



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**TENNESSEE ADVISORY COMMISSION ON
INTERGOVERNMENTAL RELATIONS**

Performance Audit Report

November 2016

Justin P. Wilson, Comptroller



**Division of State Audit
Performance and Compliance Section**

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

KANDI B. THOMAS, CPA, CFE, CGFM, CGMA
Assistant Director

MICHAEL S. EDWARDS, CPA, CGFM
Audit Manager

John Dunne, CPA, CGMA
Scott J. Hanni, CFE
In-Charge Auditors

John Bowman, CFE
Cody Jennings
Alex Mussleman
Staff Auditors

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.

Mission Statement
The mission of the Comptroller's Office is
to make government work better.

Comptroller Website
www.comptroller.tn.gov



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

November 17, 2016

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

Senator Mark Norris, Chair
Tennessee Advisory Commission on
Intergovernmental Relations
Suite 9A Legislative Plaza
Nashville, Tennessee 37243
and
Dr. Cliff Lippard, Executive Director
Tennessee Advisory Commission on
Intergovernmental Relations
226 Capitol Boulevard Building, Suite 508
Nashville, TN 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Tennessee Advisory Commission on Intergovernmental Relations for the period July 1, 2011, through April 30, 2016. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed a finding that is detailed in the Objectives, Methodologies, and Conclusions section of this report. Management of the commission has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the commission should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/jd
16/199

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit

Tennessee Advisory Commission on Intergovernmental Relations

November 2016

AUDIT SCOPE

We have audited the Tennessee Advisory Commission on Intergovernmental Relations for the period July 1, 2011, through April 30, 2016. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the annual infrastructure report, conflict-of-interest disclosure statements, and information systems. Management of the commission is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

We conducted our 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 findings and conclusions based on our audit objectives.

CONCLUSIONS

FINDING

The commission did not provide adequate internal controls in three specific areas

The commission did not design and monitor internal controls in three specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and the inability to continue operations (page 15).

OBSERVATIONS

The following topics did not warrant findings but are included in this report because of their effect on the operations of the commission and the citizens of Tennessee: the commission's annual infrastructure reports include projects that are unlikely to be funded, as well as other minor errors (page 6); the commission did not issue annual infrastructure reports within the required time frame (page 9); and commission members are not required to complete conflict-of-interest disclosure forms (page 14).

MATTER FOR LEGISLATIVE CONSIDERATION

In order to improve the commission's efficiency and effectiveness, the General Assembly may wish to eliminate or revise the statutory requirement that the commission compile the annual infrastructure report each year (page 11).

Performance Audit
Tennessee Advisory Commission on Intergovernmental Relations

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Audit Authority	1
Background	1
AUDIT SCOPE	3
PRIOR AUDIT FINDINGS	5
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	5
Annual Infrastructure Report	5
Observation 1 – The commission’s annual infrastructure reports include projects that are unlikely to be funded, as well as other minor errors	6
Observation 2 – The commission did not issue annual infrastructure reports within the required time frame	9
Matter for Legislative Consideration	11
Conflict-of-Interest Disclosure Statements	13
Observation 3 – Commission members are not required to complete conflict-of-interest disclosure forms	14
Information Systems	14
Finding 1 – The commission did not provide adequate internal controls in three specific areas	15
APPENDIX	16
Demographic Information	16

Performance Audit

Tennessee Advisory Commission on Intergovernmental Relations

INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Tennessee Advisory Commission on Intergovernmental Relations was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-238, the commission is scheduled to terminate on June 30, 2017. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the commission should be continued, restructured, or terminated.

Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury or his designee. Those responsibilities include serving as a member of the Tennessee Advisory Commission on Intergovernmental Relations. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the commission.

