the state for TIIP Grants. Once the appropriate documents are submitted and approved, a grant contract is executed between the State and Metro's IDB.

### **The Role of Private Industry – (Beneficiaries)**

The local business benefiting from the TIIP funds is responsible for overseeing the day-to-day performance of all activities related to the TIIP project. As the private business incurs expenses, it submits claims to the GNRC. The GNRC compiles all invoices and claims from other consultants/contractors along with other documentation that must be submitted to the State for reimbursement. The GNRC then sends the information to Metro's IDB for the appropriate signatures. Once signed, the information is submitted

back to GNRC, who reviews the information to make sure everything is complete and accurate. The GNRC then submits the information to the State.

### **The Role of the Mayor's Office of Economic and Community Development**

The Mayor's Office of Economic Development promotes a positive climate for private sector investment for future expansion of the tax base, growth in the number of quality jobs, and the creation of wealth in Nashville community. The office coordinates the activities and uses of the government's resources in a strategic manner to enhance Nashville's economic future. In its activities, the office encourages an increase in the job base by working with other economic development agencies to create new job opportunities through new business recruitment and existing business job base expansion. As a result of the new job growth and capital investment, it increases the tax revenue base and improves Metro's responsiveness to requests for assistance from the business community.

The Mayor's Office is the official Metro agency working with the IDB to manage the TIIP grant. In that role, the Office of Economic and Community Development assists the IDB with executing contract(s) with the State, files claims for reimbursement, helps to prepare the disbursement of funds to appropriate parties and until recently, signed the checks along with IDB representatives.

### **The Role of the Division of Grants Coordination (DGC)**

The DGC assists Metro departments with participating effectively in grant programs that are designed to promote innovations, enhanced services, and professional development within local government. The DGC assists departments in identifying funding opportunities, fostering collaborations, and developing sound proposals-serving as a "gatekeeper" and monitor of the grants as they move through the Metro approval process. The division is also responsible for developing and implementing policies & procedures for grants to Metro, and Metro's appropriations and grants to other entities. Staffs from this division also provide technical assistance and grants-related training to departments and act as a liaison between user-departments and the Finance Department on grants-related matters.

Currently, the DGC has assumed a significant role in the TIIP program and grants process. This division manages and has custody of the IDB bank account dedicated to the TIIP grant, reviews and approves payment requests, and issues checks to the beneficiary in private industry and the respective contractors. The DGC is truly the liaison between Metro government and the IDB.

### **Scope of the Review**

A monitoring review is substantially less in scope than an audit. The OFA did not audit the Industrial Development Board or any of the grantees' financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of Industrial Development Board or any of the grantee agencies.

The monitoring review was conducted in accordance with the Metro Grants Manual. Our monitoring objectives were as follows:

- To assess the internal controls established to ensure proper accountability for the TIIP grant funds.
- To verify the beneficiary maintained matching funds as required and any supporting documentation for such matching funds.
- To verify that any funds received were appropriately accounted for and disbursed as directed to the appropriate companies and individuals.
- To assess the appropriateness of the administration of the grants.

## **Conclusions and Recommendations**

The OFA reviewed the current process for handling the TIIP grants in Metro government and interviewed the key personnel several times. The OFA assessed the level of oversight and established controls over the program. This included the roles of the IDB board, the officials of the GNRC, the Mayor's Office of Economic Development and the staff of Division of Grants Coordination. The OFA identified issues that need to be addressed with each respective agency, as addressed below:

### **The Industrial Development Board**

**Issues:** The IDB's participation and oversight of the TIIP grant program has been inadequate. Despite being the primary Metro agency with responsibility of administering the program, the IDB does not actively exercise control over the program. The IDB does not have full- or part-time staff assigned with direct oversight of the program. An IDB board member signs contracts on behalf of Metro and issues checks as directed by the Mayor's Office of Economic and Community Development. There is no evidence the IDB reviews the expenditure reports prior to issuing payments. Also, it does not appear the IDB monitored the projects, or verified the beneficiary company's matching funds and documents as indicated in the reports sent to the State which vouched the reports' accuracy. Such a lapse in oversight could lead to serious liability for Metro. For example, prior to the OFA's test work, no one requested or verified proof of the required matching funds of \$592,422.26 from DuPont towards the project. (See results of DuPont Grant Review). Also, there is no evidence that the IDB or the Mayor's Office representatives inspected the projects.

