



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit

Industrial Development Board

December 16, 2013

January 29, 2014 (With Management Response)

EXECUTIVE SUMMARY

December 16, 2013



Why We Did This Audit

The audit was conducted as part of the approved 2013 Audit Work Plan. The audit was initiated based on the number of years lapsed since the last audit.

What We Recommend

The Industrial Development Board could mitigate risks by enhancing documented policies and procedures, creating job specific training materials, improving the tracking of economic incentives, and setting an Industrial Development Board fund balance limit.

For more information on this or any of our reports, email
Mark.Swann@nashville.gov

Industrial Development Board

BACKGROUND

The function of the Industrial Development Board is to acquire, own, lease, and dispose of properties to the end that corporations may be able to promote industry and develop trade by inducing manufacturing, industrial, and commercial enterprises to locate to Nashville. One primary tool to accomplish this objective is the ability to issue tax-exempt industrial revenue bonds. Additionally, the Industrial Development Board acts as a conduit organization for State of Tennessee grants, Metropolitan Nashville grants, and tax abatements through payment in lieu of taxes (PILOT) agreements.

OBJECTIVES AND SCOPE

The objectives of the audit were to determine if:

- Effective controls were in place to manage economic incentives.
- Current and effective agreements are in place with Metropolitan Nashville departments performing duties on behalf of the Industrial Development Board.

The audit scope included July 1, 2010, through June 30, 2013. The Industrial Development Board approved eight payment in lieu of taxes agreements and issued approximately \$636 million in tax-exempt bonds during the time period.

WHAT WE FOUND

The Industrial Development Board has controls in place to effectively manage economic incentives, and current and effective agreements are in place with departments performing duties for the board. However, suggested improvements include setting the Industrial Development Board fund balance limit, documenting policies and procedures, and enhancing economic incentives tracking.

GOVERNANCE

The Industrial Development Board is comprised of nine members serving six years terms. Persons filling Industrial Development Board vacancies are recommended and elected by the Metropolitan Nashville Council.

The following functions assist the Industrial Development Board in discharging their duties:

- Mayor's Office of Economic and Community Development provides management support.
- A private attorney reviews incentives that come before the Industrial Development Board.
- Metropolitan Nashville Department of Law provides legal services to help protect Metropolitan Nashville Government interests.
- Metropolitan Nashville Department of Finance provides accounting services.

OBJECTIVES AND CONCLUSIONS

1. *Were effective controls in place to manage economic incentives?*

Generally yes. The economic incentives brought before the Industrial Development Board are being properly approved, and the receipts and disbursements from economic incentives are complete and accurate. However, improvements could be made with the tracking of economic incentives. (See Observation A.)

2. *Were current and effective agreements in place with Metropolitan Nashville departments performing services for the Industrial Development Board?*

Yes. The Industrial Development Board has current and effective agreements in place with the Mayor's Office of Economic and Community Development, the Metropolitan Nashville Department of Finance, and the Metropolitan Nashville Department of Law. However, detailed job responsibilities and procedures should be developed for Metropolitan Nashville employees providing services for the Industrial Development Board. (See Observation B.)

AUDIT OBSERVATIONS

The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework, Control Environment component recommends management and the board of directors establish mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective action as necessary. The audit observations listed are offered to help management fulfill their internal control responsibilities.

Observation A: Tracking of Economic Incentives

Prevalent business practices require the monitoring and tracking of economic incentives. Payment in lieu of taxes agreements are tracked by the Mayor’s Office of Economic and Community Development and the Metropolitan Nashville Department of Finance. The Metropolitan Nashville Department of Finance maintains a record of grants that flow through the Industrial Development Board with Metro Nashville’s financial system EnterpriseOne.

The following economic incentive tracking concerns were observed:

- The Metropolitan Nashville Department of Finance list of payment in lieu of taxes agreements did not include 100 percent tax abatement agreements that would require payments in the coming years.
- The Metropolitan Nashville Department of Law listing of bonds issued by the Industrial Development Board was missing information such as the maturity date, interest rate, resolution date, and location of the project.
- Grants that flow through the Industrial Development Board were not being tracked independent of Metropolitan Nashville Department of Finance.

Recommendation for management of the Industrial Development Board to:

1. Maintain a tracking list of economic incentives that includes all payment in lieu of taxes agreements and flow-through grants that are approved by the Industrial Development Board. Periodically review the list to ensure important deadlines or requirements are not overlooked.
2. Update the bond tracking list to include the maturity date, interest rate, resolution date, and any other pertinent bond information.

Observation B: Maintenance of Job Specific Training Materials

The COSO Internal Control’s Integrated Framework recommends organizations to deploy “control activities through policies that establish what is expected and procedures that put the policies into action”. Also, the Internal Control and Compliance Manual for Tennessee Municipalities states: “Municipal officials should provide policies and procedures for updating files to include the most current requirements as employees become aware of changes”.

