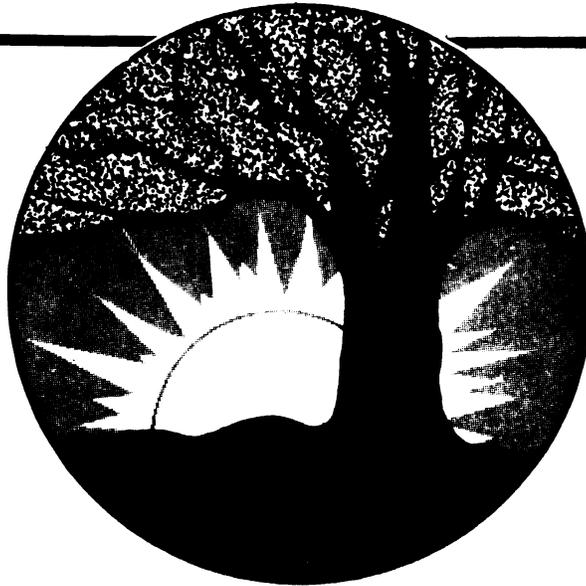


# PERFORMANCE AUDIT

Department of Economic and Community Development  
March 2009



Justin P. Wilson  
Comptroller of the Treasury



State of Tennessee  
Comptroller of the Treasury  
Department of Audit  
Division of State Audit

*Arthur A. Hayes, Jr., CPA, JD, CFE*  
Director

*Deborah V. Loveless, CPA, CGFM*  
Assistant Director

*Dena Winningham, CGFM*  
Audit Manager

*Sandra Tulloss*  
In-Charge Auditor

*Amy Abbott, CGFM, CFE*  
*Lisa Breen*  
Staff Auditors

*Amy Brack*  
Editor

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

Performance audits are available on-line at [www.comptroller1.state.tn.us/RA\\_SA/](http://www.comptroller1.state.tn.us/RA_SA/).  
For more information about the Comptroller of the Treasury, please visit our website at  
[www.tn.gov/comptroller/](http://www.tn.gov/comptroller/).



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897  
FAX (615) 532-2765

March 9, 2009

The Honorable Ron Ramsey  
Speaker of the Senate  
The Honorable Kent Williams  
Speaker of the House of Representatives  
The Honorable Jack Johnson, Chair  
Senate Committee on Government Operations  
The Honorable Susan Lynn, Chair  
House Committee on Government Operations  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Department of Economic and Community Development. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

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

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/dww  
08/042

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit

**Department of Economic and Community Development**

March 2009

---

## AUDIT OBJECTIVES

The objectives of the audit were to determine whether the Department of Economic and Community Development appropriately awards, manages, and monitors grants and loans; to determine whether the department follows appropriate defaulted loan policies/practices; to determine whether current cost caps in department contracts with local governments for local planning services are set at an appropriate level; to review the role of the Tennessee Board for Economic Growth; to identify best practices in economic development agency performance measurement and whether the department would benefit from adopting those practices; to determine whether department rules should be updated to remove and/or move references to programs no longer administered by the department; and to determine the department's compliance with Title VI of the Civil Rights Act of 1964.

## FINDINGS

### **The Department Should Improve Its Grant and Loan Recipient Monitoring Process**

Overall, the department monitors Community Development Block Grant (CDBG) and Fast-Track awards in a manner that is consistent with state and federal mandates. However, additional on-site monitoring visits are warranted because of these programs' high risk. Monitoring and documentation guidelines for Local Government Energy Loans are also lacking (page 10).

### **The Department Should Further Improve Its Performance Measures**

Although measuring economic development agencies' performance is inherently difficult, the department has improved its performance measurement system since the prior performance audit in 2005. However, it can further enhance its accountability by adopting additional outcome measures. Additionally, because some performance measurement data are based on award recipients' self-reported information, the department needs to evaluate its data sources on an ongoing basis to ensure

it uses the most efficient and effective data possible (page 16).

### **The Department's Statutes, and Rules and Regulations Need to Be Updated**

The department's statutes, and rules and regulations include provisions related to programs no longer active and no longer under the department's control. For example, *Tennessee Code Annotated* and the department's rules refer to a federal program which was eliminated over ten years ago. Similarly, the department's rules address programs which have been transferred to other state departments (page 23).

### **Current Procedures Do Not Encourage Board Members to Disclose Conflicts of Interest**

Members of all boards administered by the department are required to sign a statement indicating that they do not have any conflicts of interests related to their board service. However, the current conflict-of-interest form does not provide space for board members to list any potential conflicts. To maximize board members' opportunity to report conflicts, the form should be updated to encourage disclosure (page 25).

## **OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: the role of the Tennessee Board of Economic Growth; and the department's process for handling defaulted economic development loans (page 28).

## **ADDITIONAL AUDIT WORK CONDUCTED**

The audit also discusses the following issue: budget-based fees of the Local Planning Assistance Office (page 32).

## **ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 4-3-708(4), *Tennessee Code Annotated*, to remove references to the terminated federal institutional conservation program (page 34).

# Performance Audit Department of Economic and Community Development

---

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Purpose and Authority for the Audit	1
Objectives of the Audit	1
Scope and Methodology of the Audit	2
Responsibilities and Organization	2
Revenues and Expenditures	8
<b>FINDINGS AND RECOMMENDATIONS</b>	10
1. The department should improve its grant and loan recipient monitoring process	10
2. The department should further improve its performance measures	16
3. The department's statutes, and rules and regulations need to be updated	23
4. Current procedures do not encourage members of ECD-administered boards to disclose conflicts of interest	25
<b>OBSERVATIONS AND COMMENTS</b>	28
The Role of the Tennessee Board for Economic Growth	28
The Department's Process for Handling Defaulted Economic Development Loans	30
<b>ADDITIONAL AUDIT WORK CONDUCTED</b>	32
Fees of the Local Planning Assistance Office Are Budget Based	32
<b>RECOMMENDATIONS</b>	34
Legislative	34
Administrative	34
<b>APPENDIX</b>	36
Title VI Information	36

# **Performance Audit**

## **Department of Economic and Community Development**

---

### **INTRODUCTION**

---

#### **PURPOSE AND AUTHORITY FOR THE AUDIT**

This performance audit of the Department of Economic and Community Development was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-230, the Department of Economic and Community Development is scheduled to terminate June 30, 2009. 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. The audit is intended to aid the committee in determining whether the Department of Economic and Community Development should be continued, restructured, or terminated.

#### **OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to determine whether the Department of Economic Development appropriately monitors select grants and loans;
2. to determine whether the department follows appropriate defaulted loan policies and practices;
3. to determine how current cost caps in the department's contracts with local governments for local planning services are set at an appropriate level;
4. to review the role of the Tennessee Board for Economic Growth;
5. to identify best practices in economic development agency performance measurement and whether the department would benefit from adopting those practices;
6. to determine whether the department's rules should be updated to remove and/or move references to programs no longer administered by the department; and
7. to determine the department's compliance with Title VI of the Civil Rights Act of 1964.

## **SCOPE AND METHODOLOGY OF THE AUDIT**

The activities of the Tennessee Department of Economic and Community Development were reviewed with a focus on the procedures in effect during fieldwork (April 2008 to July 2008). The audit was conducted in accordance with the standards applicable to performance audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States of America and included

1. review of applicable statutes, and rules and regulations;
2. examination of the department's records, reports, documents, and policies and procedures;
3. review of prior performance audits, financial and compliance audit reports, and audit reports from other states; and
4. interviews with department staff and individuals relevant to the scope of the audit.

