



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
OFFICE OF INTERNAL AUDIT**

Professional Audit and Advisory Service

FINAL REPORT

**Audit of the
Gulch Business Improvement District**

Date Issued: October 13, 2011

Office Location and Phone Number

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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY

October 13, 2011

Results in Brief	Recommendations
<p>We performed an audit of the Gulch Business Improvement District, Inc. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none">• Was special assessment tax revenue assessed and collected by the Metropolitan Nashville Government accounted for in the accounting records of the Gulch Business Improvement District, Inc. and the Nashville Downtown Partnership? <p>Yes. All taxes that had been assessed, collected and forwarded to the Gulch Business Improvement District, Inc. were accounted for.</p> <ul style="list-style-type: none">• Were expenditures made using special tax revenue by the Gulch Business Improvement District, Inc., and the Nashville Downtown Partnership reasonable, prudent, and in accordance with BL2006-1123? <p>Yes. Expenditures reviewed were reasonable, prudent, and in accordance with Metropolitan Ordinance BL2006-1123.</p> <ul style="list-style-type: none">• Was the Board of Directors of the Gulch Business Improvement District, Inc. providing adequate and sufficient oversight? <p>Yes. The Board of Directors for the Gulch Business Improvement District, Inc. were providing adequate oversight.</p>	<p>Gulch Business Improvement District, Inc. management should design and implement a systematic and methodical process and procedure regarding how significant vendors are selected. At a minimum such procedures should address:</p> <ul style="list-style-type: none">• How a significant vendor is defined.• How procuring a major vendor is solicited and advertised to encourage maximum competition.• How potential vendors are graded and evaluated.• What parties should be involved in the selection process.• Who is responsible for approving the selection of the vendor.• How the vendor will be monitored and evaluated.

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INTRODUCTION

AUDIT INITIATION

The Metropolitan Nashville Office of Internal Audit's approved annual Audit Work Plan included an audit of the Central Business Improvement District and the Gulch Business Improvement District. The audit was initiated primarily due to these two entities not being subject to a Metropolitan audit in the past and to gain a better understanding of various component units within the Metropolitan Nashville Government. This report pertains to the audit of the Gulch Business Improvement District. The audit of the Central Business Improvement District will be issued in a separate report.

BACKGROUND

There are times when a group of property owners may wish to raise additional resources so that supplementary services can be received in their particular area. Tennessee Code Annotated §§ 7-84-102 to 7-84-623 and the Metropolitan Code of Laws §§ 2.177.010 to 2.177.090 outline the process whereby property owners may petition their local legislative body to create a special improvement district. Property owners in the designated area will be assessed an additional property tax whose proceeds' will be used exclusively to help fund the supplemental services, typically revitalization efforts.

The Central Business Improvement District and Gulch Business Improvement District are two such special improvement districts within the Metropolitan Nashville area. The Office of Internal Audit conducted an audit on these two entities. This report addresses the results of the audit pertaining to the Gulch Business Improvement District. The Gulch Business Improvement District was formed in 2006 in accordance with Metropolitan Nashville Ordinance 2006-1123. The Metropolitan Nashville Government has assessed, collected and distributed \$699,385 in special assessment taxes to the Gulch Business Improvement District from fiscal years 2008 to 2010.

The Gulch Business Improvement District is a component unit of the Metropolitan Nashville Government as defined by the Governmental Accounting Standards Board Statements numbers 14 and 39. The Gulch Business Improvement District serves a distinct geographical area. The mission of this entity is to "promote the successful revitalization of downtown Nashville thereby furthering the health, safety, morals, and general economic welfare of the Metropolitan Nashville and Davidson County". The geographic area of the Gulch Business Improvement District can be viewed at Appendix A.

Governance

The entity established to govern the Gulch Business Improvement District is called the Gulch Business Improvement District, Inc. The Gulch Business Improvement District, Inc. Board of Directors consists of between eight to twelve members who must be property owners or have offices within the Gulch Business Improvement District. A breakdown of how each member is selected is as follows:

- One appointed by Tennessee Speaker of Senate: State Senator from the District
- One appointed by Tennessee Speaker of House: Representative of District
- One is the Metropolitan Councilman for District as ex officio members
- One is appointed by the Mayor
- The remaining members shall be appointed by the Gulch Business Improvement District.

