



**A Report to the
Audit Committee**

Mayor

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Investment Committee Chair

Kelly Flannery

Treasurer

Michell Bosch

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Audit of Metropolitan Nashville Government Pension Investments

October 21, 2021

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

October 21, 2021



Why We Did This Audit

This audit was initiated due to the impact of the pension plan on the financial well-being of current and future beneficiaries of the pension system.

What We Recommend

- Clarify the strategy and risk tolerance behind the asset allocation policy.
- Amend the Statement of Investment Policy to be more in line with best practices.
- Perform an annual evaluation of Investment Committee skills.
- Obtain an independent experience study every five years to review actuarial methods and assumptions.

Audit of Metropolitan Nashville Government Pension Investments

BACKGROUND

The primary function of the pension fund is to provide a financial benefit to the current and future beneficiaries. The Employment Benefit Board Investment Committee has a fiduciary duty to the pension fund beneficiaries. The Investment Committee obtains investment management assistance from the Office of the Treasurer. As of March 31, 2021, the balance of the pension fund was \$3,978,564,667 and was diversified throughout 8 asset classes and 135 different funds.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Pension plan investment objectives, allocation ranges, and other directives are being achieved as specified in the Metropolitan Nashville Statement of Investment Policy.
- Metropolitan Nashville pension investments are being managed in accordance with public pension best practices.
- Governance over Metropolitan Nashville pension investments are in line with public pension best practices.

The scope of this audit included the management of pension investments between July 1, 2018, and February 28, 2021.

WHAT WE FOUND

The Metropolitan Nashville pension is well funded and is being effectively managed and monitored by the Investment Committee and the Office of the Treasurer with support from the investment consultant.

Investment directives and objectives in the Statement of Investment Policy are generally being achieved, but private equity investments have been overallocated during the audit period. Additionally, the Investment Policy should be amended to be more in line with best practices. The asset allocation for the Metropolitan Nashville pension fund differs from other public pension funds and the strategy and risk tolerance behind the asset allocation should be communicated in the Investment Policy.

Investment Committee members are actively engaged and monitoring the pension fund. However, an annual evaluation of committee members skills should be performed to guide training and educational initiatives.

GOVERNANCE

The Investment Committee was established by Section 13.04 of the Metropolitan Nashville Charter. The Investment Committee has full and complete control over investments and a fiduciary responsibility over the pension fund. The Investment Committee is a subset of the Metropolitan Employee Benefit Board and is composed of the Director of Finance and three members appointed by the Metropolitan Nashville Mayor. The Charter requires appointments to the Investment Committee have an interest in benefit and retirement programs and ten years of business experience.

The Investment Committee receives investment advisory services from a Finance Manager who serves as a Chief Investment Officer within the Office of the Treasurer's and NEPC, LLC, the investment consulting firm since 2017.

BACKGROUND INFORMATION

The Metropolitan Nashville pension fund provides an annual income to qualified retired Metropolitan Nashville employees and serves to attract, retain, and motivate employees. The Investment Committee, a subset of the Metropolitan Employee Benefit Board, has full and complete control over pension investments, sets the strategy of the pension fund, and has fiduciary responsibility for the beneficiaries of the fund. The general framework for the pension fund management process can be divided into three steps including drafting and adopting a statement of investment policy, designing the investment portfolio, and implementing the investment portfolio. These steps are carried out collectively by the Investment Committee, Office of the Treasurer, and external managers and consultants.

Statement of Investment Policy

The statement of investment policy is a document addressing the overall policies governing investment-related activities of the pension fund. Drafting the investment policy is the Investment Committee's ultimate responsibility. However, the Investment Committee relies on recommendations from the Office of the Treasurer and an investment consultant regarding the policies and investment objectives to be included in the investment policy.

The current investment policy was last updated in November 2018. The policy includes the investment objectives for the pension fund, asset allocation ranges for investment classes, general limitations and requirements for investments, and policies related to communications and reporting. Investment policies can vary greatly across public pension plans, but there are common elements. Best practices are available from various organizations to guide public pension fund trustees in formulating investment policy statements.