BACKGROUND

The Tennessee Advisory Commission on Intergovernmental Relations was created by the General Assembly in 1978 to monitor federal, state, and local government relations and to make recommendations to the legislature. Pursuant to Section 4-10-104, *Tennessee Code Annotated*, the commission is assigned the following broad responsibilities:

- serve as a forum for the discussion and resolution of intergovernmental problems;
- engage in such activities and make such studies and investigations as are necessary or desirable in the accomplishment of the purposes set forth in Section 4-10-101, *Tennessee Code Annotated*;
- consider, on its own initiative, ways and means of fostering better relations among local governments and state government;
- draft and disseminate legislative bills, constitutional amendments and model local ordinances necessary to implement recommendations of the commission;

- encourage, and where appropriate, coordinate studies relating to intergovernmental relations conducted by universities, state, local and federal agencies, and research and consulting organizations;
- review the recommendations of national commissions studying federal, state and local government relationships and problems and assess their possible application to this state;
- study issues relating to changing federalism, including federal devolution, block grants, preemptions, mandates, and the tenth amendment to the Constitution of the United States;
- study tax equivalent payments by municipally owned electric operations to the various taxing jurisdictions within the state;
- study the laws relating to the assessment and taxation of property;
- conduct an annual study of the fiscal capacity of local governments to fund education; and
- conduct an annual infrastructure study.

In order to fulfill the above duties, the commission is specifically charged with four recurring mandates:

- conducting an annual study of the fiscal capacity of local governments to fund education for the purpose of determining allocations of Basic Education Program funding;
- compiling an annual inventory of needed infrastructure within the state;
- monitoring the implementation of Tennessee's Growth Policy Act and periodically reporting its findings and recommendations to the General Assembly; and
- monitoring and reporting on the effect of wholesale power supply arrangements between the Tennessee Valley Authority and municipal utilities and electric cooperatives on payments in lieu of taxes to the state and its local governments.

The commission is composed of 25 members who serve by virtue of the statutory position held or are elected or appointed. According to Section 4-10-103, *Tennessee Code Annotated*, the commission includes the following:

- (1) The chair of the senate finance, ways and means committee;
- (2) The chair of the finance ways and means committee of the house of representatives;
- (3) Four (4) state senators appointed by the speaker of the senate;
- (4) Four (4) state representatives appointed by the speaker of the house of representatives;
- (5) Four (4) elected municipal officials;

- (6) Four (4) elected county officials;
- (7) Two (2) executive branch members, one (1) of whom may be the commissioner of finance and administration, each appointed by the governor;
- (8) Two (2) private citizens, each appointed by the governor;
- (9) One (1) elected representative of the Tennessee Development District Association;
- (10) One (1) elected representative of the County Officials Association of Tennessee, appointed by the governor; and
- (11) The comptroller of the treasury.

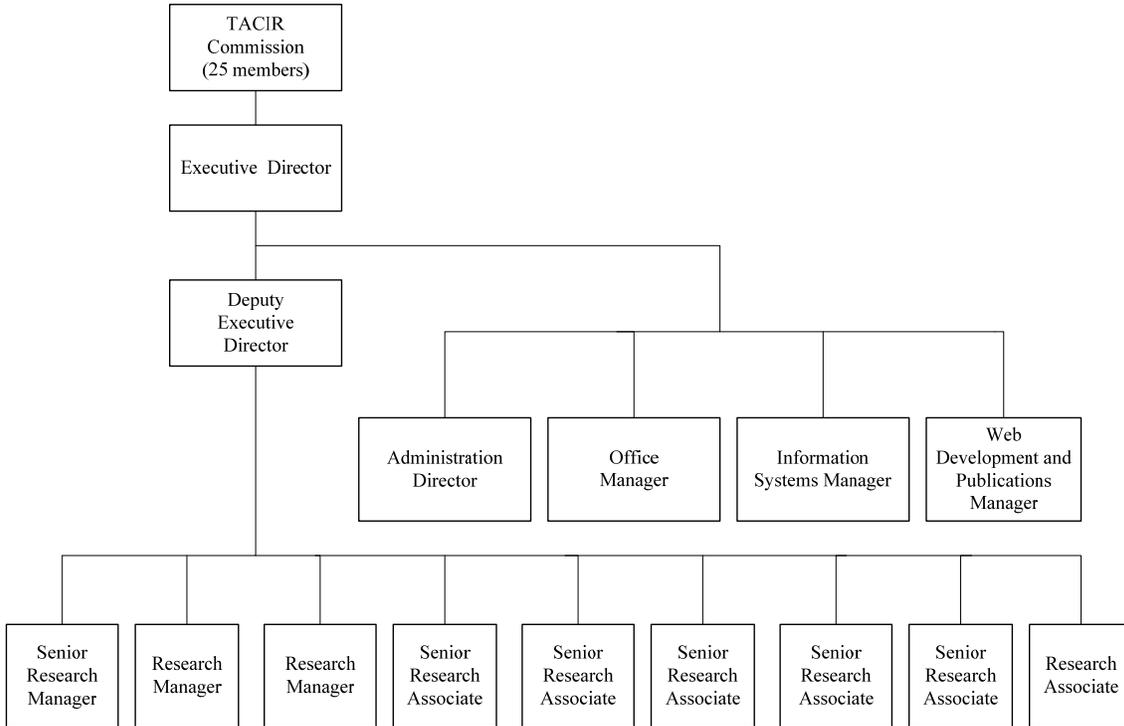
The commission's business unit code in Edison is 316.12. An organizational chart of the commission is on the following page.