The auditors gathered basic information about, but did not focus fieldwork on, the Tennessee Film, Entertainment, and Music Commission. Specifically, Section 4-3-5003(a)(3), *Tennessee Code Annotated*, administratively attaches the Tennessee Film, Entertainment, and Music Commission to the department. However, the commission's Executive Director, not the department, administers the commission. Additionally, the commission is subject to sunset reviews separate from the department. Therefore, the commission is excluded from this report.

## **RESPONSIBILITIES AND ORGANIZATION**

Section 4-3-701, *Tennessee Code Annotated*, creates the Department of Economic and Community Development, which is statutorily responsible for coordinating development services to communities, businesses, and industries in the state. The department describes its role as

- promoting the location and expansion of industries into Tennessee;
- aiding existing businesses in their efforts to expand and create jobs;
- assisting communities in being prepared for economic development opportunities;
- managing state and federal programs which provide resources; and
- forming strategic partnerships inside and outside state government with the ultimate end of creating better paying, higher-skilled jobs for Tennesseans.

The department is statutorily supervised by a Commissioner appointed by the Governor. A Deputy Commissioner oversees the department's day-to-day activities and directly supervises its administrative function.

In addition to its Nashville headquarters, the department has regional offices throughout the state in Memphis, Jackson, Nashville, Cookeville, Chattanooga, Knoxville, Johnson City, and Blountville. There are also international outreach offices located in Toronto, Canada; Dusseldorf, Germany; Yokohama, Japan; and Beijing, China.

The department's Administrative Services provides administrative and support services to the department and is responsible for the daily operations and procedures of the department. Its functions include policy development, legal services, public communications, graphic and media services, research, personnel, information technology, internal audit and consulting, fiscal services, and budgeting. The rest of the department is functionally organized in two primary components: Community Development and Business Development.

### Community Development

As the department's largest function with approximately 125 staff,\* the community development group awards and manages state and federal grants to support existing and new businesses, and to make local areas attractive for business. Community development staff are divided into two major groups: (1) traditional community development programs and (2) grants and loans.

**Traditional community development programs** focus on improving communities' "livability" and ability to attract and keep businesses. For example:

- *MainStreet* encourages and certifies, on behalf of the National Trust for Historic Preservation, historic downtown promotion and development organizations. As of March 2008, the department reported that 21 communities were MainStreet certified. In addition, MainStreet's Lighting Program provides matching grants to MainStreet certified organizations to purchase and install energy-efficient exterior lighting in their communities.
- *Three-Star* transitioned during 2007 to a tiered certification system providing a guided process for participating communities to improve their ability to attract and keep new businesses. For example, the process monitors and rewards a community's development of a dedicated strategic plan, economic development organization, and quality website. Three-Star certified communities receive special considerations, such as lowered match requirements, on other department-managed grants and loans. As of March 2008, the department reported that 87 Tennessee communities and 329 Tennessee municipal organizations were Three-Star certified.
- *Local Planning* employs approximately 70 planners located throughout the state in regional offices to assist local governments with technical planning, such as zoning and local plan development. Relatively small municipalities and counties primarily

---

\*This and all other staffing levels in this report were current during the audit's fieldwork (April 2008 – July 2008). Therefore, they do not reflect any staffing changes as a result of the statewide voluntary employee buy-out program.

use this service as large metropolitan cities generally hire their own professional planners. This function moved to the department after its original sponsor agency, the State Planning Commission, was disbanded. Local Planning also serves as the state coordinator for Federal Emergency Management Agency (FEMA) flood insurance and verifies official interim census counts, typically conducted by growing localities.

- *Energy Division* staff focus on developing statewide energy policy, such as providing administrative support for the Governor's energy policy task forces, and providing energy-related education and outreach. For example, this group provides energy-related curriculum to teachers for classroom use.

**Grants and Loans Management** is the department's primary grant and loan management unit. Historically called "program management," the group awards, accounts for, and monitors multiple state and federal economic development grants and loans. Previously, these awards focused on community development. However, several other department grant and loan functions, including business development and energy efficiency, have moved into this unit in order to consolidate and ensure loan and grant management expertise. Examples of department grants and loans include the following:

- The *Small Cities Community Development Block Grant (CDBG)* program is managed by the department on behalf of the U.S. Department of Housing and Urban Development (HUD). The federal government provides all award funding. Only relatively small cities and municipalities receive grants through this program because HUD works directly with major metropolitan areas, such as Nashville and Memphis. Under federal guidelines, all CDBG-funded projects must principally benefit low- and moderate-income (LMI) persons, eliminate slums and blight, and address imminent health and safety problems. CDBG monies can be used for either economic development (such as grants to build industrial infrastructure) or community development (such as grants to build fundamental water-provision and wastewater-handling systems). HUD reports that the department made 56 new awards to recipients totaling almost \$23 million in 2006, the most recent year for which HUD has conducted an in-depth review.
- *FastTrack* makes two types of awards, Job Development and Infrastructure, both of which are state funded. Job Development offers reimbursement-based grants to cover training costs for new or significantly altered businesses. For example, the department committed to assist General Motors with training for returning and new employees at its retooled Spring Hill plant. In contrast, FastTrack Infrastructure supports new businesses' basic location needs, such as rail lines, water service, site work, etc. For example, the department funded some improvements for the Nissan North American headquarter site. The department reports using state monies to award \$7.6 million for FastTrack Job Development and \$38.4 million for FastTrack Infrastructure in fiscal year 2007. However, this amount differs from year to year based on funded projects.

- *Local Government Energy Loans* provide no- and low-interest loans to local government facilities for energy-efficiency-related retrofits to be paid back over seven years. All Tennessee counties, cities, and K-12 public schools are eligible. This program also provides free energy-savings assessments to identify needed energy-efficiency-related measures. The department committed almost \$9 million in Local Government Energy Loan funds between 2004 and 2006.

The department also awards numerous other grants and loans, including the MainStreet Innovation Grant, Feedstock Processing Demonstration Loan (in cooperation with the Tennessee Department of Agriculture), Tennessee Job Skills grant, Biodiesel Infrastructure program, Tennessee Clean Energy Technology Grant, Tennessee Energy Education Network, and Rural Enterprise Loan. In addition, the department accounts for, and monitors grants and loans on behalf of, the Appalachian Regional Commission and Delta Regional Authority, both of which are limited to recipients within specific geographic areas per their respective funding agency.

### Business Development

This group helps to create new or maintain existing high-paying jobs by recruiting new industries and businesses to the state, working with existing industries to remain or expand in Tennessee, and developing international trade relationships.

