

BILL PURCELL  
MAYOR



## METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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### MEMORANDUM

**To:** Members of the Budget and Finance Committee  
Metropolitan Council

**From:** David L. Manning  
Director of Finance

**Date:** January 8, 2001

**Subject:** Finance Department Reorganization

When I became Director of Finance for the Metropolitan Government, I carefully reviewed past audits of the City, my responsibilities under the Metro Charter and the day-to-day operations of the Department. What I found were a number of long-standing problems that needed immediate attention. The major problems included:

- Bank accounts were not being reconciled in a timely manner and for two years had been done by outside consultants at a very high cost to the taxpayer;
- We were heavily dependent on outside consultants in other aspects of the Department's daily operations;
- Major aspects of the Department's operational budget were funded from bond proceeds instead of general fund appropriations;
- The City's audit staff had largely been diverted into non-audit activities and as a result Nashville had almost no effective audit capacity;
- The financial management of the City's employee benefit programs had major problems that needed immediate attention;
- We had no process for making rational decisions about the capital spending priorities of the City;
- Contract management was ineffective resulting in several major instances where the City conducted business without a contract or a contract that was not approved by the Purchasing Agent, the Department of Law or the Director of Finance as required by law;
- We were dependent on outside consultants for most of our Treasury and Debt Management activities;
- We had no effective grant management or customer service systems; and
- While Metro had utilized the services of MDHA for several major construction projects, we had no capacity to effectively manage the many other facility related construction projects throughout the government.

When the Metro Council adopted the Budget last spring, the bond funds being used in the Finance Department's Budget were replaced with general fund appropriations and we agreed to begin addressing these critical issues, several of which were also cited in the critique of Metro's management published last year in *Governing* magazine.

To fund these changes and to meet our budget reductions for the Finance Department, we agreed to reduce our dependence on outside consultants and use the savings to hire needed staff. We also agreed that needed improvements in our facilities and construction management process would be funded from capital appropriations and that improvement in our Treasury operations would be funded through investment earnings.

I am pleased to report to you that we have made substantial progress in each of these areas. We are fortunate that for many of these leadership positions qualified personnel were available within the Finance Department. Several of these dedicated employees have accepted the opportunity to lead in these new areas of responsibility and, with the approval of the Civil Service Commission, we have compensated them in line with the cost of hiring similarly qualified personnel from outside Metro. I am also pleased to report that we have also been very successful in attracting new talent to Metro to assist us with this effort.

Promotions, like these we have made in the Finance Department, are a routine part of managing any organization. In an organization as large and complex as the Metropolitan Government some employees leave every month and are replaced with new employees and many times existing employees are asked to accept greater responsibilities. Since I became Director of Finance, this has occurred about 400 times throughout the government, only 15 of which were in the Department of Finance. As long as promotions are done within the approved budget and are for a needed purpose, I have routinely approved them throughout the government. To do otherwise would deny dedicated Metro employees the opportunity for advancement, limiting these opportunities to new employees, often at greater cost to the taxpayer. In many cases it is necessary to hire from the outside in order to obtain the best qualified person for the job, but when a Metro employee is the best qualified person for the job, they should be promoted and compensated accordingly. The promotions we have made in the Finance Department are consistent with this policy.

In this report I will provide you with an overview of the changes we have made in the Finance Department. These changes have already saved over \$4.5 million for the taxpayers of Davidson County and will save even more in the future. In addition, I am also attaching our revised budget and personnel listing for your review.

### ***Financial Operations***

We have recently appointed Joe Holzmer as Assistant Director for Financial Operations. As many of you know, Joe has headed up Metro's Audit Program for several years but was also responsible for managing the implementation of FastNet, Metro's new financial management system, an activity that has taken most of his time during the past two years. In this new capacity, Joe will be responsible for the Division of Accounts, Payroll and the further development of the FastNet system. A principal part of his responsibility will be to work with Metro agencies to assist them in effectively using the system to streamline and improve their department's financial management. Joe has proven himself to be an effective leader who is capable of the challenges ahead.