Investment Portfolio Design

The asset allocation policy within the investment policy identifies the asset classes making up the investment portfolio and allocation percentage assigned to each asset class. The asset allocation has been found to be the primary driver behind investment portfolio returns. The asset allocation policy is the responsibility of the Investment Committee, but guidance is provided by the Office of the Treasurer with assistance from the investment consultant. The asset allocation should ultimately reflect the investment strategy and risk tolerance of the Investment Committee. Each year, the asset allocation is revisited and evaluated for minor adjustments due to market conditions and asset class performance.

The ending fiscal year balance for each of the asset classes can be seen below in Exhibit A.

Exhibit A - Fiscal Year Ending Asset Allocation Values

Asset Class	FY Ending 6/30/2018	FY Ending 6/30/2019	FY Ending 6/30/2020
Domestic Equity	\$ 502,716,635	\$ 483,606,308	\$ 552,172,183
International Equity	374,749,077	385,278,366	381,956,545
Equity Hedge	199,614,856	206,443,757	195,538,933
Fixed Income	560,667,121	555,609,774	380,204,569
Fixed Income Alternatives	641,064,231	644,767,403	687,856,508
Real Assets	347,280,790	389,018,528	382,686,775
Private Equity	540,555,151	646,787,584	756,303,696
Alternative Segment	5,477,806	9,060,432	303,068
Cash	32,641,312	33,380,433	38,611,430
Total	\$ 3,204,766,979	\$ 3,353,952,585	\$ 3,375,633,707

Source: NEPC Quarterly Investment Summary Reports

Investment Portfolio Implementation

The implementation of the investment strategy reflected in the Statement of Investment Policy and asset allocation is delegated to the Office of the Treasurer. The Finance Manager within the Office of the Treasurer and investment consultant work together to identify investment opportunities in funds within the allowable asset classes. Once a fund has been identified it is vetted internally by the Finance Manager and NEPC, LLC. A recommendation to invest a certain dollar amount is presented to the Investment Committee for approval. Once approved the Office of the Treasurer will work out the specific terms with the managers of the fund and an account will be opened at BNY Mellon, the custodian bank. The managers of the fund will then have access to the approved dollar amount in the specified BNY Mellon account.

The funds are monitored continually by the Finance Manager using the BNY Mellon online portal, NEXEN, to gauge performance and for any out of the ordinary fluctuations. Fund managers are required to report quarterly to the Office of the Treasurer, which is then passed on to the investment consultant. A quarterly investment summary report is prepared by NEPC, LLC and presented to the Investment Committee. The quarterly summary report includes a current market summary, a review of risk and return based on a three- and five-year period, the current asset allocation compared to target asset allocation, composite pension fund performance, and asset class performance.

The pension fund balance and rate of return history for the last ten fiscal years can be seen below in Exhibit B.

Exhibit B – Pension Fund Balance and Rate of Return History

Fiscal Year	Metropolitan Nashville Pension Fund	Annual Rate of Return
FY2011	\$ 2,194,445,498	20.93%
FY2012	\$ 2,184,909,752	1.07%
FY2013	\$ 2,412,259,291	13.72%
FY2014	\$ 2,776,645,107	17.83%
FY2015	\$ 2,843,131,877	4.87%
FY2016	\$ 2,767,560,207	0.64%
FY2017	\$ 3,057,707,027	12.87%
FY2018	\$ 3,214,686,496	6.79%
FY2019	\$ 3,363,992,994	6.14%
FY2020	\$ 3,389,980,482	1.92%

Source: Metropolitan Nashville Government Comprehensive Annual Financial Reports

OBJECTIVES AND CONCLUSIONS

1. *Are pension plan investment objectives, allocation ranges, and other directives being achieved as specified in the Metropolitan Nashville Statement of Investment Policy?*

Generally, yes. Reporting and monitoring guidelines specified in the Statement of Investment Policy are being followed. Quarterly performance reports prepared by the investment consultant were thorough and presented to the Investment Committee. Information presented in a sample of 2 out of 11 quarterly performance reports during the audit period were verified for accuracy, and fund information presented in the report was reconciled to the data from the custodian bank, BNY Mellon. Additionally, all funds added to the pension fund portfolio during the audit period were approved by the Investment Committee.