AUDIT SCOPE

We have audited the Tennessee Advisory Commission on Intergovernmental Relations for the period July 1, 2011, through April 30, 2016. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the annual infrastructure report, conflict-of-interest disclosure statements, and information systems. Management of the commission is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

We conducted our 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 findings and conclusions based on our audit objectives.

**Tennessee Advisory Commission on Intergovernmental Relations
Organizational Chart¹
March 2016**



Source: Tennessee Advisory Commission on Intergovernmental Relations' management.

¹ Excludes consultants, vacant positions, and part-time employees. Nine part-time employees are used as needed to supplement full-time staff when legislative assignments or technology requires it.

PRIOR AUDIT FINDINGS

There were no audit findings in the prior audit report dated October 16, 2007.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

ANNUAL INFRASTRUCTURE REPORT

Section 4-10-109, *Tennessee Code Annotated*, requires the commission to compile an annual inventory of the state's planned and anticipated public infrastructure needs. The annual inventory must include all infrastructure needs over \$50,000 that state and local officials have reported to the commission as necessary over the next five years. The purpose of the inventory is to gather information that is

deemed necessary in order for the state, municipal and county governments of Tennessee to develop goals, strategies and programs that would improve the quality of life of its citizens, support livable communities and enhance and encourage the overall economic development of the state through the provision of adequate and essential public infrastructure.

Pursuant to statute, the commission enters into contracts with the state's nine development districts to accomplish the inventory. The staff of the development districts provide the commission with information about the infrastructure needs in their areas by surveying local officials. In order to obtain data about the needs of state agencies, commission staff rely on bridge and road project listings from the Department of Transportation and capital budget requests that other state agencies submit to the Department of Finance and Administration.

The objectives of our review of the annual infrastructure reports were to determine whether the commission

- accurately compiled the annual inventory reports presenting the state's infrastructure needs; and
- otherwise fulfilled the objectives for the inventory of public infrastructure needs, as described in Section 4-10-109, *Tennessee Code Annotated*.

We reviewed the applicable law and interviewed commission staff to obtain an understanding of the commission's process for compiling the annual inventory. We examined

the annual inventory reports, issued July 2013 and June 2015,² as well as the supporting data from the commission's Public Infrastructure Needs Inventory database, to determine whether the state's infrastructure needs were accurately reported. We reviewed the recordings at the Tennessee State Library and Archives to obtain an understanding of the legislative history and intent for Section 4-10-109, *Tennessee Code Annotated*. Finally, we interviewed state and local officials and key personnel in various state agencies to determine how they made decisions about which infrastructure projects to fund and how they used the commission's reports.

Based on our interviews, reviews, and testwork, we determined that

- the commission accurately compiled the infrastructure needs from the development districts and other state agencies in all material respects, although this data included projects unlikely to be pursued within five years and other minor errors (see Observation 1); and
- the infrastructure reports were not issued within the required time frame (see Observation 2) and did not appear to be used for any specific purposes by state and local officials (see Matter for Legislative Consideration).