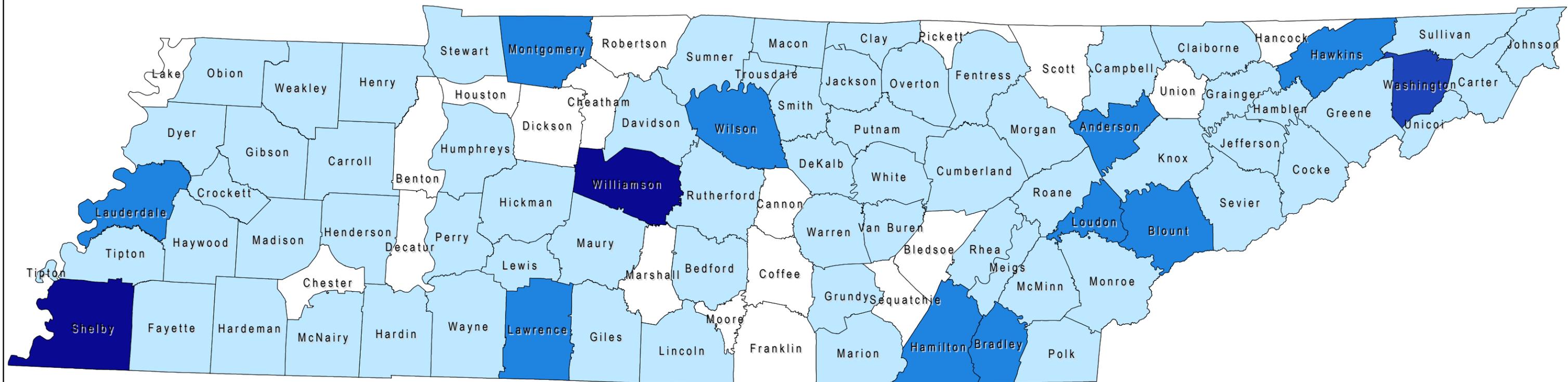
- **Job Growth and Retention/Job Development** works primarily with existing industries to maintain and expand job opportunities. For example, staff help companies plan, develop, and implement customized training programs to meet the company's initial training needs and follow up to ensure each phase of the training program is effective and flexible. This could include helping businesses to identify potential funding sources, such as department or other grants and loans. Job growth and retention staff are located throughout the state in the department's regional offices and are expected to network with existing businesses to ensure the businesses' needs are being met.
- **National Recruitment/Business Development** meets with site selection consultants, who are hired by businesses to research and locate appropriate sites where businesses can build and/or relocate their businesses. Recruitment staff coordinate business relocation projects by serving as a contact point for businesses who are interested in relocating in the state. For example, staff can provide information about the various available tax incentives, introduce local suppliers and service providers, and recommend potential business locations.
- **Business Enterprise Resource Office (BERO)** supports rural, small, and/or minority- and women-owned businesses. For example, the office operates a matchmaking program which makes introductions between businesses and provides procurement opportunities to small businesses such as through business-to-business fairs. BERO also provides technical assistance in locating financing, marketing, and business planning. It works closely with the Governor's Office of Diversity

Businesses Enterprise to coordinate efforts to ensure all small businesses have a fair and equal opportunity to participate in the state's procurement activities. For example, BERO and the Governor's Office of Diversity Businesses Enterprise co-host procurement outreach events throughout the state. Under Section 4-29-236(a)(9), *Tennessee Code Annotated*, BERO is scheduled for sunset review prior to June 30, 2015.

- **International Development** aims to develop and grow the state's global business connections while promoting the state's image as a premier business location and source of quality products and services. For example, the department sponsored a recent (October 2007) high-level Tennessee-state-delegation trip to China. The department's offices in Canada, Germany, Japan, and China serve as clearinghouses for information about Tennessee business opportunities and generally raise Tennessee's business profile. In addition, the department provides space for a Japan External Trade Organization (JETRO) representative in its Nashville office. JETRO is a non-profit Japanese government organization dedicated to developing mutually beneficial trade relations between Japan and trade partners around the world.
- **Special Projects** provides in-depth engineering, environmental, cultural, and technical information and assistance to businesses and communities interested in sites for business and industrial development. This can include providing information about environmental issues, proposed power lines and substations, roadway locations, air and water pollution restrictions, railroad extensions, as well as various permits that a business would need in order to establish or renovate a facility. It also maintains a database of available business sites.

The map on the following page illustrates the total dollar amount of grants ECD awarded in calendar year 2007, excluding Appalachian Regional Commission and Delta Regional Authority awards.

# Grants Awarded by the Department of Economic and Community Development Calendar Year 2007



Legend	
	\$0.00
	\$0.01 - \$1,289,140.00
	\$1,289,140.01 - \$2,563,427.00
	\$2,563,427.01 - \$3,837,714.00
	\$3,837,714.01 - \$5,112,000.00



Source: Department of Economic and Community Development, May 1, 2008.

## REVENUES AND EXPENDITURES

### Statement of Revenues and Expenses Revenues by Source For the Fiscal Year Ending June 30, 2007

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State	\$41,219,300	54%
Federal	27,706,600	36%
Other*	7,180,700	9%
<b>Total Revenue</b>	<b>\$76,106,600</b>	<b>**99%</b>

\* Other sources include fees, interest, contracts with other state agencies, and program reserves.

\*\* Revenue percentages do not total 100% due to rounding.

### Statement of Revenues and Expenses Revenues by Program For the Fiscal Year Ending June 30, 2007

<i>Account</i>	<i>Amount</i>	<i>% of Total</i>
Administrative Services	\$6,753,100	9%
Business Development	4,567,700	6%
Business Services	220,100	0%
Tennessee Job Skills Program	13,600	0%
Regional Grants Management	*26,263,800	35%
Economic Development District Grants	1,080,000	1%
FastTrack Infrastructure and Job Training Assistance	28,918,200	38%
Community Development	6,338,700	8%
Energy Division	1,551,900	2%
Small Business Energy Loan Program	399,500	1%
<b>Total Revenue</b>	<b>\$76,106,600</b>	<b>100%</b>

\* Includes Community Development Block Grants.

**Budget and Anticipated Revenues  
For the Fiscal Year Ending June 30, 2008**

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State**	\$101,901,000	65%
Federal	38,382,100	25%
Other*	15,672,900	10%
<b>Total Revenue</b>	<b>155,956,000</b>	<b>100%</b>

\* Other sources include fees, interest, contracts with other state agencies, and program reserves.

\*\* Department budgets can dramatically increase or decrease from year to year due to lag times between when the department contracts for economic development projects and when the work is completed and the department reimburses the contractor. Large one-time projects, such as the FastTrack project supporting job training for the retooled General Motors plant during this period, also cause periodic fluctuations.

---

## FINDINGS AND RECOMMENDATIONS

---

### 1. The department should improve its grant and loan recipient monitoring process

#### Finding

The department should improve its monitoring process for the economic development grant and loan programs it administers. Specifically, the department should incorporate and better document formal on-site monitoring visits into the FastTrack Infrastructure Development Program (FIDP), FastTrack Job Training Assistance Program (FJTAP), and Local Government Energy Loan programs' policies and procedures. Additionally, the department should conduct more on-site monitoring visits of Small Cities Community Development Block Grant (CDBG) recipients than are required by current state policy. On-site reviews help ensure the state's multi-million-dollar investments in economic and community development projects are used appropriately.

#### Many FastTrack Projects Are Not Monitored On-Site

FastTrack is a state funded program that is divided into two separate parts: FastTrack Infrastructure Development Program (FIDP) and FastTrack Job Training Assistance Program (FJTAP). FIDP is designed to provide funding for infrastructure improvements when a commitment is made by a private industry to relocate or expand in a community for the purpose of creating and/or retaining jobs in the state. In comparison, FJTAP provides financial assistance to both new and existing industries to help develop and implement training programs. The department reports awarding approximately \$46 million in state FastTrack awards for the fiscal year ending June 30, 2007.

*The department cited for some state monitoring requirement weaknesses* – The department, like other state agencies, must follow the Department of Finance and Administration's Policy 22 in monitoring awards. Policy 22 requires the department to design a monitoring plan with specific elements, including assigning a level of risk to each program and monitoring a minimum of one-third of the total number of recipients per year. In a January 2008 report on Policy 22 compliance, the Department of Finance and Administration noted deficiencies in other aspects of the department's FY2006 monitoring process. Specifically, the report identified four main issues:

1. not all recipients were monitored for Title VI compliance during the life of their award, only during the pre- and post- phases of the award;
2. reviews were not conducted by an independent staff member but rather by program staff;

3. recipients were not receiving a letter from the department stating that a Policy 22 review had been conducted; and
4. recipient files contained little or no evidence of a Policy 22 review.