All four best practices specified in the Government Finance Officers Association's asset allocation for defined benefit plans best practices were being met. However, 1 out of 8 asset classes (12 percent) was outside the allocation range specified in the Statement of Investment Policy. The allocation in private equity investments was over the allowable range for every quarter during the audit period. (See Observation A.)

2. *Are pension fund investments being managed in accordance with public pension best practices?*

Generally, yes. Data analytics software was used to compare the asset allocation of the Metropolitan Nashville pension fund to the allocations of 174 public pension funds including a subset of funds with fund balances between approximately \$2.5 billion and \$5 billion. The analysis showed the Metropolitan Nashville pension fund has lower allocations in public equities and higher allocations in fixed income and private equity investments compared with peer public funds. The average allocation of private equity among peer public funds was approximately 10 percent. The specified allocation in the Investment Policy is 12 percent for private equity. However, the average actual allocation was approximately 20 percent throughout the 32-month audit period. The strategy and risk tolerance behind the asset allocation should be specified in the Investment Policy. (See Observation A.)

The Metropolitan Nashville Statement of Investment Policy was assessed to determine if best practices for defined benefit investment policies were being met. The review found that 6 out of 10 (60 percent) best practices were not addressed in the Metropolitan Nashville Statement of Investment Policy. (See Observation B.)

The Metropolitan Nashville Government has not had an independent experience study to monitor the quality of actuarial services performed for the pension plan as recommended by the Government Finance Officers Association. (See Observation D.)

3. *Is the governance over pension fund investments in line with public pension governance best practices?*

Generally, yes. Most Investment Committee members have several years of experience on the Investment Committee and based on a review of meeting minutes and recordings, committee members were engaged and actively monitoring the pension fund. The Investment Committee members met the seven duties of a fiduciary highlighted in the *U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff* by Von M. Hughes.

The Investment Committee met 4 out of 5 (80 percent) core competencies included in The Clapman Report 2.0: Model Governance Provisions to Support Pension Fund Best Practice Principles published by The Stanford Institutional Investor Committee of Fund Governance. While the

Investment Committee has received education and training from the Office of the Treasurer and investment consultant, the training has largely been ad hoc, and annual evaluation of committee skills has not been performed. (See Observation C.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives to sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

Observation A – Private Equity Investments

Private equity investments were knowingly overallocated based on the asset allocation specified in the Statement of Investment Policy during the entire 32-month audit period. The asset allocation range in the Investment Policy for private equity investments is 5 to 15 percent. As of the end of the audit period on February 28, 2021, the target allocation for private equity investments was at 12 percent. The allocation in private equity investments increased from 17.6 percent in the third quarter of 2018 to 22.7 percent in the first quarter of 2021, largely due to the strong performance in the asset class. The average allocation in private equity was 20.9 percent for the audit period. Private equity investments seek to earn higher returns than that of the publicly traded equity investments and are considered a higher risk alternative investment.

Public pension data was pulled from publicplansdata.org which is the product of a partnership between The Center for Retirement Research at Boston College and MissionSquare Research. Data analytics software was used to isolate the asset allocation data for 174 funds and a small subset of pension funds with an approximate fund balance between \$2.5 billion and \$5 billion. The average allocation of the 174 funds and the subset of pension funds were compared to the asset allocation for the Metropolitan Nashville pension fund. The results of the comparison can be seen in Exhibit C below.