With Joe's leadership, we have developed a plan that will enable us to significantly reduce the Finance Department's use of outside consultants. This will enable the Finance Department to meet its budget goals and save additional money to finance other needed improvements that I will discuss later in this report. Last year, the Finance Department's use of outside consultants cost \$2,050,000. We expect to reduce that cost to \$1,300,000 in this year and make further reductions next year.

I also anticipate that Financial Operations will assume additional responsibilities in connection with the recommendations of the audit of the Benefit Board. These responsibilities will be in the area of the pension payroll and other financial operations that should be under Finance Department control. I

anticipate the costs of these additional responsibilities will be funded from current appropriations and the Benefit Board Trust Fund as authorized by law.

Joe Holzmer has also been appointed by the Mayor to serve in the capacity of Metro's Chief Accountant. Bob Lackey, who has served in that capacity for many years, continues as a Special Assistant to the Director working on a wide variety of issues including: Sports Authority financial management, debt management and capital planning.

***Audit***

A major emphasis of Mayor Purcell's Administration has been the revitalization of Metro's Audit program. This has been focused on both the traditional financial and compliance audits and on introducing the performance audit as a management tool in Metro Government. As a result of your support of these efforts, we are currently conducting comprehensive audits in the following areas:

- Benefit Board Investment Committee (completed last spring);
- Benefit Board Operations;
- Schools;
- Bordeaux Hospital;
- Metropolitan Transit Authority; and
- E-911 Emergency Communications System.

The results of these audits will be reported to the Council and the public in the first quarter of 2001. We expect many improvements in the operations and financial results of the organizations affected. We are working with the Council's Audit Committee to determine our priorities for next fiscal year.

Our first completed audit of the Investment Committee of the Benefit Board has already produced significant savings. The estimated annual savings as a result of the audit are:

|  |                    |
|--|--------------------|
| ✓ Reduced Costs of Investment Consulting | \$ 640,000         |
| ✓ Reduced Investment Management Fees     | <u>\$3,200,000</u> |
| Total Savings                            | \$3,840,000        |

In addition to these savings, we are also restructuring the Benefit Board's investment portfolio to reduce its risk and improve its performance as recommended by the Audit. These savings alone demonstrate the wisdom of your decision to support the Mayor's request for more resources in the area of audit and financial management. In the coming weeks, new audit reports will identify other opportunities for improved services and financial savings.

After consulting with the Council's Audit Committee, we selected Kim McDoniel to lead our Audit Program. Kim has been effectively managing the Audit Program for the past two years while Joe Holzmer gave his attention to the implementation of FastNet. She is well qualified having 8 years of experience with Metro and extensive private sector experience prior to joining Metro. Under Kim's leadership, the Audit Program is well on it's way to becoming an outstanding management tool for Metro Government. While we will continue to rely on outside sources for much of the expertise needed to conduct highly specialized audits, she is also developing the staff resources needed to more effectively manage this process and to conduct as much of the audit process as is feasible with our own staff of Metro auditors.

## ***Budget and Strategic Planning***

The Metro Budget is the most important planning document of the City. In other words, if the budget does not reflect our plans for the City, the plans will never be realized. If the budget is not based upon a well thought out strategic plan, it simply becomes a document that reacts to situations and circumstances without any long-term community purpose. Therefore, the goals that we have set for improving the budget process are vital to our long-term success as a community.

During our discussions of Mayor Purcell's first budget last spring, we discussed the need for improving our budget process by developing a comprehensive annual capital budgeting process, more effectively integrating the capital process with the operating budget and developing a strategic planning process along with accurate measures of the results our programs produce for the community. While these changes will take time to fully implement, we have made substantial progress and are poised to make even more progress.

In the fall, Mayor Purcell presented the City's first comprehensive recommendations for capital investment. This process was well received and unanimously approved by the Council. We will continue this process and work with the Council and Planning Commission to continuously improve it. To accomplish this objective, we have allocated resources within the Finance Department for a full-time staff member to work in this area.