### **The Greater Nashville Regional Council (GNRC)**

**Issues:** The GNRC plays a very critical role in the TIIP grant process. The agency is usually involved from the onset with the application process. It helps Metro prepare the application to the State (on behalf of the beneficiary agency) and serves as the liaison between Metro and the State and between the private industry beneficiary and Metro. The GNRC manages the project, including placing advertisements in the local paper to announce the award and soliciting bids for subcontractors. The agency also attends bid openings and ensures the contract awards are handled properly. The GNRC stays in regular contact with the private industry, contractors, and subcontractors to ensure continuing progress of the project. According to the GNRC, it inspects contractors' payroll records for compliance with the Davis-Bacon Act, making sure contractors and subcontractors pay workers at least the prevailing minimum wages. As mentioned earlier, the GNRC handles similar projects for several cities in Middle

Tennessee and, moreover, the compensation paid to the GNRC out of the grant project is very minimal, usually less than \$5,000.00. The GNRC compiles the necessary paperwork, prepares the expenditure reports/claims for the IDB and or Mayor's Office review and approval, and subsequently the reports' submission to the state. Currently, the GNRC conducts the **final** review of the contracts and claims prior to submitting them to the State for approval on behalf of Metro.

### **The Private Industry – (Beneficiary)**

**Issues:** There are no issues pertaining to the beneficiary private industry except the fact that there has not been close oversight of past projects. The grant agreements are between Metro and the State and usually require matching funds. Metro promises to provide the funds, however private industry beneficiaries are expected to provide those matching funds. Metro **did not sign agreements** with the private industry beneficiaries to cover these matching funds and, thus, is exposed to potential liability because of the contracts with the State. Also, Metro **failed to conduct an inspection of the** beneficiary companies to ensure they met the obligations under the contract with the State.

### **The Mayor's Office of Economic and Community Development**

**Issues:** The Mayor's Office does not have the necessary resources to manage the TIIP grants. Its staff does not have grant administration expertise or the technical knowledge necessary to ensure the contracts were adequate to meet the objectives or the work performed met the specific requirements of the contracts. The role for this office was limited to securing the necessary IDB signatures for contracts and checks.

Also, the Mayor's Office of Economic and Community Development did not ensure that Metro (IDB) signed any agreements with the beneficiary companies to cover Metro's exposure to liability regarding required matching funds. The Office also does not inspect the work performed or review the obligations expected of the beneficiary companies.

### **The Division of Grants Coordination (DGC)**

**Issues:** The DGC was recently added to the process within Metro. It **does not** review claims prior to being submitted to the State, but prepares checks for the necessary signatures to pay contractors and subcontractors, when the IDB receives reimbursement from the state.

**Currently the DGC issues separate checks to the beneficiary and any contractors and subcontractors.**

The DGC would also review the TIIP contracts; however, there have not been any new contracts since the division's involvement. It must also be noted that,

although the DGC has grants management expertise, it does not have the technical knowledge necessary for managing the TIIP grants or enough resources to stay engaged in the projects continually.

In addition to reviewing the current processes and roles of the different parties, the OFA reviewed the listing of all TIIP grant contracts that pertained to Metro. The OFA noted that Metro had only received 21 TIIP grants over the past 14 years. Of those 21 grants, only 4 were received in the past 5 years. The OFA selected and tested the two most recent grant contracts, which represented all of the TIIP grants to Metro since 2001. The results are presented below:

### **Results of the DuPont Grant Review**

The first grant reviewed, #Z-02-008-502-00, was awarded to the DuPont Sonata Plant in Old Hickory to expand their facilities. The TIIP grant was \$750,000 with required matching funds of \$592,422.26 from DuPont to specifically help cover the cost of the additional rail line.

The OFA obtained supporting documentation for amounts paid by DuPont towards the project. The OFA noted that DuPont had paid \$592,879.00 on the project. All expenditures tested appeared to be reasonable, appropriate and consistent with the project objective. The OFA also noted that documents tested had physical evidence indicating the charges had been reviewed and approved.

### **Results of the Wise Industries Review**

The second grant reviewed was grant #Z-02-008501-00 to Wise Industries for costs associated with the construction of rail, sewer, and gas lines. The TIIP grant was \$168,228 with Wise Industries required to pay \$112,152.00 in matching funds.

The OFA obtained supporting documentation for amounts paid by Wise towards the project. The OFA noted that Wise had paid \$112,152.00 on the project and that all expenditures appeared to be reasonable and appropriate.

Based on the test work conducted, the OFA concludes that matching requirements appear to have been met for both TIIP grants reviewed. The OFA inspected enough supporting documentation to demonstrate the performance of the necessary match requirements.