Exhibit C – Asset Allocation Peer Comparison

Pension Fund	Equity	Fixed Income	Real Estate	Misc. Alternative	Private Equity	Hedge Funds	Commodities	Cash
174 Pension Funds	46%	24%	8%	2%	9%	7%	3%	1%
28 Funds (Approximately \$2.5 to \$5.0 billion in Assets)	41%	28%	10%	0%	10%	8%	0%	0%
Metro Nashville Pension Fund	31%	35%	9%	0%	23%	1%	0%	1%

Source: publicplansdata.org and NEPC Quarterly Investment Summary Report

It is evident that the strategy behind the Metropolitan Nashville asset allocation is an outlier from other public funds when it comes to equity investments. Based on explanations received from the Finance Manager and investment consultant, the asset allocation strategy is focused on controlling the volatility of market price rather than focusing on investments that have potentially high returns but add more fluctuations in the funds' market value. Private equity investments are priced on a quarterly basis, as opposed to in real time. This explains why the Metropolitan Nashville asset allocation has larger allocations in speculative investments with less price fluctuation like private equity and less of an allocation in more volatile investments like public equities. An example of this strategy in action would be the recent market downturn in the spring of 2020 due to the COVID-19 pandemic. The Metropolitan Nashville pension fund balance did not decrease as much as other peer pension funds. However, other

peer public funds outperformed the Metropolitan Nashville pension fund during the market recovery due to higher allocations in public equities.

The Metropolitan Nashville Investment Committee has a valid strategy behind the asset allocation. However, the strategy and risk tolerance behind the asset allocation should be clearly communicated in the Statement of Investment Policy.

Additionally, actions to rebalance the pension fund portfolio should be taken or the asset allocation should be amended if it is determined the risk tolerance of the committee would allow for a higher allocation in private equity investments.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Metropolitan Government of Nashville and Davidson County Employee Benefit System – Statement of Investment Policy
- Government Finance Officers Association, Best Practices – Investment Policies for Defined Benefit Plans
- Hughes V. (2019). *U.S. Public Pension Handbook: A Comprehensive Guide for Trustee and Investment Staff*. New York, NY: McGraw-Hill.

Assessed Risk Rating:

High

Recommendations for management of the Office of the Treasurer to:

1. Clarify the strategy and the risk tolerance behind the asset allocation in the Statement of Investment Policy.
2. Address the overallocation of private equity investments by either rebalancing the pension fund portfolio or amending the asset allocation if it is determined that the risk tolerance of the Investment Committee would allow for a higher allocation in the private equity asset class.

Observation B – Defined Benefit Investment Policy Best Practices

The Metropolitan Nashville Statement of Investment Policy should be improved to be more in line with best practices for defined benefit plans. Best practices from the Government Finance Officers Association and U.S. Public Pension Handbook were identified and the Metropolitan Nashville Statement of Investment Policy was assessed to determine if the statement was in line with best practices. The review found that 6 out of 10 (60 percent) of best practices were not being met.

The Metropolitan Nashville Investment Committee should make the following additions to the Statement of Investment Policy:

Roles, responsibilities, and standards of care: Roles and responsibilities of individuals within the pension investment management process within the Investment Policy should be identified. Examples of these roles include the Investment Committee members, the Metropolitan Treasurer, Finance Manager, investment consultant, investment managers, and Investment Committee attorney.

Investment diversification strategy: The strategy behind the asset allocation policy is not clarified in the Investment Policy. For example, one strategy behind the asset allocation is to limit the volatility of fund

which is obtained through higher allocations in less volatile investments like private equity and fixed income and lower allocations in more volatile investments like public equities.

Safekeeping, custody, and internal controls: The Investment Policy does not include guidelines for internal control that will enhance segregation of duties and the risk of fraud.

Reporting and disclosures standards: The Investment Policy should include the frequency of reporting to the Investment Committee and what should be including in the reporting. The Investment Policy specifies that investment managers should report quarterly to the Office of the Treasurer and investment consultant, but the frequency of reporting the Investment Committee is not specified. In practice, quarterly performance reports are presented to the Investment Committee by the investment consultant.

Statement of goal, purpose, or mission: A statement of investment philosophy in the Investment Policy clarifies the goals, purpose, and mission for the beneficiaries of the pension fund.

Legal standards: Legal standards including definitions and explanations behind the prudent investor rule and fiduciary duty should be added to the Investment Policy.