Observation 1 – The commission's annual infrastructure reports include projects that are unlikely to be funded, as well as other minor errors

Based on our audit work,³ we found that the annual infrastructure reports entitled *Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs* include projects that are unlikely to be funded within the five-year time periods covered in the reports. We also identified other minor errors with some of the infrastructure needs presented by the commission.

Projects Unlikely to Be Funded

Bridge Projects Without Project Identification Numbers

When compiling information from the Tennessee Department of Transportation (TDOT), the commission's research staff use project data from the department's project management system and from its Tennessee Roadway Information Management System. If a project has not been entered into the project management system and assigned a project identification number, it is unlikely to be scheduled for construction. The June 2015 report includes 2,653 bridge projects without project identification numbers, with estimated costs totaling \$4,799,774,000.

Bridge inspectors for TDOT are required to inspect all highway bridges at regular intervals. If they give a bridge a sufficiency rating of less than 80 (on a 100-point scale), the

² These were the most current editions of the infrastructure report available to us during our audit fieldwork in calendar years 2014 and 2016.

³ The majority of our analysis was performed using the July 2013 edition of *Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs*, which reported that the state needed \$37,051,901,928 of infrastructure improvements from July 2011 to June 2016. Where necessary, we also performed testwork on the June 2015 edition, which reported \$42,308,373,665 of infrastructure needs for July 2013 to June 2018.

inspectors must estimate the costs to repair, rehabilitate, or replace the bridge and record this information in the Tennessee Roadway Information Management System. In our discussions with the commission’s Senior Research Associate for the annual infrastructure reports, he explained that a sufficiency rating below 80 did not necessarily indicate a bridge safety issue and that work was sometimes performed on these bridges for much less than the estimated costs. A Civil Engineering Manager in TDOT’s Structures Division also stated that “having a cost estimate available should not give the impression that a repair or replacement project is imminent” and “it could be years or even decades before that bridge is judged urgent enough to be scheduled [for repairs].” Since TDOT officials did not assign project identification numbers to the \$4,799,774,000 of bridge repairs, it appears that they did not consider these improvements to be necessary within the next five years.

Projects Included in the Annual Infrastructure Reports for at Least Six to Ten Years

Based on information supplied by the development districts and state agencies, the commission reported 2,821 projects, with a total estimated cost of \$19 billion,⁴ as needed infrastructure improvements every year from at least 2008 to 2013. The commission, development districts, and state agencies reported some of these projects as necessary since 2004⁵ and did not make any changes to \$5 billion of estimated costs for 1,301 projects throughout the years they appeared on the report. (See Table 1 below for a breakdown of the projects by the number of years that projects appeared in the report, along with the estimated costs.) It is uncertain how many of these projects were necessary within five years since they remained on the inventory, oftentimes without change, for at least six to ten years. Additionally, the costs for projects that are, in fact, necessary will be substantially different from the amounts presented in the report if they have not been updated in several years.

**Table 1
Infrastructure Projects
in Annual Reports from 2004 to 2013**

Years That Projects Appeared in Annual Reports	Number of Projects	Value of Projects (Estimated Costs)	Number of Projects Without Change in Estimated Costs	Value of Projects Without Change in Estimated Costs
2004 - 2013	1,262	\$7,305,200,761	621	\$2,401,538,406
2005 - 2013	317	1,545,573,342	132	374,401,280
2006 - 2013	528	5,654,775,846	193	977,930,214
2007 - 2013	383	2,926,961,949	177	586,379,248
2008 - 2013	331	2,061,271,337	178	781,750,094
Total	2,821	\$19,493,783,235	1,301	\$5,121,999,242

The Executive Director and the Senior Research Associate noted that statute requires them to compile an “inventory of public infrastructure needs” and that the inventory should not

⁴ Total estimated costs for the projects in the July 2013 annual infrastructure report.