## Conclusions:

### 1. **The administration and oversight of the TIIP grant program needs changes**

The IDB, as the administering agency, does not have any staff that can manage the program. Evidence shows the IDB does not play any role except serve as the conduit for processing the contracts on behalf of Metro. There is evidence to indicate the IDB board did not fully embrace the responsibility for the oversight of the TIIP grants. There is no evidence of the board's involvement. The IDB's participation was limited to the board chair signing off on contracts and checks. The Mayor's Office of Economic and Community Development, the Metro agency intended to provide support and technical assistance to the IDB, does not have the general grant program management experience or the technical engineering knowledge/expertise necessary for the TIIP grants.

The Mayor's Office of Economic and Community Development failed to ensure there are side agreements with the beneficiary companies to eliminate potential liability for Metro. It also did not monitor the contracts to ensure compliance.

The Mayor's Office of Economic and Community Development is exposed to serious potential problems by signing checks of a component agency without established proper controls to effectively manage or assist the oversight of the program.

## **Recommendations**

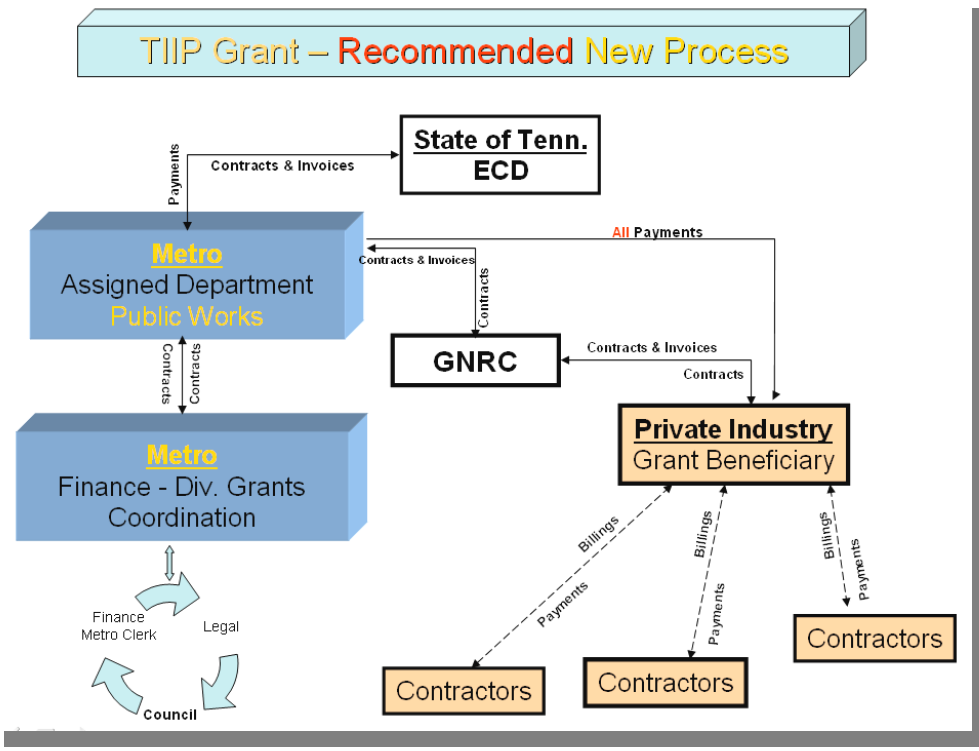
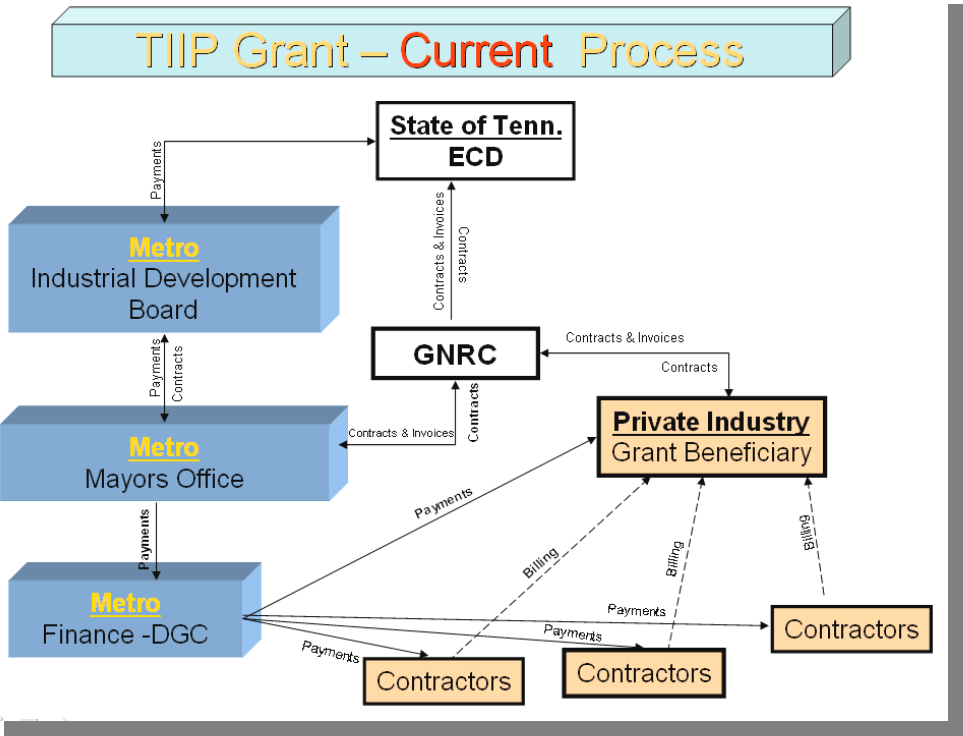
Based on the complexity, nature, and expertise needed to implement a TIIP-related program, the OFA recommends the following:

- 1) **The oversight and management responsibilities of the TIIP grant program should be transferred from the Industrial Development Board to the Department of Public Works.** This department manages similar grants and also has the technical expertise and knowledge necessary to manage the TIIP grants.
- 2) The Mayor's Office of Economic Development's involvement in the TIIP grant **should cease immediately.** Effective July 1, 2004, the Public Works Department should assume the role of both the IDB and the Mayor's Office of the Economic and Community Development.
- 3) The DGC should continue to be involved in the TIIP grants processes, but its activities should be limited to reviewing and handling the contracts through Metro's internal grant processes, including securing Metro Council's approval.

The DGC should not continue to review invoices or issue payments on the TIIP grants.

- 4) The activities of the TIIP grants should be recorded on Metro's accounting system, FASTnet and, in the future, should be reflected on the Schedule of Federal and State Grant Assistance as issued in the Single Audit.
- 5) Besides recording the accounting transactions on FastNet, Public Works Department should engage the GNRC and the private industries to gain the necessary insight of the TIIP program.
- 6) The Public Works department should replace the GNRC as the formal contact on the TIIP grant with the State and the private industries.
- 7) The Public Works Department should be responsible for preparing payment vouchers for all payments regarding the TIIP grants.
- 8) The GNRC should continue to be involved in the process. The GNRC should no longer submit final reports, contracts etc. to the state on behalf of Metro. The Public Works department should review and approve all deliverables from the GNRC prior to submission to the State or others.
- 9) The Public Works Department should remain engaged in the oversight of the grants, working with the GNRC to ensure all parties meet their obligations.

Please note our recommendations for the flow of documentation for administering the TIIP grants effective July 1, 2004.



**2. Metro needs to tighten controls over the program to minimize its exposure to potential liability.**

As highlighted earlier in this report, the OFA noted weaknesses in controls over the administration of the grant; therefore, the OFA makes the following recommendations:

**Recommendations**

- 1) A formal set of guidelines and procedures should be developed to ensure local companies meet their matching obligations.
- 2) The OFA recommends implementing a policy requiring on the beneficiary companies meet match requirements based on the percentage of the project's completion. For example, Metro should ensure the beneficiary company would have met 50% of its matching obligation under the contract by the time the project is 50% complete.
- 3) The OFA also recommends that, instead of directly reimbursing the various vendors and contractors on a particular project, Metro should reimburse the local company benefiting from the TIIP project. The local company would then be responsible for submitting payments to the various vendors. This method will allow Metro to hold the beneficiary company responsible for all payments on the grant and not the just the portions paid directly to them.
- 4) The OFA recommends that Metro executes legally binding contracts, side agreements, with the local beneficiary companies before Metro enters into a TIIP Grant Agreement with the State. The purpose of the contract should be to negate any exposure to liability regarding a TIIP-related project.

We appreciate the assistance your agency provided us during the course of the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA  
Director

cc: Nettie Scalf, Industrial Development Board  
Talia Lomax-O'dneal, Deputy Director of Finance  
Kim McDoniel, Internal Audit  
Mitzi Martin, Chief Accountant, Metro Finance

Billy Lynch, Public Works Department  
Mark Macy, Public Works Department  
Tom Jurkovich, Mayor's Office of Economic and Community Development  
Jennifer Andrews, Mayor's Office of Economic and Community Development  
LeAnn Cox, Greater Nashville Regional Council  
Michelle Lane, Division of Grants Coordination  
Andy Palk, Division of Grants Coordination  
William Walker, Office of Financial Accountability