The report further states that monitoring procedures for all state agencies should include methods for documenting what tests were performed to verify compliance and a documented test of internal controls. Additionally, the department should notify award recipients within 30 days of their project being reviewed and include the review's results. The department reports it is addressing and correcting the issues noted in the Policy 22 report.

*FastTrack on-site monitoring visits not required and often do not occur* – FastTrack recipients sign contracts with the department of varying lengths depending on the size and complexity of the project involved. Recipients receive funds through reimbursements and must submit appropriate documentation detailing program expenditures that are eligible for reimbursement under the program guidelines before a payment can be issued. The department states it monitors the FastTrack awards by reviewing all requests for reimbursement on an ongoing basis.

The department does not have any specific requirements related to on-site monitoring visits for FastTrack projects including if, how, and when they should be conducted. Department staff report that occasional site visits are performed. However, these visits are typically only conducted at the beginning of a project for companies that have not worked with the department or for those that need assistance getting started with the required program documentation.

Auditors reviewed files of 18 FastTrack projects awarded between 2004 and 2006 to identify how frequently they were subject to any sort of on-site visit. Of the 18 reviewed files, 9 did not include any evidence that any site visit had occurred as of May 2008.

*FastTrack projects pose significant risk* – Because the program is solely state supported, the state has a particularly strong interest in ensuring taxpayer monies are used appropriately. The program represents a significant state investment. Although the department staff may be in regular contact with the recipients and review documentation that is submitted to support reimbursement requests, the documentation does not show that the department is consistently performing on-site reviews of the recipients. Without performing an on-site review, the department is limited to only being able to verify what paperwork is submitted and is not able to see firsthand how the funds are being used.

#### Local Government Energy Loan Program Monitoring Lacks Documentation

The department's program to loan monies to local governments for energy-efficiency-related building improvements similarly does not include appropriate monitoring requirements, and existing monitoring is not effectively documented.

The Local Government Energy Loan Program provides low-interest and no-interest loans for energy-efficiency-related improvements in local government facilities. The program is funded through the restitution money that was awarded to the state from the Petroleum Violation

Fund. Loans can be awarded for up to \$500,000 and are to be repaid annually over a period of seven years. The department committed almost \$9 million in Local Government Energy Loan funds between 2004 and 2006.

*Local Government Energy Loan recipients are subject to minimal oversight* – Loan recipients are required to certify the work funded by the loan has been completed in accordance with program requirements. However, other than this certification and completion form, the program does not have any specific monitoring requirements, including no requirements for on-site monitoring visits. The program’s manager stated that he sometimes visits project borrowers, but these visits are not documented.

Auditors reviewed files for all 30 Local Government Energy Loans awarded by the department between 2004 and 2006 and found no evidence of monitoring in any of the files as of June 2008. While it is unlikely that no monitoring is occurring, recipients are subjected to only minimal oversight. Any monitoring that does occur is not well documented and thus would be difficult for other department staff or legal counsel to follow up.

#### Small Cities Community Development Block Grant (CDBG) Program Recipients Receive Limited On-Site Monitoring Visits

Although the department substantively complies with federal and many, but not all, state policies in monitoring Small Cities CDBG recipients, additional site visits would be prudent given the program’s inherent high risk.

The CDBG program is federally funded through the U.S. Department of Housing and Urban Development (HUD). HUD works directly with large cities, such as Nashville and Memphis, which are entitled to receive CDBG funding. HUD also provides funding to states to award and administer loans to small cities and localities. In Tennessee, the department administers the latter Small Cities CDBG program.

The Small Cities CDBG program is specifically designed to assist communities with economic or community development projects that principally benefit low- and moderate-income persons, eliminate or prevent slums and blight, or address imminent health and safety problems.

Approved recipients typically sign a five-year low-interest loan contract with the department and must provide some sort of match. The borrowers submit appropriate documentation detailing program expenditures that are eligible for reimbursement under the program guidelines before the department issues payment.

*The department meets federally mandated CDBG on-site monitoring requirement* – For monitoring purposes, the program is required to follow the federal guidelines outlined by HUD. In part, these guidelines require that, at a minimum, each grant recipient be monitored on-site at least once before the grant is closed out. During its most recent review of the Small Cities CDBG program conducted in 2008, HUD did not report it detected any instances where the department failed to comply with its monitoring requirements.

*Department monitoring practices followed* – According to program staff for the CDBG program, the grant recipients receive one site visit during the life of the grant; the site visit is typically scheduled when the first reimbursement request is received for the grant. Other documentation reviews are also performed by the staff including reviews of any plans/specifications for the project, reviews of any addendums to project plans, reviews of bids that are submitted for the project, and close-out compliance reviews at the end of a grant.

To assess whether the department was conducting at least one site visit during each project's lifetime and whether reimbursement requests appeared to be regularly reviewed, auditors reviewed documentation for 17 CDBG awards made between 2004 and 2006. Auditors found that CDBG staff had visited all 17 project sites at least once and regularly reviewed reimbursement request paperwork.

*Additional on-site monitoring requirements warranted* – Although the program currently has a policy to perform an on-site monitoring review of each recipient at least one time during the life of the grant, this may not be enough to appropriately guard the state's interest. Since the grants are multi-year contracts, typically five years, a recipient could go as long as four years without an on-site monitoring visit if the only visit is made at the beginning of the grant when the first reimbursement is requested. This could be a problem because, by purpose, the program often provides relatively large amounts of monies to local entities that may have less sophisticated accounting and other controls in place to ensure they use funds properly. For example, just the 17 Small Cities CDBG projects reviewed by auditors were worth over a total of \$6.6 million.

### **Recommendation**

The department should improve monitoring procedures for grant and loan programs. Specifically, the department should enhance program monitoring policies by requiring additional on-site monitoring visits for those programs already subject to at least some on-site visits. In addition, the department should develop monitoring requirements, including but not limited to on-site monitoring, into program policies where they do not currently exist and ensure that all monitoring activity is appropriately documented. When developing on-site requirements, the department should specifically consider developing a method to identify and then concentrate on those projects which present the highest risk to the state.

### **Management's Comment**

We concur in part.

### **Policy 22**

The monitoring issues from Policy 22 were discussed with Finance and Administration and addressed before the audit team began its fieldwork. Each issue identified in the report from Finance and Administration has been addressed. The department initially developed its

processes for the Policy 22 mandates to coincide with its daily operations to be efficient in the use of its limited resources. Based on the Finance and Administration recommendation, the department (1) now performs Title VI monitoring in conjunction with the Policy 22 review (2) The department has assigned an independent staff member to conduct the Policy 22 reviews (3) The department will now send a letter to all grantees reviewed informing them a Policy 22 review has been performed and documenting the results (4) The department now produces specific checklists to document the reviews are performed.

### Fast Track Infrastructure Development Program (FIDP), Small Cities Community Development Block Grant

The Fast Track Infrastructure Development Program is designated for infrastructure improvements. The activities funded under this program are limited to those services normally provided by local governments and their implementing agencies to support businesses which are locating, expanding, or operating in Tennessee. FIDP funding may be provided for, but is not limited to (1) Water, wastewater, or transportation systems (2) Line extensions or industrial site improvement where it is demonstrated that such infrastructure improvements are necessary for the location and expansion of business or industry (3) Significant technological improvements, including, but not limited to, digital switches, fiber optic cabling, or other technological improvements determined to have a beneficial impact on the economy of the state, and (4) Other improvements to physical infrastructure when it is demonstrated that those improvements are required for the location and expansion of private business.

### FIDP Process, Checks and Balances

During the application process, FIDP applications are reviewed to determine whether proposed activities and the associated costs to be funded are appropriate and allowable under program regulations and applicable laws. Those applications for which the activities are determined to be inappropriate or unallowable are not accepted or approved. Following the application review, a written project summary and staff recommendation is prepared for further review and discussion. Final approval of a FIDP application is made by the department's Loan and Grant Committee, a committee consisting of the Commissioner, Deputy Commissioner, and Assistant Commissioners.