Including the above elements into the Statement of Investment Policy will decrease the risk that delegated investment management tasks are not carried out as the Investment Committee intended and ensure that key pension information is communicated to investment staff, managers, consultants, and beneficiaries.

Criteria:

- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Government Finance Officers Association, Best Practices – Investment Policies for Defined Benefit Plans
- Hughes V. (2019). *U.S. Public Pension Handbook: A Comprehensive Guide for Trustee and Investment Staff*. New York, NY: McGraw-Hill.

Assessed Risk Rating:

Medium

Recommendation for management of the Office of the Treasurer to:

Amend the Investment Policy to be more in line with established best practices for defined benefit investment policies.

Observation C – Investment Committee Core Competencies and Education

No annual evaluation of Investment Committee member skills as recommended by fund governance best practices has occurred. The Clapman Report 2.0: Model Governance Provisions to Support Pension Fund Best Practice Principles published by The Stanford Institutional Investor Committee of Fund Governance summarized the core competencies that public pension trustees should have as:

- Each trustee should have a thorough understanding of the fund’s obligations.
- The board should include individuals with investment and financial market expertise.

- On a regular basis, trustees should obtain education that provides and improves core competencies.
- Trustees should be able to obtain intelligible explanations of recommended actions by investment staff and advisors.
- The fund should engage in an annual evaluation of trustee skills and, when appropriate, develop a plan for improving and expanding the board’s competencies.

Training and education for the Investment Committee members has largely been ad hoc with training being initiated when a need arises during the normal course of committee business. Most recently, the Investment Committee has received education on the investment climate in Asia as well as factoring environmental, social, and governance into investment decisions.

Ensuring that the Investment Committee members have the necessary core competencies is important specifically because the Metropolitan Nashville Government Charter does not require investment and financial experience as a condition of appointment to the Investment Committee. The only requirements for mayoral appointments to the Investment Committee are ten years of business experience and an interest in benefit and retirement programs. The three mayoral appointments on the Investment Committee have several years of experience serving on the committee.

Criteria:

- COSO, Control Activities—Principle 11—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- The Stanford Institutional Investors’ Forum Committee on Fund Governance, Clapman Report 2.0: Model Governance Provisions to Support Pension Fund Best Practice Principles
- Hughes V. (2019). *U.S. Public Pension Handbook: A Comprehensive Guide for Trustee and Investment Staff*. New York, NY: McGraw-Hill.

Assessed Risk Rating:

Medium

Recommendation for management of the Office of the Trustee to:

Perform an ongoing annual evaluation of Investment Committee skills and, if needed, develop a plan for improving and expanding the committee’s competencies.

Observation D – Independent Experience Study

An independent experience study should be used by the Investment Committee to monitor the quality of actuarial services performed for the pension plan. An independent experience study involves using an outside actuary to review the actuarial methods and assumptions of the consulting actuary of the pension plan. Experience study are helpful to enhance the credibility of the actuarial valuation process, increase public trust in how the pension plan is being governed, help plan fiduciaries assess whether the pension plan is meeting its funding objectives, and provide recommendations for improving the actuarial valuation report. The Metropolitan Nashville pension fund is approaching 100 percent funded status. The use of an experience study would give further assurance to the fiduciaries and beneficiaries of the plan that the pension plan is well funded.

As a best practice for public pensions, the Government Finance Officers Association recommends actuarial audits be conducted for pension funds every five years.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Government Finance Officers Association, Best Practices – Actuarial Audits

Assessed Risk Rating:

Medium

Recommendation for management of the Office of the Treasurer to:

Conduct an experience study to review the actuarial services provided for the Metropolitan Nashville pension fund at least once every five years.

Observation E – Office of the Treasurer Staffing

Staffing within the Office of the Treasurer should be evaluated to ensure internal resources are sufficient to assist the Investment Committee in managing an approximate \$4 billion pension fund while also ensuring critical investment tasks are segregated to protect against potential undue influence from investment fund managers. The pension is managed within the Office of the Treasurer by two employees, a Finance Manager and Finance Officer II.