Members serve a staggered two or three year term and meet twice a year.

Missions and Objectives

The Metropolitan Nashville Government ordinances establishing and defining the mission of the Gulch Business Improvement District give the entity a very broad and comprehensive list of powers and responsibilities including operating parking garages constructing and maintaining public improvements, promotion and marketing, health and sanitation, security, beautification, and cultural enhancements. The Gulch Business Improvement District also has the power to enter into contracts, to hire and retain employees and or agents, engineers, accountants etc. Given this broad nature, the governing body of the Gulch Business Improvement District approves what is called the Management Plan. The Management Plan details how special revenue taxes are to be spent and must conform to the mission set forth in the applicable ordinances.

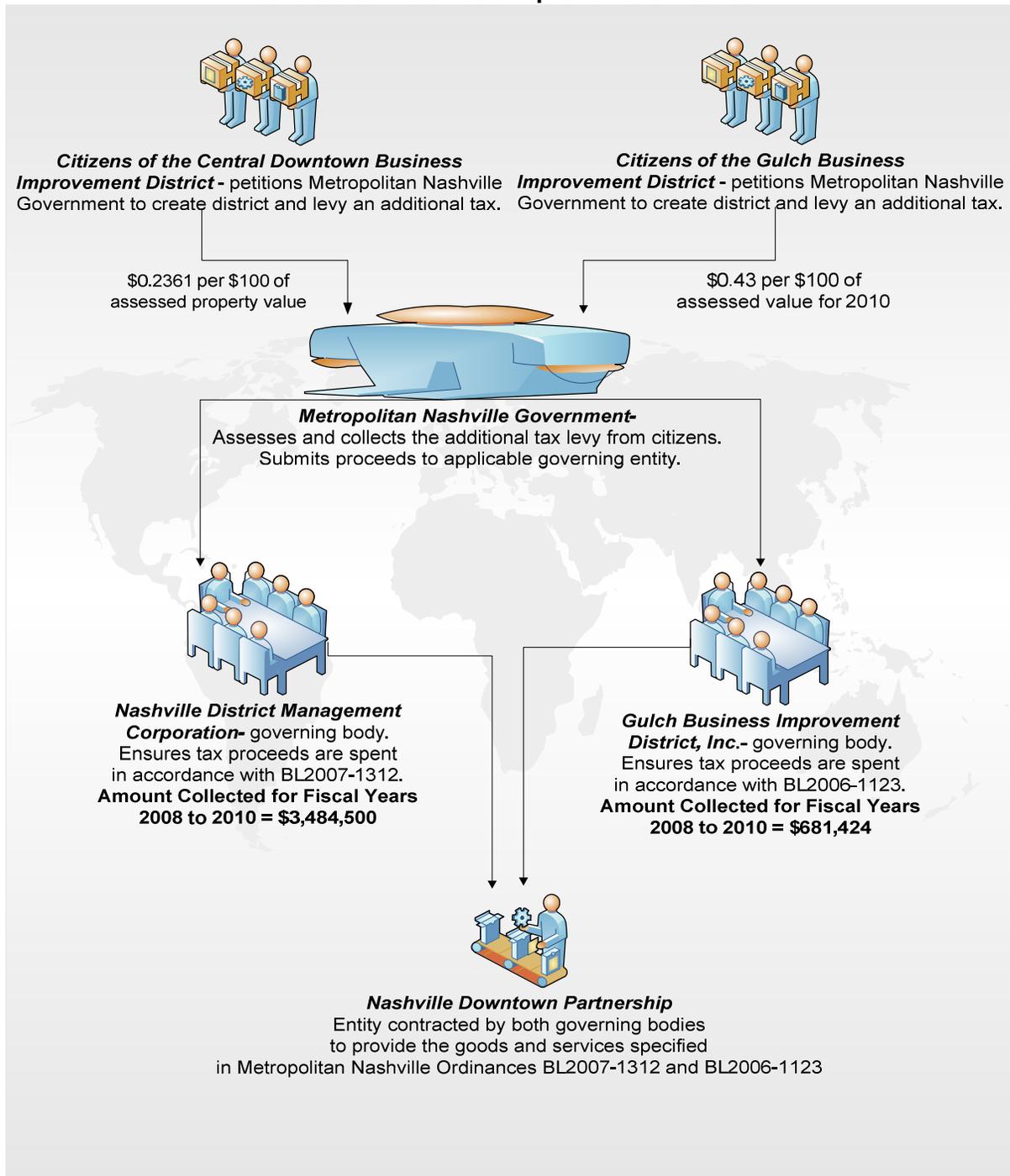
The Gulch Business Improvement District Management Plan is broken down into five areas which include maintenance, safety, management/supervision, cleaning supplies, and safety supplies.

