

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**



July 9, 2019

Scott Potter, Director  
Metro Water Services  
1600 Second Avenue North  
Nashville, TN 37208

Dear Mr. Potter:

Please find attached the monitoring report on grants review of the Metro Water Services' federal and state grants and other financial assistance for the fiscal years 2017 and 2018, as listed in Appendix A; conducted by staff from the Office of Financial Accountability in February and March 2019. You previously reviewed and responded to the preliminary report; your responses to the preliminary report have been incorporated into this final report.

We appreciate the assistance provided by your department during the course of the review. If you have any questions, please can reach me at 615-880-1035.

Sincerely,

Fred Adom, CPA, CGMA, CICA  
Director

cc: Amanda Deaton-Moyer, Chief Financial Officer, Metro Water Services  
Tom Palko, Assistant Director, Metro Water Services  
Talia Lomax-O'dneal, Director of Finance, Department of Finance  
Kim McDoniel, Deputy Director of Finance, Department of Finance  
Chris Harmon, Budget Officer, Department of Finance  
Phil Carr, Division of Accounts, Department of Finance  
Gina Pruitt, Acting Interim Metropolitan Auditor, Office of Internal Audit  
Kevin Brown, CMFO, CICA, CFE, Office of Financial Accountability  
Essie Robertson, CPA, CMFO, CICA, Office of Financial Accountability  
Dolly Cook, Office of Financial Accountability

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*Metropolitan Government of Nashville and Davidson County*

# **METRO WATER SERVICES**

## **◆ Monitoring Report ◆**

Conducted by



**Office of Financial Accountability**

July 9, 2019

# MONITORING REPORT

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## INTRODUCTION

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The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review of the federal and state grants and contracts administered by the Metro Water Services (hereinafter referred to as “Metro Water”). The monitoring process included a review of the contracts in effect during the fiscal year ending June 30, 2017 and 2018. The contracts reviewed are listed in Appendix A. The OFA conducted the monitoring review along the major compliance areas identified in the Office of Management and Budget (hereinafter referred to as “OMB”) 2 CFR 200, “*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*”

### Department Background

According to the Metro Water Services’ website, their mission “is to supply, treat, manage, and protect our water resources in a sustainable manner for the benefit of all who live, work, and play in our community”. The Metro Water Services operates two water treatment plants and three wastewater treatment plants, in order to provide services to over 190,000 water accounts and more than 200,000 sewer accounts. In addition, the Metro Water Services oversees Metro’s stormwater program. The purpose of the Stormwater division within the Metro Water Services is to provide development review and permitting, master planning, routine and remedial maintenance, and improved watershed water quality to the residents of Davidson County so that they can have a reduced potential for property damage, safe roadways, and improved stream water quality. The Stormwater division is also responsible for the operations of grant programs from the Federal Emergency Management Agency to provide hazard mitigation, pre-disaster mitigation, and flood mitigation assistance.

### Grants Reviewed:

The purpose of this review was to assess the Water Services’ compliance with contractual requirements set forth in the following grant contracts that provided approximately \$9,453,300 of financial assistance to the Water Services.

#### Severe Repetitive Loss Buyout Project 16-19

The Water Services was awarded \$953,260.00 from the Tennessee Emergency Management Agency. The objectives of the Severe Repetitive Loss Buyout grant was for the purchase and removal of five properties which were located in a repetitively flooded area throughout the county.

#### Flood Gibson Drive/Elm Street Home Buyout 17-19

The Metro Water Services was awarded the Gibson Drive/Elm Street Home Buyout grant in the amount of \$387,922.50 with a required cash match of \$55,417.50 from the Tennessee Emergency Management Agency. The objectives of the Flood Gibson Drive/Elm Street Home Buyout grant

## **INTRODUCTION**

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was for the purchase and removal of three properties which were located in various floodway and floodplain areas on Gibson Drive and Elm Street.

### **Flood Pennington Bend Home Buyout 11-14**

The Metro Water Services was awarded the Pennington Bend Home Buyout 11-14 grant in the amount of \$2,235,557.41 with a required cash match of \$319,365.40 from the Tennessee Emergency Management Agency. The objectives of the Pennington Bend Home Buyout 11-14 grant was for the purchase and removal of fifteen properties which were located in various floodway and floodplain areas in Davidson County.

