

BILL PURCELL  
MAYOR



**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

DEPARTMENT OF FINANCE  
DIVISION OF GRANTS MONITORING  
222 THIRD AVENUE NORTH, SUITE 315  
NASHVILLE, TENNESSEE 37201

July 28, 2003

Mr. David Manning  
Department of Finance

Nashville, TN 37201

Dear Mr. Manning:

Please find attached the Special Monitoring Report of the Tennessee Police Athletic League. The report is a summary of the issues identified as part of our technical assistance provided for the Tennessee Police Athletic League. We hope our involvement, through continuing efforts to work with the Board of Directors and the Metropolitan Nashville Police Department, will help to resolve the issues identified in this report.

We appreciate the opportunity to offer our assistance to PAL. If you have any questions, please call me at 615-880-1035.

Sincerely,

Fred Adom, CPA  
Director

cc: Chief Deborah Faulkner, Acting Chief of Police, Metro Nashville Police Department  
Chief Richard Briggance, Metro Nashville Police Department  
Nancy Whittemore, Assistant Director of Finance  
Mitzi Martin, Division of Accounts  
Kim McDoniel, Internal Audit



**Metropolitan Government of Nashville and Davidson County**

222 3<sup>rd</sup> Ave. N.  
Suite 650  
Nashville, TN 37201

615-862-6170 office  
615-862-6175 fax

[www.nashville.gov/finance](http://www.nashville.gov/finance)

.. **Special Monitoring Report of** ..

# Police Athletic League



**ISSUED BY**



**Office of Support Services  
Division of Grants Monitoring**

July 28, 2003

Fred Adom, CPA  
Director

*Our Vision: To be excellent and proficient in monitoring and management services.*

## **EXECUTIVE SUMMARY**

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The Division of Grants Monitoring (hereinafter referred to as “DGM”) has completed a special operations review of the Tennessee Police Athletic League (hereinafter referred to as “Tenn PAL”). The DGM is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements, and non-profit organizations that receive direct appropriations from the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). This review was substantially less in scope than an audit. The DGM did not audit the Tenn PAL’s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Tenn PAL. Our special operations review focused on the agency’s operations, board oversight, internal controls, and financial documentation.

### **OVERVIEW**

The Tenn PAL is a registered nonprofit entity founded in 1983 to encourage “at risk” children to stay in school through participation in various supervised sports activities. A Board of Directors, independent of Metro, oversees program operations. Several current and former police officers of the Metropolitan Nashville Police Department (hereinafter referred to as “MNPD”) serve on the Tenn. PAL Board, including the current Acting Chief of Police, the former Chief of Police, and the Vice-Mayor of the Metro Council.

The athletic programs, which include baseball, basketball, football and karate, serve over 2,000 children annually. Three (3) MNPD officers that are funded and wholly supported by the MNPD direct and teach the athletic programs, under the supervision of a Lieutenant. Other than the salaries and fringe benefits of the personnel assigned to the program, the MNPD also provides the office supplies, utilities and vehicles and office equipments used in the program. These officers, who are fully dedicated to the Tenn PAL program, are housed in East Nashville in a building at 914 Meridian Street in Nashville.

The Tenn PAL maintains three bank accounts with the Tennessee Commerce Bank in Franklin, Tennessee. The balances on the accounts as of May 12, 2003, were as follows:

Foundation Fund (Savings # 714)	\$135,882.16
Litton Alumni Fund (Checking # 788)	\$41,788.18
Operating Fund (Checking # 822)	\$ 19,491.98

## **FINDINGS AND RECOMMENDATIONS**

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### **1. Board oversight needs major improvement.**

#### **Finding**

Our review of the agency's operations and available records indicated limited board oversight of operations. We noted several issues that resulted from board action or inaction. The following represents the major issues found:

- Only two (2) of the Board members (the Board Chair and the Treasurer) were actively involved in the Board transactions. These two Board members had complete control over all financial operations. The Board Treasurer resigned effective May 15<sup>th</sup>, 2003, leaving only one active Board member.
- The Board did not hold regular meetings and did not maintain meeting records. Meetings were scheduled only when Board signatures were needed for program transactions and for fundraising activities for the Litton Alumni Fund. The Board Treasurer, who also acted as the Board Secretary, did not have copies of the Board meeting minutes available for our review. There were no official signed minutes kept on file.
- The Board of Directors acts as the executive/administrative body rather than the policy-making body.
- The Board has custody of the financial records and processes financial transactions on behalf of the program.
- The Board did not have, or did not enforce a conflict of interest policy.
- The Board is not actively involved in or aware of Tenn PAL activities. The Board members did not visit the Tenn PAL offices or programs and did not regularly communicate with the Tenn PAL Police Officers. The Board appeared unaware of a new supervisor, who was appointed to the program six months ago.
- The Board is physically removed from the program. The Tenn PAL Board meetings, mailbox, banking activities, and accounting transactions for Tenn PAL occur in Franklin, Tennessee, while the actual program operates in the Metro Nashville area.
- The Board did not articulate short- and long-term plans for the program.
- The Board did not appear to be fully aware of the Tenn PAL's assets. The Board was not aware that the Tenn PAL owns the building that houses the program.
- Communication between the Tenn PAL Police Officers that operate the program and the Board of Directors is poor. The Board did not have an established process of communicating with the officers. The Officers were not required to report to the Board, and the Board did not invite the Officers to Board meetings.
- The Board appears to be more focused on fund raising for the Litton Alumni fund than its primary obligation for the oversight of the Tenn. PAL program operations

Good business practices dictate that a Board of Directors oversees the management of an agency's operations and protect the integrity and financial well being of the program by ensuring proper management and efficient operation of the assigned program. Without active involvement and proper oversight by all members of the Board of Directors, agencies face potential weaknesses in controls and conflicts of interest, as we noted for the PAL in Findings 2 and 3, leading to exposure to potential abuse and misuse of funds.

## **FINDINGS AND RECOMMENDATIONS**

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### **Recommendations**

The following immediate actions are necessary to ensure the survival of the program and to enhance its operations,:

- a. Due to the Tenn PAL's affiliation with and the significant support provided by the MNP, the Acting Police Chief should take a more active role on the Board of Directors and in the operations of the program.
  - b. The Acting Chief should organize an emergency meeting to identify committed members and to consider reconstituting the Board to include individuals who can actively participate.
  - c. The Board should move its activities from Franklin to the Metro Nashville area.
  - d. The Board should establish new policies and procedures for Board members.
  - e. The Board should establish an annual budget for the Tenn PAL to provide for adequate financial resources for program operations and activities.
  - f. The Board should develop short- and long-term plans for the program.
  - g. The Board should establish a process whereby two Board members sign the Tenn PAL's checks. This process should include the signature of a representative of the MNP and another Board member that is not an MNP employee.
  - h. The Board should assign the daily administrative and accounting functions to an organization qualified to provide those services.
  - i. The Board should monitor program goals and results.
2. **Serious conflict of interest issues are impacting the program's operations.**

### **Finding**

Tests revealed the Board Chair, who is also responsible for approving all purchases, placed orders on behalf of the Tenn PAL. The Board Chair and the Treasurer the only two active Board members and only the ones also authorized to sign checks and approve financial transactions.

Records indicate the Board Chair owns a sporting goods business that transacted a significant amount of business with the Tenn PAL. As indicated on the attached schedule, the volume of business amounted to over \$214,000 over the last three years (July 1, 2000 through June 30, 2003). The records indicate the payments, which were made to the Board Chair and his company, were for goods and supplies in the form of uniforms and equipment for the various programs. Our analysis of the Tenn PAL unrestricted receipts, which included fees for the sports concession stands and all others except for restricted contributions, amounted to only \$158,480, during this same period. Payments to the Board Chair and his company constituted half of the total program expenses for the year ending June 30, 2003 (\$37,814 of \$74,000 expenses in FY 03 went to the Board Chair).

Our review also indicated the Board Chair sometimes ordered items without any requisition from the officers. There were no bids and the officers did not receive copies of the invoices, nor were they informed of costs for the items. It appears the Board Chair had complete control of the entire process, including the decision of what to order, the vendor(s), the amount deemed reasonable and acceptable to pay, when to issue the check, and the check amount. Such conflicts of interest, coupled with complete control of the operations, could lead to fraud, misuse, and misappropriation of program funds without timely detection.