The Nashville Downtown Partnership

The Gulch Business Improvement District Inc. Board has contracted with a local nonprofit agency, the Nashville Downtown Partnership, to provide the services outlined in the Management Plan. The Nashville Downtown Partnership is a private sector nonprofit corporation whose core purpose is "to make Downtown Nashville the compelling urban center in the Southeast in which to LIVE, WORK, PLAY and INVEST." Organized in 1994, the Nashville Downtown Partnership focuses on business recruitment and retention, residential and retail development, public space management, access and transportation, communications and marketing. The Nashville Downtown Partnership attempts to bring the various stakeholders of the downtown area together to identify needs, concerns, and develop strategies that will help the downtown area. The mission of the Nashville Downtown Partnership mirrors that the Gulch Business Improvement District.

A high level overview of the significant stakeholders and their relationships to one another for both the Gulch Business Improvement District and the Central Business Improvement District is presented in Exhibit A on the next page.

Exhibit A – Overview of Central Downtown Business Improvement District and Gulch Business Improvement District



FINANCIAL HIGHLIGHTS

The Metropolitan Government assesses an additional property tax levy based on real property values. The Gulch Business Improvement District was assessed an additional \$0.15 per \$100 of assessed property value in 2008,

\$0.91 per \$100 in 2009, and \$0.43 in 2010. This tax is included on the property owner's tax bill and is collected at the time of payment.

The Metropolitan Nashville Department of Finance is able to ascertain expected revenues for the Gulch Business Improvement District based on the known tax liability and the related allowance for doubtful accounts. The Gulch Central Business Improvement District, Inc. management team will take the numbers and develop a budget that outlines how the money will be spent in accordance within the Management Plan categories. The amounts budgeted and taxes collected and paid for fiscal years 2008 through 2010, as well as the top three vendors is summarized in Exhibit B and Exhibit C below:

Exhibit B – Gulch Business Improvement District Inc. Budgeted and Collected Amounts in Special Assessment Revenue - Based on the Metropolitan Government's Fiscal Year

Fiscal Year	Budgeted Amount	Metropolitan Nashville Payments
2010	\$350,000	\$350,000
2009	350,000	256,424
2008	75,000	75,000
Total	\$775,000	\$681,424

Source: EnterpriseOne and the Metropolitan Citizens Guide to the Budget Book

Exhibit C – Top Three Vendors of the Gulch Business Improvement, Inc. Three Largest Vendors in Terms of Amount Expended.

Vendor	Amount	Description
Block By Block	\$191,486	Maintenance, Cleaning, Security Service
Nashville Downtown Partnership	50,028	Management Services
Frasier, Dean & Howard	9,500	Auditing Services
Total	\$251,014	

Source: Nashville Downtown Partnership's General Ledger

The Nashville Downtown Partnership operates a separate bank account for the Gulch Business Improvement District, Inc. The Metropolitan Nashville Government will submit payments electronically to the Gulch Business Improvement District, Inc. bank account which is managed by the Nashville Downtown Partnership.

Related Party Transactions

The Gulch Business Improvement District, Inc. receives substantially all of its revenue from the Metropolitan Nashville Government. Additionally, the Metropolitan Nashville Office of Internal Audit noted that the entity contracts with the Nashville Downtown Partnership to carry out the specific services as outlined in BL2006-1123. The Chief Executive of the Gulch Business Improvement District Inc. is the same person as the Chief Executive Officer of

the Nashville Downtown Partnership. At the time of the audit, the outside accountant hired by both entities was the same person a well.