### **Flood Pennington Bend Home Buyout 17-18**

The Metro Water Services was awarded the Pennington Bend Home Buyout 17-18 grant in the amount of \$1,206,363.66 with a required cash match of \$172,337.66 from the Tennessee Emergency Management Agency. The objectives of the Pennington Bend Home Buyout 17-18 grant was to utilize unused funds from the previous grant award to complete the purchase and removal of fifteen previously identified properties which were located in various floodway and floodplain areas in Davidson County.

### **Flood Benzing Road/Park Terrace Home Buyout 11-14**

The Metro Water Services was awarded the Benzing Road/Park Terrace Home Buyout 11-14 grant in the amount of \$2,840,317.79 with a required cash match of \$405,759.79 from the Tennessee Emergency Management Agency. The objectives of the Benzing Road/Park Terrace grant was to utilize unused funds from the previous grant award for the purchase and removal of eleven alternate properties to replace properties that withdrew from the original grant project which were located in various floodway and floodplain areas in Davidson County.

### **Flood Benzing Road/Park Terrace Home Buyout 17-18**

The Metro Water Services was awarded the Benzing Road/Park Terrace Home Buyout 17-18 grant in the amount of \$1,787,909.79 with a required cash match of \$255,415.79 from the Tennessee Emergency Management Agency. The objectives of the Benzing Road/Park Terrace grant were to complete the purchase and removal of 11 previously identified properties.

### **Omohundro Boat Dock Project 14-19**

The Metro Water Services was awarded the Omohundro Boat Dock Project grant in the amount of \$40,000.00 Tennessee Wildlife Resource Agency. The objective of the grant was to construct and operate a boat dock at the Omohundro Water Treatment Plant.

## RESULTS OF MONITORING

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A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements for the Metro Water Services and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Metro Water Services or the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The OFA 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 appropriations from Metro government. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The overall monitoring objective was to determine the department’s compliance with grantors and Metro guidelines, policies, rules, and regulations. Specifically, we reviewed for the following objectives:

- To determine whether activities and costs of the program were made in accordance with OMB Circular 2 CFR 200; the minimum federal, state and local requirements; and grantor guidelines.
- To determine whether the minimum requirements for local matching contributions and/or adequate level of expenditures by other sources of funds are met.
- To determine whether grant funds were used exclusively during the period in which the funds were authorized.
- To determine the reliability and timeliness of the financial and programmatic reporting.
- To determine whether federal compliance requirements regarding sub-recipient oversight were met and whether the sub-recipient performed in accordance with the contract terms.
- To determine whether civil rights requirements are met.
- To determine whether program objectives were met.
- To determine whether the various Metro regulations were followed.

The scope of the work included the grants listed in Appendix A. The grant period reviewed included grants that were active during FY 2017 and FY 2018. Although the review focused on this specific time period, certain analyses required the consideration of financial transactions outside of this time period.

The methodology adopted by the OFA encompassed various interviews and an objective review of fiscal and programmatic files, including:

- Financial transactions and supporting documentation
- Contract agreements and related amendments
- Federal and/or state financial reports
- Program reports and supporting documentation
- Correspondence between related parties.

## RESULTS OF MONITORING

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### Overall Findings and Major Review Highlights

Our review revealed two discrepancies with policies and grant requirement guidelines. The Metro Water Services:

1. Should ensure refunds are received timely from Title Companies for properties that fail to close,
2. Should improve its compliance with Finance Policy #9: Grant Drawdown and Reimbursement.

The section that follows provides more detailed information for the items listed above. Management is given an opportunity to respond to the findings.

## **FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**

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1. Should ensure refunds are received timely from Title Companies for properties that do not close.

### **Finding**

Office of Financial Accountability reviewed the acquisition costs, appraisal fees, demolition and legal fees, as well as the reports filed to assess compliance with the terms of the contract. The review revealed that the Metro Water Services processed a payment to the title company on June 28, 2017 in the amount of \$169,407.00, purchase price and closing fees for a one of three approved properties. However, the property owners decided to withdraw from the buyout program just prior to closing and the Metro Water Services failed to immediately seek a refund from the title company. The Office of Financial Accountability noted that as of January 24, 2019, that Metro Water Services had not received nor did the OFA see evidence that the Metro Water Services had sought a refund of \$169,407.00 from the title company.