### **Recommendations**

**The following immediate actions should be taken:**

- **The Board should develop a conflict of interest policy and communicate that policy to all Board members.**

## **FINDINGS AND RECOMMENDATIONS**

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- **All Board members should also sign conflict of interest statement annually.**
- **The Board should properly assign administrative functions.**
- **The Board should establish sound internal controls.**

3. **Severe internal control weaknesses exist.**

### **Finding**

The Board needs to improve controls over cash fees and receipts. The collection of fees, which is the only decentralized function, has not been well defined or communicated to Tenn PAL officers. Each program devised its method and controls for collecting, recording, and depositing program funds. Such weaknesses in the internal control coupled with the lack of a budget or support from the Board, encouraged the program officers to develop alternative ways of ensuring continuous cash flow for the programs. This has led to opening of at least three bank accounts outside the control and oversight of the Board to handle the needs of the various programs.

Also, as mentioned in Finding #2, an apparent conflict of interest and internal control weaknesses exists throughout the entire process. Such weaknesses could lead to fraud, misuse, and misappropriation of program funds without detection.

### **Recommendations**

**The Board should take the necessary measures to gain control and oversight of all fees collected for the programs. The Board should also take measures to ensure the complete accounting and deposit of all funds, as well as disbursements of program funds. Finally, the Board should establish procedures to ensure full compliance with internal control measures by all staff members**

4. **Failure to comply requirements regarding use of grant funds.**

### **Finding**

The Tenn PAL was awarded a \$25,000 grant intended for the track teams from the National Police Athletic Leagues, Inc., administered by the National Youth Sports Corporation. The grant application required a specific line-item budget, listing proposed spending prior to approval of the grant. The budget for this grant included provisions for the following:

Recreational Equipment	\$12,000.00
Insurance on the Track Program,	\$1,000.00
Training in the Track Program	\$2,000.00
Computer Software for the Track Program	\$2,200.00
Laptop Computers in the Track Program	\$3,000.00
Cameras for the Track Program.	\$4,800.00

The Board Chair diverted \$12,846.66 of the grant funds toward baseball supplies from his sporting goods company, in violation of grant budget stipulations. The Tenn PAL officers did not request the items and there were no bids or purchase orders. At the time the check was issued, no goods had been delivered. It is our understanding that some boxes were delivered with baseball items but the board chair was informed to pick up those items because they had not been ordered.

## **FINDINGS AND RECOMMENDATIONS**

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The grant requirements state the following:

"The Subgrantee will conduct and maintain the program, in accordance with its approved "Application for Participation"

The Subgrantee agrees that it will use the grant funding exclusively in performance of the Application for Participation that it submitted.

Due to the Board Chair's decision to use the track team grant to purchase baseball items, Tenn PAL was unable to use the grant funds as intended and will be obligated to refund the grant to the National Youth Sports Corporation. The grant period ended May 31 and the deadline for the closing the program was July 14, 2003. As such, the closeout report and refund to the National Youth Sports Corporation are past due.

### **Recommendations**

**The Board should take the necessary measures to immediately refund the grantor. The board should also establish procedures to ensure future compliance with grantor guidelines and requirements. Finally, the Board Chair should refund the grantor for inappropriate grant expenditures.**

5. **The Tenn PAL violated State Charitable Solicitation rules and regulations.**

### **Finding**

The Tenn PAL failed to file the annual report required to renew its corporate license with the Secretary of State of Tennessee and also failed to renew registration for charitable organizations with the Division of Charitable Solicitations. The agency last renewed its license in February 2001, and consequently, its business license has been revoked and made inactive.

Charitable organizations are required to renew their business license annually. Also, the organizations that solicit donations from the public, totaling \$30,000 or more for charitable purposes, in Tennessee must file an annual Summary of Financial Activities report with the State, as stated in the Charitable Solicitations Act (TCA 48-101-501 et seq.).

Failure to comply with the TCA would lead to late fees and penalties being assessed. Considering the time that has lapsed since Tenn. PAL last complied with the law, it is facing potential penalties up to \$10,000 and filing fees of \$620.00 to get reinstated.

### **Recommendations**

**The Board should take immediate actions to suspend all solicitations in the name of Tenn PAL, including those for the Litton Alumni project. The board should also take the necessary measures to file the required forms and reinstate the agency's charitable status with the State of Tennessee.**