Once a project has been approved, the project plans and specifications are reviewed to ensure the plans and specifications reflect the project scope that was approved. A detailed technical analysis of the engineering report is performed by the state agency most responsible for reviewing and approving the physical design of the project (Department of Environment and Conservation, Department of Transportation, etc.).

Funds are dispersed on a cost-reimbursement basis in accordance with the Line Item Budget agreed upon and contained in the contract. Grantees are required to follow formal bidding procedures established by state law. Bidding packages are reviewed to ensure that the appropriate bidding policies and procedures are followed, the lowest bid receives the contract, and the items in the bid reflect those items contained in the plans and specifications.

Payment of actual incurred costs is made upon receipt of a Request for Payment and detailed supporting documentation, with payments reflecting the applicant's ability-to-pay grant rate. Prior to the dispersal of funds, staff conduct a desk audit of the submitted invoices, reimbursement forms, supporting documentation and any other pertinent program and financial information to determine whether costs are adequately supported, allowable, and in compliance with program regulations, applicable law, and the provisions of the Line Item Budget. Those costs which are not adequately supported, allowable, or in compliance with program regulations, applicable law, and the provisions of the Line Item Budget are not reimbursed.

### Community Development Block Grant (CDBG)

CDBG is a federal program which funds projects with a quality-of-life and/or economic development objective. Applications may be submitted in one of the following six categories: Water Lines, Water Systems, Sewer Lines, Sewer Systems, Housing Rehabilitation and Community Livability. Popular community livability projects include rural fire protection, primary health care, and similar projects related to health and safety conditions in the community. Activities that fall into one of those six categories are allowed.

### CDBG Process, Checks and Balances

All city and county governments may submit an application except for those entitlement areas which are directly administered by the federal government: Bristol, Chattanooga, Clarksville, Cleveland, Jackson, Johnson City, Kingsport, Knoxville, Memphis, Morristown, Murfreesboro, Oak Ridge, Davidson County, Knox County, and Shelby County. Eligible cities or counties may only submit one application for the regular round competition.

During the application process, proposals are reviewed to determine whether activities to be funded are appropriate and allowable under program regulations and applicable laws. Applications which do not fit within the eligible six categories are not accepted. Funds are dispersed on a cost-reimbursement basis in accordance with the Line Item Budget agreed upon and contained in the contract/grant agreement. When expenses are submitted for reimbursement, a desk review is performed prior to the dispersal of funds to determine whether costs are adequately supported, allowable, and in compliance with program regulations, applicable laws, and the provisions of the contract/grant agreement.

The department performs on-site monitoring on all CDBG projects at least once and sometimes twice during the life of the project while HUD requires only a sampling of the total number of projects to be monitored. In addition, federal monitors audit the state's CDBG program and to date we have not received findings. The FIDP projects receive on-site monitoring if circumstances require a visit. As mentioned, accountability and reducing risk of successful completion of projects is important to the department. However, the department disagrees with the notion of providing additional monitoring for CDBG and FIDP programs. Given the nature of these projects being infrastructure based, we question the practicality and cost benefit of performing more monitoring than what currently takes place. For example, we do

not consider it to be practical or cost effective to send staff throughout the state to reaffirm the existence and/or operation of an underground water line for development purposes. The assurance of these funds being used appropriately will become known when a company is able to operate and create jobs or a community has operating water and sewer lines.

A result less than the previously mentioned scenario would cause instant grievances by the community and company to the department. The community stands to lose considerably in the way of economic and community development and the state in good will and reputation to other businesses it tries to recruit and retain. The department feels these current processes provide controls over taxpayer resources and accountability to Tennessee citizens. In addition, the potential of federal stimulus funds passing through the department in the near future will cause changes through additional projects and mandated federal monitoring. Therefore, the department will modify the monitoring process by cross-training existing staff with the intent to perform additional on-site monitoring required by the federal government.

#### Local Government Energy Loan Program

The Local Government Energy Efficiency Loan Program offers low-interest loans to municipal and county governments for energy-efficiency-related projects in courthouses, administration buildings, schools, maintenance facilities, and any other building owned by the city and/or county. The program is set up to have the loan recipient complete their proposed energy-efficient-related updates prior to ECD issuing the loan. Consultant reports are provided to ECD staff which then perform on-site monitoring to verify the changes are complete, which initiates the release of the loan funds to the applicant. The department recognizes the significance of safeguarding the states' resources and demonstrating accountability to its citizens. Therefore, the department has implemented requirements for documenting the on-site monitoring that currently takes place with a checklist. The monitoring checklist will be reviewed by the appropriate Director after the visit. Any concerns or questions will be discussed with the Director and Energy Specialist. The monitoring checklist will be put in the project file. A monitoring letter will be written after the visit.

---

## **2. The department should further improve its performance measures**

### **Finding**

Although the department improved its performance measurement system since 2005, it can further strengthen the system by evaluating its data reliability and publicly reporting additional measures. Measuring economic development agencies' performance is inherently difficult, in part because the private sector bases business decisions on a variety of factors, not just any one agency's actions. Despite these challenges, the department has improved its performance measurement system since an April 2005 performance audit. However, the

department can continue to improve by ensuring it uses reliable data and by reporting additional measures.

Professional literature and other states' experiences support that evaluating economic development agencies' performance poses significant challenges. For example, although state incentives and assistance were cited when Volkswagen Group of America announced the selection of Chattanooga for a new production facility in 2008, various media reports and press releases also mention Chattanooga's culture, livability, river amenities, and cooperating partnerships as contributing to the decision. Effective performance measurement is further hampered by time lags between economic development agencies' actions and private industry outcomes.

### The Department Has Improved Its Performance Measurement System

Despite such challenges, the department has improved its performance measurement system in the past three years. The most recent performance audit of the department, issued in April 2005, reported significant concerns with the department's performance measures. The department has taken steps to improve its system. For example, the 2005 performance audit reported the department's Business Enterprise Resource Office (BERO) had not developed performance measures and a related tracking system. The department now collects and reports several BERO-related performance measures including the number of small, rural, minority, and women-owned businesses assisted. Similarly, the department reports some measures recommended by literature, including the number of jobs created or upgraded in which FastTrack Job Training Assistance was provided.

### Additional Data Validity Analysis and Measures Are Needed

Despite these improvements, the department needs to take additional steps to ensure its performance measurement system is as useful as possible. In particular, it needs to continue centrally collecting information about its performance measurement data sources and use this information to evaluate the data's validity, as well as to collect and report additional outcome measures.

Some of the department's performance data are based on information reported by grant recipients and thus may or may not be accurate. For example, the department's Community Development Division compiles statistics about the number of jobs created through FastTrack projects. However, these statistics are self-reported by the grant recipients. While the department reviews some grant recipients' documentation, there are gaps in the department's monitoring practices, as described in finding 1. In addition, award recipients may have a natural incentive to over-report the number of jobs they create and other outcome measures. Therefore, there is an inherent risk that such data may not be as accurate as possible.

In light of these risks, it is important that performance measurement information be as accurate as possible. The department, the Governor, and the legislature make decisions in-part based on this type of information. For example, at a March 2008 House Finance, Ways, and

Means Committee meeting, the department reported it created 141,170 job opportunities between 2003 and 2007 in support of its 2008-2009 budget request.