OBJECTIVES AND CONCLUSIONS

1. *Was special assessment tax revenue assessed and collected by the Metropolitan Nashville Government accounted for in the accounting records of the Gulch Business Improvement District, Inc. and the Nashville Downtown Partnership?*

Yes. All taxes that had been assessed, collected and forwarded to the Gulch Business Improvement District can be accounted for.

The Metropolitan Nashville Office of Internal Audit generated and reviewed Metro Nashville's financial accounting computer system (EnterpriseOne) reports listing all payments made to the Gulch Business Improvement District, Inc. by the Metropolitan Nashville Government from July 1, 2008, to June 30, 2010. The Metropolitan Nashville Office of Internal Audit then reviewed the general ledger for the Gulch Business Improvement District, Inc. and was able to agree amounts paid by the Metropolitan Nashville Government to the corresponding accounting records. Additionally, we reviewed the Nashville Downtown Partnership general ledger and agreed amounts paid to the Nashville Downtown Partnership by the Gulch Business Improvement District, Inc.

2. *Were expenditures made using special tax revenue by the Gulch Business Improvement District, Inc., and the Nashville Downtown Partnership reasonable, prudent, and in accordance with BL2006-1123?*

Yes. The Metropolitan Nashville Office of Internal Audit reviewed the Management Plans for the Gulch Business District, Inc. noting they conformed to the mission and objectives of the respective ordinances. Also, the Metropolitan Nashville Office of Internal Audit judgmentally selected 30 expenditures related to the Gulch Business Improvement District, Inc. for test work. Specifically, our office obtained supporting documentation for each sample item and ascertained the following:

- There was documentation such as an invoice to support expenditures.
- There was evidence of management review and approval.
- The expenditures related to an activity outlined in the Master Plan.
- The invoices were mathematically correct.
- The expenditures were recorded to an appropriate general ledger account.
- The expenditures were appropriate, reasonable and prudent.

3. *Were the Board of Directors of the Gulch Business Improvement District, Inc. providing adequate and sufficient oversight?*

Yes. The Metropolitan Nashville Office of Internal Audit obtained and reviewed all Board Meeting Minutes for the Gulch Business Improvement District, Inc. for calendar years 2008, 2009, and 2010. The Metropolitan Nashville Office of Internal Audit noted the Board met at least twice a year. The board minutes

were well documented and the subject matter of the meetings focused on the activities of the financial position and activities being engaged by each organization. The topics in the meetings mirrored the mission of the Gulch Business Improvement District, Inc. as outlined in applicable legislation and the Management Plan.

4. *What management controls did the Gulch Business Improvement District, Inc. and the Nashville Downtown Partnership have in place regarding procuring goods and services utilizing special assessment taxes?*

The Metropolitan Nashville Office of Internal Audit interviewed key staff regarding how major vendors were selected and what key management controls they rely upon in the procurement process to ensure the best value was received for goods and services procured for the Gulch Central Business Improvement District, Inc. and Nashville Downtown Partnership. The first management control identified involves Board oversight. Each Board Member represents an entity that has paid the special revenue tax and has a vested interest in ensuring the funds were spent in accordance with the applicable ordinances and the Management Plan. As stated above, the Boards met twice a year. The Metropolitan Nashville Office of Internal Audit reviewed the Board minutes noting that Board meetings focused on the financial position and activities of the entity. The Board also approved the Management Plan. This helped ensure special revenue funds were being spent in accordance to the applicable ordinance and the wishes of the taxpayers the Board Members represent.

The second broad management control pertains to management's (Nashville Downtown Partnership operations management and Chief Executive Officer) review of all expenditures related to special revenue funds. This provides assurance that all expenditures were in accordance with the entities mission and that amounts spent were for goods and services actually received. The accountant hired by the Gulch Business Improvement District, Inc. also performed high level analytical procedures to identify any potential problem areas.