Procedures describing the Metropolitan Nashville Department of Law responsibilities as they relate to the Industrial Development Board were not available. Some procedures were in place for the Metropolitan Nashville Department of Finance for processing of payment in lieu of tax payments, but the procedures were not up to date. The Industrial Development Board is regulated by a set of by-laws

and relevant state statutes were distributed to new member, but detailed policies and procedures were not available.

Without the use of written procedures, the efficiency and effectiveness of the board could be damaged by employee turnover.

Recommendations for management of the Industrial Development Board to:

1. Request written job specific procedures for the employees that provide services for the Industrial Development Board be maintained.
2. Develop a set of written policies and procedures for processing grants, issuing tax-exempt bonds, and managing payment in lieu of taxes agreements. Distribute policies and procedures to current and future members.

Observation C: Establishment of Industrial Development Board Fund Balance

Tennessee Code Annotated § 7-53-308 allows the transfer of funds net of operational expenses to the municipality with respect to which the corporation was organized. The Industrial Development Board has not determined an appropriate working capital balance, and transfers were not being made to the Metropolitan Nashville General Fund. The Industrial Development Board fund balance is approximately \$586,000. The fund balance is increased by the fees for bond applications and decreased by board member parking expenses.

Recommendations for management of the Industrial Development Board to:

1. Determine an appropriate working capital balance for the Industrial Development Board fund. The funds net of operational expenses should be transferred to the Metropolitan Nashville General Fund at regular intervals.

Observation D: Review of Economic Incentives

Tennessee Code Annotated § 4-17-303 states that all economic agreements be reduced to writing and submitted to the chief executive officer of the jurisdiction where the property is located and the state comptroller for review, but not approval. The submission should be completed no later than ten days after the agreement is executed. Evidence demonstrating this review was completed for payment in lieu of taxes agreements was not available in the agreement files.

Recommendations for management of the Industrial Development Board to:

1. Ensure payment in lieu of taxes agreements are submitted to the Office of the Mayor and State Comptroller no later than ten days after execution.

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 involved with the Industrial Development Board.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Reviewed financial transactions.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Mark Swann, CPA, CIA, CISA, Metropolitan Auditor

Seth Hatfield, CPA, Auditor-in-Charge, Field Work and Reporting

Roger Grigg, CPA, CIA, Experis Auditor-in- Charge, Planning

Audit of the Industrial Development Board

Management Response

January 14, 2014

A.1. Agree. Staff for the Board is in process of preparing such tracking lists and the development of a process to manage updates. Partially completed.

Proposed Completion Date: March 15, 2014

A.2. Agree. Staff maintains such information in the bond tracking list.

Proposed Completion Date: Completed.

B.1. Agree. Staff is in process of preparing such job specific procedures. Partially completed.

Proposed Completion Date: March 15, 2014

B.2. Agree. Staff is in process of preparing such job specific procedures. Partially completed.

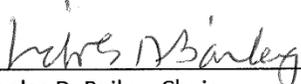
Proposed Completion Date: March 15, 2014

C. 1. Agree. Board resolved to set the capital working fund balance at \$5,000,000 at its December 2013 regular meeting.

Proposed Completion Date: Completed

D.2. Agree. Notice of such requirement to be added to the written policies and procedures document referred to in B.2.

Proposed Completion Date: March 15, 2014



Nicholas D. Bailey, Chair



Aubrey Gregory, Secretary

B-013181

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE 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
<p>A.1 Maintain a tracking list of economic incentives that includes all payment in lieu of taxes agreements and flow-through grants that are approved by the Industrial Development Board. Periodically review the list to ensure important deadlines or requirements are not overlooked.</p>	<p>Agree. Staff for the Board is in process of preparing such tracking lists and the development of a process to manage updates. Partially completed.</p>	<p>March 15, 2014</p>
<p>A.2 Update the bond tracking list to include the maturity date, interest rate, resolution date, and any other pertinent bond information.</p>	<p>Agree. Staff maintains such information in the bond tracking list.</p>	<p>Completed.</p>
<p>B.1 Request written job specific procedures for the employees that provide services for the Industrial Development Board be maintained.</p>	<p>Agree. Staff is in process of preparing such job specific procedures. Partially completed.</p>	<p>March 15, 2014</p>
<p>B.2 Develop a set of written policies and procedures for processing grants, issuing tax-exempt bonds, and managing payment in lieu of taxes agreements.</p>	<p>Agree. Staff is in process of preparing such job specific procedures. Partially completed.</p>	<p>March 15, 2014</p>
<p>C.1 Determine an appropriate working capital balance for the Industrial Development Board fund. The funds net of operational expenses should be transferred to the Metropolitan Nashville General Fund at regular intervals.</p>	<p>Agree. Board resolved to set the capital working fund balance at \$5,000,000 at its December 2013 regular meeting.</p>	<p>Completed</p>
<p>D.1 Ensure payment in lieu of taxes agreements are submitted to the Office of the Mayor and State Comptroller no later than ten days after execution.</p>	<p>Agree. Notice of such requirement to be added to the written policies and procedures document referred to in B.2.</p>	<p>March 15, 2014</p>