⁵ We were unable to review information for needs before 2004; it is possible that some of the projects could have appeared in earlier years reports as well.

be limited to funded projects. Without a better definition of “needs” and clarification of the statute’s intent, we cannot determine whether the commission should continue to include projects as “needs” at the original cost estimate when decision makers have delayed scheduling them for years. Additionally, the costs for repairing or rehabilitating a bridge, or for completing one of the other infrastructure projects that has appeared on the report for six or more years without change and that is in fact necessary, will differ substantially from the amounts presented in the infrastructure report.

Other Errors

In addition, we noted that the July 2013 report included the following:

- **\$2,149,584 of school technology projects with estimated costs of less than \$50,000** – According to Section 4-10-109(c), *Tennessee Code Annotated*, “infrastructure needs projects included in the inventory should involve a capital cost of not less than fifty thousand dollars (\$50,000).” The commission’s annual reports state that “school technology infrastructure is included for existing schools regardless of cost in order to provide information related to the technology component of the state’s education funding formula.” (Since 2014, the commission has included a footnote to this inventory category stating the number and dollar value of projects that are under \$50,000.) Despite the importance of school technology needs and their relevance to the state’s education funding, it is unclear why they were included in the inventory reports despite the statutory requirement to the contrary.
- **A \$990,000 project that had been completed at Brushy Mountain Correction Complex (which closed on June 11, 2009)** – Based on a review of the report data and discussion with the commission’s Senior Research Associate for the annual infrastructure reports, the Tennessee Department of Correction appeared to have incorrectly reported (and, when verifying information for the commission, subsequently confirmed) that the security fencing upgrade was still needed for three years before noting the error.
- **A \$300,000 school renovation project incorrectly reported twice** – This project was reported twice, once as a high school project and again as an adult learning center. Both the high school and the center operate in the same building, and there was only one renovation project that benefited both. The Senior Research Associate stated that this type of error cannot be identified in the school infrastructure project data since schools are not assigned unique identification numbers in the Public Infrastructure Needs Inventory database.

The Executive Director should take the necessary steps to ensure that the annual infrastructure reports are as reliable as possible and that staff comply with Section 4-10-109, *Tennessee Code Annotated*, when preparing the report. Specifically, the Executive Director and the commission’s researchers and staff should

- coordinate with TDOT personnel to better identify the improvements that must be made to the state’s highway bridges during the five-year period covered in each annual infrastructure report;
- develop and implement additional procedures for ensuring that older projects included in the report data are still needed and that the estimated costs are properly updated;
- exclude projects that have estimated costs of less than \$50,000 from the annual infrastructure reports or present these additional projects separately from the statutorily required infrastructure needs; and
- modify the Public Infrastructure Needs Inventory database so that unique identification numbers can be recorded for each school and additional edit checks can be performed to reduce reporting errors.

Observation 2 – The commission did not issue annual infrastructure reports within the required time frame

The commission issued the four most recent editions of the annual infrastructure report one to three months late, in June 2015, June 2014, July 2013, and August 2012.⁶

The commission is required to present the report during the General Assembly’s regular session, which typically begins in January and ends in April. Section 4-10-109(f), *Tennessee Code Annotated*, states,

The annual inventory of statewide public infrastructure needs and costs for provision of adequate and essential public infrastructure shall be presented by the commission to the general assembly at its next regular annual session following completion of the inventory each year.

With regard to the deadline for the “completion of the inventory,” Section 4-10-109(e), *Tennessee Code Annotated*, states that “the public infrastructure needs inventory shall be completed by the development districts or an agency or entity of state or local government or higher education and submitted to the commission no later than June 30 of each year.” According to the wording of the statute, therefore, the development districts “complete” the inventory; the commission’s responsibility is to “compile” it and present it to the General Assembly during the next session following the June 30 completion.