The department is taking steps which will help it to evaluate the reliability of its performance measurement data. For example, as of February 2008, the department was in the process of developing a questionnaire to be sent to each division, collecting performance measurement data reported to the Governor. The questionnaire asks about several factors which would impact the data's reliability, such as how the data are recorded and tracked, who is responsible for the data, and how measures are calculated. Given the inherent risk in some of its self-reported performance data, the department needs to ensure it reviews these questionnaire results as part of a continual effort to evaluate its performance measurement validity.

Also, the department should consider collecting and reporting additional performance measures. Given the complexity of measuring economic development agency performance, it is important to continually review existing measures and to actively identify and adopt potentially useful new measures. In particular, the department should focus on developing additional outcome measures. For example, although the department has several BERO performance measures such as the number of businesses assisted, these performance measures do not concentrate on program outcomes such as the amount of new business generated. Similarly, the department reports to the Governor how many communities are Three-Star certified, which is an output measure, but does not provide any Three-Star program outcome measures. For example, the state does not track the amount of new income generated by businesses indicating that they had selected their location mostly because of improvements made through the Three-Star program.

The department does not report using the following economic development performance measures used by other states and/or suggested in performance measurement literature:

- *Number of Jobs Retained in the State/Region* – The department has voiced a commitment to retaining existing jobs, as well as creating new jobs. In uncertain economic conditions, retaining jobs is understandably important. Angelou Economics, a technology-based economic development group focusing on high-tech company recruitment, compiled a list of the “most important performance measures used in state economic development agencies in tourism, business recruitment, and international trade.” The list included both job creation and job retention as important measures. Similarly, the U.S. Department of Commerce developed a list of summary requirements for its “Comprehensive Economic Development Strategies” program, including tracking the number of jobs retained in a region.
- *Marketing/Advertising Effectiveness* – Angelou Economics also recommends measuring marketing and advertising effectiveness as a top priority for business development agencies.

- *Average Wage of Jobs Created in the State* – The Governmental Accounting Standards Board (GASB) recommends collecting long-term outcomes such as the average wage of jobs created by firms receiving assistance.
- *Measures Regarding Target Industries* – GASB also recommends tracking the number of businesses in target industries that are interested in locating in the state. For example, Texas identifies its target industries and reports the number of employees working in those target industries as part of its Strategic Planning and Budgeting System.
- *Service Outcomes* – GASB also suggests measuring customer satisfaction through methods such as client surveys. Resulting measures can include the percentage of clients rating the timeliness of each service they received as excellent, good, fair, or poor; the percentage of clients rating the helpfulness of each service they received as excellent, good, fair, or poor; and the percentage of clients locating elsewhere for reasons over which agency had some influence.
- *International Sales of Products and Services* – Similar to Tennessee, Virginia aims to help its state’s companies increase international sales of their products and services. To help gauge their success, the agency counts the number of companies attending its international trade fairs.

### **Recommendation**

The department should continue to improve its performance measurement system by using the results of its internal performance measurement questionnaire to evaluate and enhance its performance measurement data validity. The department should also collect and report additional performance measures used in other states and recommended by industry literature, especially measures related to economic development program outcomes.

### **Management’s Comment**

We concur in part.

#### Data Reliability

The department has taken steps to improve its data reliability in the Fast Track Job Training Assistance Program. The department implemented the Job-Based Training program to be a more efficient and accountable method for reimbursement of training costs. Under this program, companies may seek training reimbursement from the state once a job creation commitment and training cost per job are established. To get reimbursed, the company must provide documentation for the number of jobs created and the wages paid for each job. Companies may request 50% of the established cost per job after the job has been created and

filled for 90 days. The remaining 50% can be claimed after the job has been filled for 180 days. The company shall submit payroll and training roster information along with proof of continued employment for the Job Based Training reimbursement request. The FastTrack specialists will conduct desk audits of submitted documentation before reimbursement payments are issued. Under this program, companies are paid only for jobs that are created and filled for at least 180 days.

In regard to on-site monitoring of jobs created and staff trained, the department believes that risks related to the accuracy of company reported figures are being managed appropriately based on current procedures. The department respects the notion of data reliability related to information reported by the assisted companies. However, we do not think it is practical, nor would it significantly increase reliability over company reported figures, to send staff on-site to ascertain the actual number of positions created, employees hired, and number of employees working and/or trained. In the event staff was to request payroll and training information on-site, the department would still assume the risk of accepting the company's documentation as accurate.

The department has controls in place through the Department of Labor and Workforce Development to notify staff if layoffs take place in businesses we have funded to stop contractual payments. In addition, the department is in the process of establishing a relationship with the Department of Labor and Workforce Development to obtain employment data that will help to assess a company's wage and job information impact for individual and collective projects.

### Performance Measures

The department has taken steps to improve its measures to evaluate its effectiveness in strengthening communities, retaining and creating jobs. Given the department's structure and mode of operation, evaluating Tennessee's performance against other states' economic development programs as well as using published development research has its challenges. Differing state budgets, tax structures, organizational structures, resources available, goals, and objectives have a significant impact on what is important to individual programs and whether there are comparable and meaningful measures for evaluation across states. In addition, measuring outcomes is particularly challenging when trying to figure how much of an improvement in certain outcomes can be ascertained and/or credited to the department's efforts. For example, BERO or Community Development may provide technical assistance in a number of different areas to assist small businesses or communities respectively, but neither directly determines the number of new businesses generated or if a company locates in a community because there are a number of other factors not in the department's control which also influence business location and expansion decisions. In this instance, output measures appear to provide the best picture of the necessary foundation the department must establish for growth in businesses and communities.

Mindful of the challenges, the department is working on creating more meaningful measures that assist the department in evaluating its effectiveness. While the department monitors project-specific progress, the overall intent is to improve economic and community

development statewide. For example, while some businesses with which we contract do fall short of their targeted number of jobs created, many others actually exceed their targets. To the extent the total number of jobs created through all projects funded by the department meets or exceeds the sum of original project targets, the department would conclude the program is successful. The department's position is not to penalize a business through clawback provisions for falling short of its targeted number of jobs or reward a business with more funding if the actual job figures exceed expectations. However, if problems meeting individual project targets persist or grow, actions will be taken to rectify the issues and protect the state's resources. Overall, the department wants to maintain a business-friendly reputation for the entire state and take a holistic approach when evaluating success as well as tracking individual project results.

As for the suggested measures mentioned, the department has the following responses:

#### Job Retention, Average Wage of Jobs Created, Target Industries, and International Investment Measures

The department is in agreement with reporting on job retention and expansion, average wage, target industry, and international investment information, beginning immediately. The department currently collects this information in its daily operations but would need to put this information in a different format for reporting purposes. The source of this information is individual project data as well as information from the Department of Labor and Workforce Development. The department also collects foreign jobs and investment information and will review the potential of utilizing the information to focus its recruiting on specific countries.

#### Marketing

This measurement is difficult to evaluate given the department's current structure and mode of operation. For example, the department does not market to recruit a specific industry (biotechnology, auto) but primarily uses relationships with domestic and foreign consultants and companies to generate leads for the state. The Communications Division has a very small budget in comparison to other states to advertise in media; typically media advertisement is geared to maintain a presence for Tennessee in the global marketplace rather than generate leads for the state. Given that the department has such a small budget and advertises so infrequently, it would be difficult to determine if leads were generated in this manner. The department's success in recruiting major projects has become one of its most effective marketing tools.

The department's economic development successes over recent years have generated considerable publicity in print, television, and Internet media globally. Such success has been recognized through a number of awards including:

- Tennessee is ranked #2 on *Site Selection* magazine's 2008 Top Business climate rankings
- Tennessee is named winner of *Site Selection* magazine's 2007 Competitiveness Award
- A study from Kaufman Foundation on entrepreneurial activity in the U.S. ranks Tennessee 4<sup>th</sup> highest in the nation for number of entrepreneurs per capita.