### **Recommendation**

The Metro Water Services should implement a review process to ensure that any funds that are transferred to title companies are refunded in a timely manner for any property that fails to close.

### **Management response**

The Home Buyout Program is a voluntary program in which property owners can opt-out at any stage during the process. The case mentioned in the report is the first time a property owner withdrew after the funds were transferred to the Title Company. MWS has implemented monthly reviews of funds requested by the Title Company. During this review, status of all real estate transactions and associated payments will be considered against files sent to the company for processing. If the property owner has decided not to take the offer, it will show in this review and funds will be immediately returned to Metro.

2. Should improve it compliance with Finance Policy #9: Grant Drawdown and Reimbursement.

### **Finding**

Metro Water Services should improve its compliance with Finance Policy #9: Grant Drawdown and Reimbursement policy. Review of grant reimbursement requests revealed that the Metro Water Services waits until the completion of the project to seek reimbursement for in-house

## **FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**

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demolition cost, not when the costs were incurred. Per the grant contract, “the grantee shall be reimbursed for actual, reasonable, and necessary costs based upon the grant budget, not to exceed the maximum liability established”....”the grantee shall submit invoices prior to any reimbursement of allowable cost.” The grant contract further states, “the grantee shall invoice the State no more often than monthly”. Therefore, the Metro Water Services is permitted to invoice for reimbursement for in-house demolition cost incurred on a monthly basis.

Per Finance Policy #9, “for reimbursement grants, the department will request regular reimbursement no later than 21 days after the end of the grant reporting period (monthly, quarterly, other interval) dictated by the terms of the grant.

### **Recommendation**

Metro Water Services should seek reimbursement of all grant expenditures incurred, including in-house demolition cost, no later than 21 days following end of the reporting period.

### **Management response**

Currently under the existing Federal grants MWS seeks reimbursement twice in the process on a property by property basis. The first request occurs after the home has been purchased. This request includes the appraisal fee, purchase price, and all closing costs. The second reimbursement request occurs at the completion of the work and includes the environmental survey, abatement, demolition, termination of all utilities, and property restoration. TEMA requires a minimum (\$5,000) for a reimbursement requests unless it is a closeout request. MWS could not seek reimbursement only for the Environmental Survey for example since the cost often falls below the threshold.

During the period considered, Metro Water Services demolished a number of homes through in-house crews during evenings and weekends after normal shifts. At the time, a backlog of homes waiting for demolition drove the crew's work. The main focus was to demolish homes and then return as time allowed to completely restore the properties. This caused the delay is seeking reimbursement for costs.

To improve the process, MWS solicited and selected a demo contractor to provide demolition services for the Home Buyout Program. To date four homes have been demolished under this contract. The time from start to finish of each demolition is less than 2 weeks. The contractor requests payment immediately at the completion of the work which will allow us to request payment through the grant on a monthly basis as required by Finance Policy #9. If we decide to perform future demolitions with in-house crews, the same model will be applied- each home will be demolished and the lot completely restored before moving onto the next demolition. This approach will shorten the time to complete the demolition and restoration.

## APPENDIX A

Grant	Resolution #	Grant Period		Award Amount	Findings
Severe Repetitive Loss Buyout Project 16-19	RS2017-657	5/29/2015	10/30/2018	\$953,260.00	Y*
FLOOD Gibson Drive/Elm Street Home Buyout 17-19	34101-23417	2/24/2017	04/01/2019	\$387,922.50	Y*
Flood Pennington Bend Home Buyout 17-18	RS2017-941	6/30/2017	06/29/2018	\$1,208,363.66	Y*
Flood Pennington Bend Home Buyout 11-14	RS2016-232	11/08/2011	06/29/2017	\$2,235,557.41	Y*
Flood Benzing Road/Park Terrace Home Buyout 11-14	RS2016-231	11/08/2011	06/30/2017	\$2,840,317.79	Y*
Flood Benzing Road/Park Terrace Home Buyout 17-18	RS2017-940	06/30/2017	06/29/2018	\$1,787,909.79	Y*
Omohundro Boat Dock Project 14-19	RS2014-999	03/01/2014	02/28/2019	\$40,000.00	N

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<sup>1</sup> \*Finding related to violation of Metro Policy.