The Finance Manager is responsible for several critical management tasks including the identification and analysis of potential investments, performing ongoing risk analysis, monitoring of the investment portfolio, and ensuring compliance with the Statement of Investment Policy. The Finance Manager will also develop professional relationships with managers and travels to annual conferences held by asset managers within the pension fund. Ideally, the Office of the Treasurer would have investment analysts that have the responsibility of identifying potential investment opportunities, researching the investment opportunities, and providing that information to a chief investment officer or portfolio manager that makes the decision to move forward with the investment. The Finance Manager is currently fulfilling the role of the analyst and the portfolio manager. It should be noted that NEPC, LLC will review all investments that are selected by the Office of the Treasurer before the investment is brought before the Investment Committee for approval. However, this does not prevent the opportunity for the Finance Manager to receive perceived or actual undue influence.

Another option could include procuring the services of a discretionary consultant that has the responsibility of identifying investment opportunities and presenting the potential investments to the Investment Committee and then redefining the roles of the Office of the Treasurer staff to include monitoring managers and consultants and being the inhouse expertise to the Investment Committee. Per the *U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff* by Von M. Hughes, public plans that lack the resources of larger public plans will acquire the services of a discretionary consultant or outsourced chief investment officer as a cost-effective alternative to building up an internal investment staff.

Criteria:

- COSO, Control Activities—Principle 11—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Hughes V. (2019). *U.S. Public Pension Handbook: A Comprehensive Guide for Trustee and Investment Staff*. New York, NY: McGraw-Hill.

Assessed Risk Rating:

Medium

Recommendation for management of the Office of the Treasurer to:

Perform a cost-benefit analysis for adding additional resources to ensure the Office of the Treasurer can effectively assist the Investment Committee in managing the pension fund and ensure protection against undue influence from fund managers. Resources could include hiring additional investment analysts or redefining the roles of existing staff and procuring an outsourced chief investment officer.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit 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 findings 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.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the pension investment management process.
- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Seth Hatfield, CPA, CIA, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Audit Manager

Lauren Riley, CPA, CIA, CFE, ACDA, CMFO, Metropolitan Auditor

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Risk</i>	<i>Recommendations for the management of the Office of the Treasurer to:</i>		
H	A.1 – Clarify the strategy and the risk tolerance behind the asset allocation in the Statement of Investment Policy.	Accept A large initiative to update the Investment Policy is already under way and is expected to go before the Investment Committee at the next quarterly meeting.	06/30/2022
M	A.2 – Address the overallocation of private equity investments by either rebalancing the pension fund portfolio or amending the asset allocation if it is determined that the risk tolerance of the Investment Committee would allow for a higher allocation in the private equity asset class.	Accept The Investment Committee has approved the overallocation and no assets will be divested. The Investment Policy will be updated to show new risk tolerance with higher allocation percentages.	06/30/2022
M	B.1 – Amend the Statement of Investment Policy to be more in line with established best practices.	Accept A large initiative to update the Investment Policy is already under way and is expected to go before the Investment Committee at the next quarterly meeting.	06/30/2022
M	C.1 – Perform an annual evaluation of Investment Committee skills and, if needed, develop a plan for improving and expanding the committee’s competencies.	Accept A large initiative to update the Investment Policy is already under way. The update will include an annual requirement of 8 hours of investment training a year for each investment committee member.	06/30/2022
M	D.1 – Conduct an Experience Study to review the actuarial services provide for the Metropolitan Nashville pension fund at least once every five years.	Accept A recommendation will be made to the Committee to hire a second actuary to review the current firm’s assumptions.	06/30/2022

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
M	E.1 - Perform a cost-benefit analysis for adding additional resources to ensure the Investment Office can effectively assist the Investment Committee in managing the pension fund and ensure protection against undue influence from fund managers. Resources could include hiring additional investment analysts or redefining the roles of existing staff and procuring an outsourced chief investment officer.	<p>Accept</p> <p>We will recommend to the Investment Committee to do a cost benefit analysis</p>	06/30/2022

APPENDIX B – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Observations identified during the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			