- *Forbes* ranks Knoxville at #10 on its list of “Hot Spots”
- Tennessee is ranked #3 of the annual Governor’s Cup list in *Site Selection*
- Tennessee’s economy is ranked 5<sup>th</sup> best in the country by the American Legislative Council
- Eastman Chemical in Kingsport is named one of *Trade & Industry Development’s* Corporate Investment and Impact (CiCi) award winners

Tennessee ranks high on *Southern Business Development* Top Tens list which includes:

- “Top Major Markets in the South: 1993-2007” – Memphis ranked #3, and Nashville/Davidson/Murfreesboro/Franklin ranked #5
- “Top Small Towns in the South That Deserve a Second Look” – Dyersburg ranked #4
- “Top Ten People Who Made a Difference” – ECD Commissioner Matthew Kisber included
- “Top Ten Markets in the South for Advanced Manufacturing” – Knoxville/Oak Ridge ranked #4 and Memphis, #5
- “Top 10 Incredibly Large, Nicely Positioned Distribution Sites in the South You May Not Know About” – CentrePointe Distribution Park in LaVergne and Elam Farms in Murfreesboro were listed
- “Top 10 Edge Markets You Might Not Know About” – Clarksville and Cleveland/Bradley County were listed

Growing awareness and recognition of Tennessee’s success has generated considerably more prospect referrals to the department. The department also sends out weekly “Hot Sheets” bulletins of the department’s activities, accomplishments, and general information to a comprehensive list of contacts that number in the thousands world wide.

The department has developed tracking mechanisms for certain projects as well. The recruitment of Volkswagen to the state has allowed the department to track website traffic in regard to potential suppliers for the Volkswagen plant. The documented traffic provides the opportunity for staff to follow up on individuals or companies interested in being a supplier for Volkswagen in Tennessee. Currently, the department is in the process of reviewing the potential and feasibility of tracking website traffic to the ECD home page.

### Service Outcomes

The department currently utilizes survey information from communities by way of the annual Governor’s Conference to measure community satisfaction with the department. In addition, the department receives and utilizes information from the Commissioner’s dialogue with prospective domestic and foreign company leaders and site selection consultants on how Tennessee could strengthen its recruitment process. However, the department will address the recruitment and existing industry aspect of business development and retention by implementing a more formal survey process to measure prospect and existing industry satisfaction, respectively.

### 3. The department's statutes, and rules and regulations need to be updated

#### Finding

The department's rules and regulations, as well as its statutes, need to be updated. Currently, *Tennessee Code Annotated* and the department's rules refer to a federal program which no longer exists. Therefore, the General Assembly may wish to consider updating the department's statutes while the department should work with the Secretary of State to remove the related rules. The department's rules also address several programs which the department no longer administers or are no longer active. The department needs to work with the departments currently administering the transferred programs to delete or transfer the programs' associated rules as appropriate, as well as working with the Secretary of State's Office to withdraw inactive program rules.

#### Outdated Statute and Rules Address a Terminated Federal Program

*Tennessee Code Annotated* and Rules and Regulations require the department's Energy Division to administer a federal United States Department of Energy (DOE) program which was eliminated over 10 years ago. In particular, Section 4-3-708(4), *Tennessee Code Annotated*, lists several department duties, including administering a federal institutional conservation program. Rules Chapter 0500-3-3 addresses this same program. However, the department reports that DOE eliminated the program in approximately 1996.

As the federal institutional conservation program is no longer active, the related state statutes and rules should be eliminated. Specifically, the General Assembly may wish to consider amending Section 4-3-708(4), *Tennessee Code Annotated*, to remove references to the institutional conservation program. Likewise, the department should work with the Secretary of State to withdraw Rule 0500-3-3, which solely addresses the same program. The Secretary of State's Publication Division's Director reports that the department simply needs to submit a letter to the secretary indicating that the program has been terminated and the rules need to be withdrawn. The secretary will then work with the department to take the necessary steps, such as publishing the state's intent to withdraw the rules. The department reports it has already begun this process.

#### The Department No Longer Controls Some Programs in Its Rules

The department's rules also contain provisions related to programs which are controlled by other departments. The following table identifies program rules which are currently contained in the department's portion of the state's Rules and Regulations while the programs mentioned have already been transferred to another department.

**Programs Included in the Department of Economic and Community Development’s Rules  
Which Are Administered by Other Departments**

<u>Rule Number</u>	<u>Program/Function</u>	<u>Department Currently Administering Program</u>
0500-01-01	Tourism Promotion Division	Department of Tourism
0500-04-01	Child Care Facilities Program	Department of Human Services
0500-05-01	Small and Minority-Owned Telecommunications Business Assistance Program	Department of the Treasury

Under Section 4-5-226(b)(2), *Tennessee Code Annotated*, rules pertaining to programs transferred to other departments remain in effect, but the new department also has the authority to promulgate new rules and regulations. While it is reasonable that rules remaining within the old department remain in effect during a transition period, casual statute and rule users may become confused if the rules are never transferred to the new department. Therefore, the rules should be transferred or eliminated as appropriate.

The Secretary of State’s Publication Division’s Director reports that the new administering department can transfer rules by writing a formal letter to the Secretary of State specifying which rules need should be moved. If the rules are no longer needed, the old department can work with the Secretary of State to withdraw the rules.

A Lapsed Demonstration Project Is Addressed in Department Rules

The department’s rules also include a one-time demonstration project funded in 1998 which is no longer active. Rule 0500-5-2 addresses the Enterprise Demonstration Project which was created and funded by the General Assembly in 1998. However, as its name suggests, this was a one-time demonstration project, and the department reports that the project has not been funded since 1998. Because the program is no longer active, the department should work with the Secretary of State to withdraw the associated rules.

**Recommendation**

The General Assembly may wish to consider amending Section 4-3-708(4), *Tennessee Code Annotated*, to remove references to the terminated federal institutional conservation program. Similarly, the department should work with the Secretary of State to withdraw Rule 0500-3-3, which solely addresses the same program, as well as Rule 0500-5-2 addressing the Enterprise Demonstration Project.

The department should also work with other state departments currently administering programs addressed in its rules to identify and address those rules which can be transferred to the other departments or eliminated if no longer needed.

### **Management's Comment**

We concur in part. The department has begun the process to notify the Secretary of State to update the statutes, rules, and programs related to the Department of Economic and Community Development. Prior to the conclusion of the audit team's fieldwork, the department notified the Secretary of State of the needed changes to the rules, statutes, and programs. The department has (1) asked the Secretary of State to terminate the federal program 0500-3-3 due to the program being canceled by DOE approximately in 1996 (2) requested the transfer of the Tourism Promotion Program (0500-01-1), Child Care Facilities Program (0500-04-1), Small and Minority Owned Telecommunication Assistance Program (0500-05-1) rules, statutes, and code to the department of Tourism, Human Services, and Treasury, respectively. We concur in part because these items have not prevented the department from administering its current responsibilities.

---

#### **4. Current procedures do not encourage members of ECD-administered boards to disclose conflicts of interest**

##### **Finding**

The department's procedures should be strengthened to further encourage and enable board members to disclose potential conflicts of interest. The department administers four boards as described on the following page. Although department policy requires new members of these boards to disclose any conflicts of interest, the department's conflict-of-interest form is not constructed in a way that fully enables this disclosure. Also, board members do not update the forms annually. As a result, there is an increased risk that board members could inappropriately act on board business with which they have a potential conflict that they have not fully disclosed.