Based on our review of the commission’s procedures, the development districts complete the inventories by June 30; the delays in presenting the report occur as a result of the time that the commission’s staff spend analyzing the inventory data and preparing the report. According

⁶ Our audit period extends from July 1, 2011, through April 30, 2016; we did not review the infrastructure report issued in June 2011 or in earlier calendar years. As of June 30, 2016, the commission had not issued the annual infrastructure report for calendar year 2016.

to the *PINI User Guide*,⁷ researchers and staff distribute survey forms to the development districts in August of each year, requesting information for the inventory period beginning with the fiscal year just completed. (The forms require the development districts to report on infrastructure needs as of June 30 of the prior fiscal year.) Under the terms of the agreements, the inventory contractors are expected to submit their infrastructure data by the end of March and perform whatever quality control is required by the June 30 statutory deadline. Once the development districts have completed their work, the commission analyzes the report data from July until October; drafts the annual report from November until the following May; and then approves and publishes the annual report in June. In total, the commission spends an additional year compiling the inventory after it is completed by the development districts. A summary of the timeline documented in the *PINI User Guide* is presented below.

Table 2
Timeline for Preparing Annual Inventory

Month	Activity/Description
August	Commission staff execute contracts. Development districts conduct interviews related to school inventory data.
September	Commission staff process TDOT inventory data. Development districts conduct interviews related to school inventory data.
October	Commission staff process inventory data from the Department of Finance and Administration. Development districts conduct interviews, and enter and update inventory data.
November – March	Development districts conduct interviews, and enter and update inventory data. Commission staff perform quality control reviews.
April – June	Development districts and commission staff complete quality control reviews of inventory data.
July – October	Commission staff analyze report data.
November – March	Commission staff draft annual report.
April	Commission staff prepare a final draft of the annual report.
May	Commission staff finalize the annual report.
June	Executive Director obtains commission’s approval of report; the commission publishes the annual report.

Under its current process, the commission is not able to comply with the statutory requirement to present the inventory at the next regular General Assembly session following completion of the inventory. Additionally, since the commission spends approximately a year compiling the report after the development districts complete their inventories, infrastructure

⁷ The commission developed the Public Infrastructure Needs Inventory (PINI) application to enable development district employees to collect and enter inventory information into a centralized, web-based database. The *PINI User Guide* provides commission staff and development district personnel with an instruction manual for using PINI and completing the inventory.

needs are two years old when they are reported. As a result of this delay, the infrastructure reports are not available to the General Assembly during session and may be less relevant to other potential users.

The Executive Director should take the necessary steps to ensure that the infrastructure report is completed within the required time frame. If necessary, the Executive Director and the members of the commission should consider updating the format for the annual infrastructure reports so that they can be finalized, approved, and presented to the General Assembly earlier.

Matter for Legislative Consideration

Based on our audit work, we were unable to identify any specific uses of the infrastructure report to develop goals, strategies, and programs as described in Section 4-10-109, *Tennessee Code Annotated*.

Pursuant to statute, the commission relies on “the extensive needs data currently maintained by various state agencies” and “the state’s nine (9) development districts.” Since state law requires a compilation, the commission does not prioritize the infrastructure needs that it presents in its report. The Department of Finance and Administration (F&A) and the Department of Transportation (TDOT), which provide the commission with information about state facilities, highways, and bridges, have their own independent processes for prioritizing infrastructure projects for the state’s budgetary process. Once the commission obtains the information from the involved agencies and produces its annual report, these agencies have already finalized their budgets. Based on discussions with management of TDOT and F&A, state agencies do not use the infrastructure reports when making capital budgeting decisions:

- According to TDOT’s Chief Engineer and the Chief of Administration, TDOT scores projects based upon their effect on the environment, the economy, roadway safety, traffic operations, and various other criteria. After scoring the projects, TDOT officials prioritize them based on an analysis of the projects’ benefits relative to their costs, scheduling constraints, availability of funding, and project locations.
- The Budget Director for F&A stated that his agency, which is responsible for preparing the budget for the State of Tennessee, matches available funding sources to capital project requests, as provided by the Department of General Services, TDOT, and the Tennessee Higher Education Commission (THEC). The Department of General Services is responsible for managing and prioritizing the capital projects for the state agencies, aside from TDOT and THEC. According to the Department of General Services’ Executive Director for Capital Projects, each agency sends the department a prioritized list of the capital projects that it needs. Once the department has lists of capital projects for all of the state agencies, its Capital Projects team ranks the projects based on risk, potential for loss of funding, safety, and age.