However, the Gulch Business Improvement District, Inc. did not have a specific methodology for selecting vendors. The entity tries to procure services by vendors located within the Gulch Business Improvement District area. However most of the time, the process only involves researching who provides the service and sole sourcing.

5. *How did the Gulch Business Improvement District, Inc. monitor its contract with the Nashville Downtown Partnership?*

In terms of monitoring the vendors once goods and services have begun to be provided, all expenditures were subject to a review process. Managers who approve the invoices were involved in the day to day operations of their areas and the services received from the various vendors. They were inherently knowledgeable of how well vendors were performing. Also, part of the review process was to ensure invoices were accurate and/or that goods and services had been received.

OBSERVATIONS AND RECOMMENDATIONS

A – Selection Process for Significant Vendors

Competitive bidding provides assurance that selected vendors provide the best value for the services or goods procured. Competitive bidding was not utilized by the Gulch Business Improvement District, Inc. to select a significant vendor.

The Gulch Business Improvement District, Inc. carries out its mission by contracting their work to the Nashville Downtown Partnership, which is the only significant vendor for this organization. The Metropolitan Nashville Office of Internal Audit noted that the Nashville Downtown Partnerships mission closely mirrored the mission and objectives of the Gulch Business Improvement District, Inc. However, having a more rigorous and systematic selection process would help promote and ensure sound fiscal management of funds expended on behalf Gulch Business Improvement District, Inc. taxpayers.

Risk:

- Inability to obtain the bids of the largest number of potential vendors.
- Failure to obtain or demonstrate the best quality of goods and services for the price.
- Failure to maximize the effectiveness of public funds.
- Enhanced risk of inappropriate relationships and connections between vendor and entity.

Criteria:

Prudent Business Practice

Recommendation:

Gulch Business Improvement District, Inc. management should design and implement a systematic and methodical process and procedure regarding how significant vendors are selected. At a minimum such procedures should address:

- How a significant vendor is defined.
- How procuring a major vendor is solicited and advertised to ensure maximum competition.
- How potential vendors are graded and evaluated.
- What parties should be involved in the selection process.
- Who is responsible for approving the selection of the vendor.
- How the vendor will be monitored and evaluated.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this compliance 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 observations 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.

SCOPE AND METHODOLOGY

The audit focused primarily on the period January 1, 2008, through December 31, 2010. Financial balances, transactions, and compliance of the processes in place during the time of the audit were included. The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Gulch Business Improvement District, Inc. and the Nashville Downtown Partnership.