In addition, we are also concentrating on integrating an effective strategic planning process to guide our budgeting process. The results these plans achieve for our City will be measured and reported to both the Council and the public to guide a process of continuous improvement in our strategic vision for the community and to ensure that the budget process effectively incorporates the plans we have developed. To ensure our continuing progress in this area, we have also allocated resources within the Finance Department for a full-time staff member to work in this area.

We have made substantial progress in developing strategic plans in several critical areas. These include:

- ❑ The Comprehensive Waste Management Plan recently announced by Mayor Purcell;
- ❑ Development of a comprehensive strategic plan for information systems throughout Metro is underway;
- ❑ We are working closely with the Vanderbilt University Center for Child and Family Policy to develop a coherent plan for vital support services to the youth of our community;
- ❑ A strategic planning effort for sidewalks, including a plan for meeting the needs of the community's bicyclists is about to get underway; and
- ❑ A comprehensive plan for Parks and Greenways will get underway early in 2001.

In addition, current and planned performance audits will provide a solid basis for developing plans for our Schools, the Benefit Board, MTA, Bordeaux Hospital, the E-911 System and fleet operations throughout Metro.

A major concern in these efforts will be to gain a thorough understanding of Metro's current and projected costs for its current programs and future endeavors. As has been clearly demonstrated by the new Waste Management Plan, an accurate understanding of our cost is vital to make the best decisions for our city.

To lead these important efforts, we are fortunate to have Talia Lomax-O'dneal join us as Assistant Director for Budget and Strategic Planning. Talia has extensive experience in budgeting and financial management in both state government and the private sector. In her new capacity, she will work closely with Mimi Hayes and the budget staff as well as the Planning Commission and Metro Departments. Talia

has already made substantial progress in addressing the issues discussed in this report and has also recruited staff that will enable this work to accelerate in 2001.

### ***Support Services***

Much of what we do is for the purpose of supporting the work of other departments in delivering services to our community. As we have discussed, there are several areas of support that need strengthening in order to allow Metro agencies to better meet the needs of our citizens. These include: customer service, contract management and grant management. In addition, our Purchasing and Public Property programs also provide critical support to Metro departments.

All of these support efforts are being coordinated and enhanced under the leadership of Nancy Whittemore, Assistant Director for Support Services. Nancy comes to Metro from state government where she gained extensive experience in financial and program management in leadership positions in the Departments of Finance and Administration and Human Services. I am very pleased that we have been able to attract a person of Nancy's caliber to work with us in these vital areas.

Nancy is currently in the final stages of recruiting staff to work with Metro agencies in the grant and contract management process. These positions and the work they will do will fill a void in Metro's management structure that have often caused us to miss funding opportunities and have allowed major business relationships to proceed for extended periods of time without a contract.

Another important area of responsibility will be in the area of customer service. Responsiveness to our customers, both in the community and inside the government itself, is critical to effective management and the support of the public for our efforts. Too often people are left with a feeling that their concerns do not get the attention they deserve from Metro agencies. In addition, by failing to track the information we receive from the problems encountered by Metro's citizens and employees, we miss a great opportunity to better understand and effectively address our problems, as well as prevent future problems.

The Internet will be critical to the effective delivery of all of these services, both internal and external to the government. Working closely with Richard McKinney and the Department of Information Systems, we will develop the essential support service for the future - a coherent strategy for E-Government. With an E-government strategy, we will use the Internet to improve customer service and the efficiency with which Metro operates.

To accomplish this, we are incorporating an Internet strategy into our strategic plan for Information Systems, obtaining the services of an outside Web design firm (a contract was recently awarded to Link2Gov for this purpose), and have formed a Task Force that meets weekly to coordinate these efforts. This Task Force is composed of the leadership of the Finance Department and the Directors of Information Systems, Human Resources and General Services. The Support Services Division of Finance will coordinate and support the efforts of the Task Force as we work toward the effective implementation of an Internet strategy for Metro.

### ***Treasury***

While the Metro Charter and Code places many duties and responsibilities in the Office of Metro Treasurer, the office has had neither the resources nor the support needed to effectively execute them (see the attached memo from the Department of Law outlining these responsibilities). Fortunately, we have a qualified and very capable Treasurer in Celia Kirby who is committed to providing the leadership necessary to address these responsibilities. She has built a small, but dedicated staff, that is assisting her in this important effort. Prior to coming to Metro, Celia had extensive experience as the Manager of Debt and Investments for the City of Memphis.