Similarly, the Executive Directors for the commission and for the Municipal Technical Advisory Service stated that local officials benefit from completing the inventory of their infrastructure

needs for the commission but would not be expected to use the commission's annual infrastructure report since it does not provide them with new information.

The General Assembly may, therefore, wish to eliminate the infrastructure needs inventory or revise the statute to define a more useful inventory process. According to our review of the costs associated with compiling the reports, we found that the commission spent approximately \$800,000 to compile and publish the June 2015 infrastructure report. The commission paid close to \$600,000 to development districts to collect the inventory data and estimated that \$200,000 of the commission's own payroll and other miscellaneous expenditures could be attributed to the June 2015 infrastructure report. As noted in Observation 2, commission staff currently spend approximately one year to analyze the inventory data and prepare the annual infrastructure report. Eliminating or revising this statutory requirement would enable the commission to devote its time and resources to researching other, more urgent intergovernmental policy issues.

Management's Comment

The Public Infrastructure Needs Inventory (PINI) provides information that helps state and local officials match needs with funding and is especially useful to local governments that lack a formal capital improvements program. At the same time, the state's nine development districts benefit from the PINI process because management at the development districts can easily update their respective comprehensive economic development strategy reports, which are required annually by the U.S. Economic Development Administration (EDA). Unless the development districts include their projects in the strategy reports, the EDA will not consider funding the development district projects. Information from the inventory has been used to develop lists of projects suitable for other types of state and federal grants as well, including lists of "shovel ready" projects eligible for American Recovery and Reinvestment Act grants. Many projects that have received Community Development Block Grants were originally discovered in discussions of infrastructure needs between PINI surveyors and local government officials. The PINI also helps state decision makers identify gaps between critical needs and available state, local, and federal funding. Further, many local officials use the data reported by other jurisdictions in the report as one more tool for evaluating and assessing the validity of the needs reported to them by their own agencies.

As just one example of how the PINI report has been used by the General Assembly to inform their decision making, several members of the legislature used it to support their arguments to restore dedicated funding that had been diverted from the state's transportation account during the administration of the former governor. The senator who currently serves as the TACIR commission chair specifically cited the report multiple times during deliberations of the 104th General Assembly's Senate Transportation Committee, which he chaired, and was ultimately successful in restoring the transportation fund. And as recent as the August 2016 TACIR meeting, members drew on the report to discuss differences among various transportation funding projections reported by the administration.

Also, the PINI provides a unique statewide database of information about the condition and needs of Tennessee's public school facilities. The schools portion of the inventory provides

information on the condition of all schools in the state, not just the ones in need of repair or replacement, and can be analyzed to identify particular categories of needs, such as those involving technology. This information is useful in pinpointing pressing needs for particular schools and districts, as well as in providing an overview of statewide needs.

We agree that PINI reports include projects that are unlikely to be funded. But it is essential to remember that the intent of the report is to provide an inventory of needs, not an inventory of already funded projects. One of the primary purposes of the inventory is to alert policy makers to the types of infrastructure for which officials report having many needs but little available funding. Therefore, local officials are encouraged to report their needs, including those related to goals, strategies, and programs to improve their communities, and are limited by only the very broad purposes for public infrastructure as prescribed by the survey's enabling law. No independent assessment of need constrains their reporting.

The statute establishing the PINI states that “the inventory shall include . . . needed public infrastructure facilities” and “consult with . . . concerning planned or anticipated, or both, public infrastructure needs over the next (5) year period.” The statute doesn't limit needed infrastructure to projects that will be funded or begin construction in the five-year period. This is why the PINI survey asks when the project is needed and not when it will begin. Officials sometimes plan for something to begin by a certain date, but unexpected obstacles can arise—for example, during the Great Recession and the recovery from it, state and local officials had to postpone many projects because of reduced revenue. That does not mean that the projects reported earlier as needs were not still necessary.

CONFLICT-OF-INTEREST DISCLOSURE STATEMENTS

Conflict-of-interest disclosure statements are a vital component of ethical governance. Disclosure statements provide public officials with a framework for identifying when they should recuse themselves from decision making. In addition, the statements assure the citizens of Tennessee that decision makers are upholding the highest ethical standards.

