



**A Report to the
Audit Committee**

Mayor
Freddie O'Connell

Investment Committee Chair
Kevin Crumbo

Treasurer
Michell Bosch

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Kevin Crumbo
Angie Henderson
Courtney Johnston
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Metropolitan
Nashville
Office of
Internal Audit

Recommendations Follow-Up –
Audit of Metropolitan Nashville
Government Pension Investments

August 15, 2024

EXECUTIVE SUMMARY

August 15, 2024



Why We Did This Audit

To evaluate management's implementation of previous audit recommendations as of April 16, 2024.

What We Recommend

There are no recommendations as management successfully implemented the initial audit recommendations.

Audit Recommendations Follow-Up – Audit of Metropolitan Nashville Government Pension Investments

BACKGROUND

On October 21, 2021, the Office of Internal Audit issued an audit of the Metropolitan Nashville Government Pension Investments. The audit report included six recommendations. All six recommendations were accepted by management for implementation. The Office of Internal Audit guidelines require monitoring and follow-up to ensure that the recommendations assessed as high or medium risk are appropriately considered, effectively implemented, and yield intended results.

OBJECTIVES AND SCOPE

The objectives of this follow-up audit were to determine if the recommended actions or an acceptable alternative were implemented.

The scope of the follow-up audit included six accepted recommendations that management reported as implemented.

WHAT WE FOUND

Finance has fully implemented all six recommendations. Details of the implementation statuses can be seen in **Appendix A**.

AUDIT FOLLOW-UP RESULTS

The initial audit report encompassed pension investments between July 1, 2018, and February 28, 2021. The audit report included six recommendations. All six recommendations were accepted by management for implementation.

The Office of Internal Audit will close a recommendation only for one of the following reasons:

- The recommendation was effectively implemented.
- An alternative action was taken that achieved the intended results.
- Circumstances have so changed that the recommendation is no longer valid.
- The recommendation was not implemented despite the use of all feasible strategies or due to lack of resources. When a recommendation is closed for these reasons, a judgment is made on whether the objectives are significant enough to be pursued later in another assignment.

The scope of the follow-up audit included the six accepted recommendations that management reported as implemented. Of the six accepted recommendations, all six recommendations were fully implemented. Details of the implementation status and updated implementation dates, if applicable, can be seen in **Appendix A**.

METHODOLOGY

To achieve the audit objectives, auditors performed the following steps:

- Reviewed the Statement of Investment Policy
- Reviewed Actuarial Experience Study
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse and information technology risks.

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.

AUDIT TEAM

Elizabeth Andrews, CFE, In-Charge Auditor

Seth Hatfield, CPA, CIA, CFE, CCFO, Quality Assurance

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

APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

The following table shows the guidelines followed to determine the status of implementation.

Table 1

Recommendation Implementation Status	
Implemented / Closed	The department or agency provided sufficient and appropriate evidence to support the implementation of all elements of the recommendation and the recommendation's implementation caused or significantly influenced the benefits achieved.
Partially Implemented / Open	The department or agency provided some evidence to support implementation progress but not of all elements of the recommendation were implemented.
Not Implemented / No Longer Applicable	The department or agency did not implement a recommendation because: a) of lack of resources; b) an alternative action was taken that achieved the intended results; c) circumstances have so changed that the recommendation is no longer valid.

The following are the audit recommendations made in the original audit report dated October 21, 2021, and the current implementation status of each recommendation based on our review of information and documents provided by the Finance Department.

Recommendation	Implementation Actions	Outstanding Issues	Implementation Status
A.1 – Clarify the strategy and the risk tolerance behind the asset allocation in the Statement of Investment Policy. Assessed Risk Level: High	The investment policy was updated to address the strategy and risk tolerance behind the asset allocation.	None	Implemented
A.2 – Address the overallocation of private equity investments by either rebalancing the pension fund portfolio or amending the asset allocation if it is determined that the risk tolerance of the Investment Committee would allow for a higher allocation in the private equity asset class. Assessed Risk Level: Medium	The investment policy was updated. The former investment policy had a range of 5-15 percent for private equity with an average allocation of 20.9 percent. The updated investment policy has a target of 20 percent with a range of 15-23 percent.	None	Implemented
B.1 – Amend the Statement of Investment Policy to be more in line with established best practices. Assessed Risk Level: Medium	The investment policy was updated to be in line with best practices including clarification of roles and responsibilities, safekeeping and custody, reporting requirements, and a statement of purpose.	None	Implemented

APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

Recommendation	Implementation Actions	Outstanding Issues	Implementation Status
<p>C.1 – Perform an annual evaluation of Investment Committee skills and, if needed, develop a plan for improving and expanding the committee’s competencies.</p> <p>Assessed Risk Level: Medium</p>	<p>Investment members are required to sign a document attesting to the completion of 8 hours of CPE. The attestation was last completed in December 2023.</p>	<p>None</p>	<p>Implemented</p>
<p>D.1 – Conduct an Experience Study to review the actuarial services provide for the Metropolitan Nashville pension fund at least once every five years.</p> <p>Assessed Risk Level: Medium</p>	<p>An independent actuarial study was completed, and the investment summary was updated to include that a third-party study will be completed every five years.</p>	<p>None</p>	<p>Implemented</p>
<p>E.1 - Perform a cost-benefit analysis for adding additional resources to ensure the Investment Office can effectively assist the Investment Committee in managing the pension fund and ensure protection against undue influence from fund managers. Resources could include hiring additional investment analysts or redefining the roles of existing staff and procuring an outsourced chief investment officer.</p> <p>Assessed Risk Level: Medium</p>	<p>The Hackett Group, LLC was contracted to perform a review of policies, procedures, and practices. This included a review of staffing and structure of the investment office. The Treasury Department is currently pursuing an increase in staff based on a recommendation from the review.</p>	<p>None</p>	<p>Implemented</p>