CRITERIA

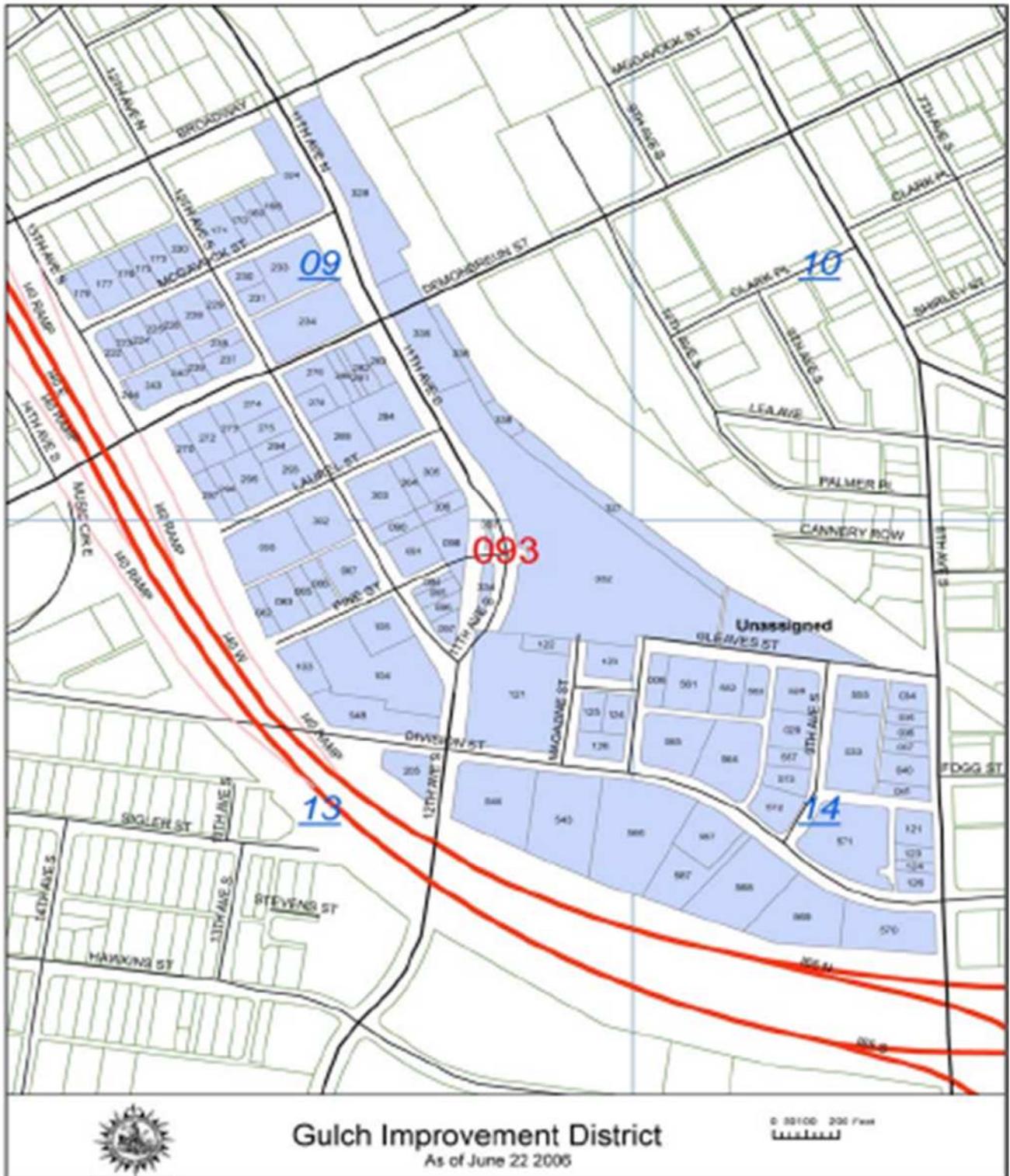
In conducting this audit, existing operations for the Gulch Business Improvement District Inc. were evaluated for compliance with:

- Metropolitan Nashville Ordinance 2006-1123
- The Management Plan for the Gulch Business Improvement District, Inc.
- Committee of Sponsoring Organizations of the Treadway Commission: Internal Control - Integrated Framework
- Prudent Business Practice

STAFF ACKNOWLEDGEMENT

Bill Walker, CPA, In-Charge Auditor
Mark Swann, CPA (Texas), CISA, CIA, Quality Assurance

APPENDIX A - Gulch Business Improvement District Boundary



Source: Metropolitan Nashville FY 2012 Recommended Budget

APPENDIX B - Management Response

- Management's Responses Starts on Next Page -



September 30, 2011

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37207

RE: Audit of the Gulch Business Improvement District

Dear Mr. Swann:

This letter acknowledges that the Gulch Business Improvement District Inc. has received and reviewed the Audit Report of the Gulch Business Improvement District and has reviewed the recommendations. We accept the recommendations as you will see in our response.

It was a pleasure working with your office on this audit. Please let us know if you need any further information.

Sincerely,

Thomas D. Turner
President and CEO

**Audit of the Gulch Business Improvement District
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. Gulch Business Improvement District, Inc. management should design and implement a systematic and methodical process and procedure regarding how significant vendors are selected. At a minimum such procedures should address:</p> <ul style="list-style-type: none"> • How a significant vendor is defined. • How procuring a major vendor is solicited and advertised to encourage maximum competition. • How potential vendors are graded and evaluated. • What parties should be involved in the selection process. • Who is responsible for approving the selection of the vendor. • How the vendor will be monitored and evaluated. 	<p>Accept.</p>	<p>Nashville Downtown Partnership Staff</p>	<p>12/31/2011</p>