The objective of our review was to determine whether commission members and staff completed conflict-of-interest disclosure forms.

To gain an understanding of the commission's practices concerning possible conflicts of interest, we interviewed the Executive Director and Administrative Director. We also reviewed the commission's bylaws; administrative policies; and conflict-of-interest disclosure forms for calendar years 2016, 2015, and 2014 for the key staff members with the authority to procure goods and services.

Based on procedures performed, we determined that, although staff have completed conflict-of-interest disclosure forms since calendar year 2014, commission members are not required to do so (see Observation 3).

Observation 3 - Commission members are not required to complete conflict-of-interest disclosure forms

The *Bylaws of the Tennessee Advisory Commission on Intergovernmental Relations* do not require commission members to complete conflict-of-interest disclosure forms, although completing such forms is a common practice for state boards and commissions.

The commission's bylaws state that commission meetings will be conducted using the guidance in *Robert's Rules of Order*. According to *Robert's Rules of Order*, members should not vote on motions if they have direct personal or monetary interests in a subject. Under *Robert's Rules of Order*, however, members are not required to make statements disclosing potential conflicts of interest, nor can they be compelled to abstain from discussing or voting on issues when they have conflicts of interest.

The General Assembly and other state and local officials rely on the commission's research as a basis for possible legislation; therefore, any intentional or unintentional bias in its reports could affect new legislation or public policy decisions. At present, commission members with an undisclosed conflict of interest could affect the contents of the commission's reports by asking staff to focus on a particular aspect of an issue when performing research or presenting the results in a report.

The commission's Chair should work with the Executive Director to develop a conflict-of-interest policy and an annual disclosure form that meet the state's and commission's needs. As a part of this policy, commission management should consider what circumstances would be necessary for members of the commission to recuse themselves from discussion. Once the necessary policy statement and disclosure form template have been developed, the Chair and Executive Director should ensure that signed conflict-of-interest disclosure forms are obtained from the commission members and reviewed on an annual basis.

INFORMATION SYSTEMS

The Tennessee Advisory Commission on Intergovernmental Relations uses two main information systems. Edison, the state's enterprise resource planning system, is used for payroll, human resources, and fiscal operations. The Public Infrastructure Needs Inventory database is used to collect and store data for the commission's annual infrastructure study.

The objective of our review of the commission's information systems was to determine whether management followed state information systems security policies and industry best practices regarding system controls.

To achieve our objective, we compared management's internal control activities to assess adherence to state information systems security policies and information systems industry best practices.

Based on the procedures performed, management did not follow state information systems security policies and industry best practices (see Finding 1).

Finding 1 – The commission did not provide adequate internal controls in three specific areas

The Tennessee Advisory Commission on Intergovernmental Relations did not design and monitor internal controls in three specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

The Executive Director should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in these areas. The Executive Director should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The commission now has internal controls in place to ensure compliance with the applicable requirements and have taken all necessary corrective actions.

APPENDIX

DEMOGRAPHIC INFORMATION
Tennessee Advisory Commission on Intergovernmental Relations
Commission by Gender and Ethnicity
April 2016

Title	Gender		Ethnicity	
	<i>Male</i>	<i>Female</i>	<i>White</i>	<i>Black</i>
Commission Member	20	4	21	3

Source: Tennessee Advisory Commission on Intergovernmental Relations' staff.

Tennessee Advisory Commission on Intergovernmental Relations
Staff by Gender and Ethnicity
April 2016

Title	Gender		Ethnicity	
	<i>Male</i>	<i>Female</i>	<i>White</i>	<i>Black</i>
Executive Director		1	1	
Deputy Executive Director	1		1	
Administration Director	1		1	
Executive Administrative Assistant 2		1	1	
Executive Administrative Assistant 1		1		1
Information Systems Technology Manager	1		1	
Research Associate 4		1	1	
Research Associate 3	1	1	2	
Research Associate 2	4	1	5	
Research Associate 1	1		1	
Total	9	6	14	1

Source: State Audit Information Systems.