The responsibilities of the Metro Treasurer can be grouped into three broad areas. These include:

- ❖ Cash Management;
- ❖ Debt Management; and
- ❖ Investments.

The area receiving the most attention over the past year has been investments due to the issues and problems that surfaced in the recent performance audit of the Benefit Board's Investment Committee. We are moving expeditiously to address these issues and the Treasurer has been the key staff person responsible for implementing the necessary changes. As the legal analysis referenced above clearly states, the Treasurer's responsibilities in this area are extensive and will require a careful plan to fully implement.

In order to develop a strategic plan for the proper execution of these and other duties of the Treasurer, we are working with KPMG and have now initiated a wide-ranging study of all of these issues. While we have asked them to give priority to issues surrounding the Benefit Board, their work will also examine all other areas of responsibility of the Treasurer, including the cash collection practices of all Metro agencies. This will result in a well-documented and carefully constructed plan to make the office of Metro Treasurer the effective and important financial management asset that the Metro Charter and laws require it to be.

Implementation of the plan will require no additional general fund appropriations. The office is already authorized to charge the costs of services it provides to the Benefit Board back to the pension trust fund and in the last budget you authorized the office to recoup its other costs from investment earnings. The changes implemented with respect to the Benefit Board have already produced savings and increased income far in excess of their costs and we anticipate that the other changes recommended as a result of this work will also result in a bottom-line financial gain for Metro. We will keep you informed as this study is completed and the results implemented.

### ***Facilities Planning and Construction Management***

Since Mayor Purcell took office, the condition of Metro office buildings and other facilities has been a source of significant concern. There is clearly a consensus that we must do a better job of planning and managing these important taxpayer financed assets. In approving the Mayor's Capital Spending Plan, the Council authorized the establishment of a small professional staff to oversee these responsibilities and ensure that construction dollars are wisely spent and that our buildings are preserved and protected to serve the public's interest over their reasonable life.

Ken Maynard will lead our efforts in this area. Ken has more than 30 years of financial and facilities management experience with state government. Since joining Metro in the fall of 1999, he has led our efforts to address the needs of the Courts and other facilities, resulting in the plan for restoration and construction of our facilities that was approved by the Council last fall. Ken is currently assembling a team of qualified staff and consultants to begin bringing these plans to fruition in 2001. Their areas of responsibility will include:

- Planning and design for the effective use of facilities to meet the needs of the public and Metro employees;
- Management and/or oversight of all Metro facility related construction projects;
- Developing the Facilities Revolving Fund (in close cooperation with our Budget and Financial Operations staff) to ensure that buildings are used efficiently and that we recover all appropriate funding to offset Metro's cost in this area from state and federal funding sources; and

- Providing support to the City's efforts to implement our agreement with the U.S. Justice Department for compliance with the Americans with Disabilities Act.

The attached budgets outline our plans for staffing the facilities planning/construction management and ADA compliance areas of responsibility. You have previously authorized these responsibilities to be funded from the construction appropriations already authorized by the Council. We will continue to refine these budget estimates and provide you with any changes needed when the Mayor presents his budget proposal to the Council in May.

Our ADA compliance program will continue under the leadership of the Mayor's ADA Coordinator, Dianna Vincent. However, due to the close relationship between ADA compliance and facility/construction issues, we believe that it will be most efficiently administered in conjunction with our overall effort to manage construction and facility issues. Dianna continues to provide excellent leadership on these complex issues and her efforts are closely coordinated with the ADA Implementation Committee appointed by Mayor Purcell. The members of this committee are the Directors of Law, Finance, Public Works, General Services and Planning.

I hope this information is helpful. I am available at your convenience to address any questions or concerns about these or other matters.

Attachments

Copy: Mayor Bill Purcell  
Vice Mayor Ronnie Steine  
Members of the Metro Council  
Members of the Audit Committee  
Members of the Civil Service Commission  
Department Heads and Elected Officials  
Fiscal Officers