### **ECD Administered Boards**

<b><u>Board Name</u></b>	<b><u>Statutory Function</u></b>
Tennessee Board for Economic Growth	Advise the commissioner to facilitate growth in the economy of the state in the areas of manufacturing, business, and agriculture.
Building Finance Committee	Review applications and issue certificates of public purpose and necessity for municipal provision of industrial buildings.
Local Government Planning Advisory Committee	Advise the department Commissioner on local planning assistance and oversee regional planning commissioners.
Tennessee Technology Development Corporation Board of Directors	Assist, support, and improve technology transfer, research, statewide innovation capacity, and other economic-technology related issues.

Note: Section 4-3-5003(a)(3), *Tennessee Code Annotated*, administratively attaches The Tennessee Film, Entertainment, and Music Commission to the department. However, the Commission's Executive Director, not the department, administers the commission. Therefore, the Commission is excluded from this report and finding.

The department requires all new board members to sign conflict-of-interest statements when they initially begin their board service. The statements require board members to certify that they have received, read, and intend to abide by Executive Order No. 3. This order, signed by Governor Bredesen in February 2003, sets out multiple ethics and conflict of interest policies, such as prohibiting the use of public office for private gain, accepting gifts from anybody who has or is seeking a contract with the state, or engaging in a financial transaction primarily relying on information obtained through state employment. The conflict-of-interest statement also requires board members to certify that they “know of no circumstances related to my service . . . that might result in a conflict of interest.”

The department reports that no board members have ever declared any conflicts. However, the form has no place for such declarations, nor is there a separate document for declaring conflicts. Department staff state that they would likely refer any board member who indicates a potential conflict to the department's legal counsel.

The current department form does not maximize the board members' ability to disclose any potential conflicts. As a result, there is an increased risk that board members might inappropriately act on board business with which they have an undisclosed potential conflict of

interest. Conflict-of-interest disclosures are designed to ensure that the public's interest is protected. Therefore, it is critical that the disclosures are enabled, not impeded.

### **Recommendation**

The department should revise the current conflict-of-interest practices to add space on the conflict-of-interest form for board members to report potential conflicts of interest and to require board members to update their forms annually.

### **Management's Comment**

We concur in part. The department is in compliance with staff annually updating and signing the conflict-of-interest forms. In addition, ECD staff and board members as a whole are aware to recuse themselves from votes or alert staff to potential conflicts of interest as minutes are being documented for various meetings. However, the department will take the steps to ensure members of the ECD-administered boards update the conflict-of-interest forms annually. In addition, the department will provide opportunity on the form to enable board members and staff to document any potential conflicts of interests that may exist.

---

## OBSERVATIONS AND COMMENTS

---

The issues below did not warrant findings but are included in this report because of their effect on the citizens of Tennessee and the operations of the Department of Economic and Community Development.

### **THE ROLE OF THE TENNESSEE BOARD FOR ECONOMIC GROWTH**

The General Assembly created the Tennessee Board for Economic Growth in 1995 to facilitate growth in the economy of the state in the areas of manufacturing, business, and agriculture. Specifically, the board is responsible for coordinating, advising, and making recommendations to the Governor, Commissioner, and General Assembly on a variety of economic development concerns under Section 4-14-101(k), *Tennessee Code Annotated*, as shown on the following page. Statutes do not mandate the board's meeting schedule, frequency, or location.

The board's 18 statutorily mandated members, who serve 4 years, include

- 10 gubernatorial appointees:
  - 3 must represent the West Tennessee Grand Division,
  - 3 must represent the Middle Tennessee Grand Division,
  - 3 must represent the East Tennessee Grand Division, and
  - one must represent the state at large;
- 8 ex-officio members:
  - the Governor,
  - the Lieutenant Governor,
  - the Speaker of the House of Representatives,
  - the Commissioner of Economic and Community Development,
  - the Commissioner of Agriculture,
  - the President of the University of Tennessee,
  - the Chancellor of the Board of Regents, and
  - a representative from the Tennessee Valley Authority.

**Tennessee Board for Economic Growth Duties and Functions  
As Defined in Section 4-14-101(k), *Tennessee Code Annotated***

4-14-101(k) It is the duty and function of the board to:

- (1) Advise the governor in establishing all major policy decisions for the department;
- (2) Review and recommend to the governor and the general assembly the budget for the department;
- (3) Recommend to the commissioner and the governor programs that contribute to Tennessee's economic and community development for implementation by appropriate state departments and agencies;
- (4) Review and recommend to the governor and the general assembly items that promote Tennessee's pro-business initiatives;
- (5) Recommend to the commissioner organizational structural changes necessary for the department;
- (6) Review all major issues affecting the department;
- (7) Coordinate, review, educate, and initiate continuous information to and from all chambers of commerce, planning agencies, regional initiatives, city councils, and commissioners; and
- (8) Advise the governor, the general assembly and the commissioner of economic and community development regarding:
  - (A) The establishment of the state's scientific and technological goals;
  - (B) The best scientific and technological development to spur job creation and growth; and
  - (C) Technological initiatives that can be transferred into the public or private sectors.

The Board Meets Infrequently

It is questionable whether the board is fulfilling a meaningful purpose because the board has met infrequently over the past two years. Since 2005, the board has only met three times, with two meetings occurring in 2006 and one occurring in 2008.

The department reports it has not regularly convened meetings due to board member position vacancies and the Commissioner's heavy workload. However, all board member vacancies were filled during the course of this audit and, therefore, do not prohibit the board from meeting in the future.

The Board's Future and Use Will Need to Be Reviewed

The fact that the board has met only three times in four years brings into question whether the board is needed. However, the Commissioner and Deputy Commissioner reported to the auditors that the board is potentially useful to the department as a source of advice and communication with the business community. The Commissioner began the process of speaking

with existing board members in September 2008 to gather their ideas on how the board could be most useful to the department and the business sector in the future.

After the Commissioner gathers the board members' opinions about the board's future and role, the department will need to analyze whether it would like the board to continue and, if so, in what capacity. The board will be scheduled for review prior to its scheduled termination date of June 30, 2011. If the board continues, it needs to regularly meet in order to provide meaningful assistance to the state. In addition, if the department determines that the board's role should change or the board is no longer useful, it will need to work with the General Assembly on proposed legislative changes.

### **THE DEPARTMENT'S PROCESS FOR HANDLING DEFAULTED ECONOMIC DEVELOPMENT LOANS**

The department uses a straightforward approach to collecting past-due loan payments. A department auditor first identifies loans which are more than 30 days overdue based on a weekly print-out generated from the department's loan tracking computer program. The auditor reports he typically contacts debtors who are between 30 and 90 days overdue by telephone to request repayment. If borrowers' payments are still behind after 90 days but they have made some reasonable progress such as submitting consistent payments, the auditor will continue to work with them in an informal manner under the current Commissioner's philosophy. However, borrowers who do not make progress, such as not making any payments, within 90 days will receive written, formal demands for repayment. Continuing, problematic unpaid loans are forwarded to the Attorney General's Office to pursue legal action against the debtor. Ultimately, the department reports it only writes off loans after all possible collection avenues have been exhausted.

Consistent with Section 4-4-120, *Tennessee Code Annotated*, Department of Finance and Administration Policy 23 allows state agencies to write off receivables, such as defaulted loans, if the account proves to be uncollectible after exhausting all reasonable collection efforts. Between 2002 and 2007, the department reports it wrote off approximately \$1.9 million in uncollected principle arising from a total of 17 defaulted loans. In context, the department also reported collecting over \$21 million in loan payments (including principle and interest) during the same period.

*Department practices reasonable* – Based on other states' practices and the opinion of external state officials who review the department's write-off requests, it appears that the department's handling of written-off loans is appropriate. For example, Alabama, Kentucky, Arkansas, and Georgia all principally rely on state employees to collect defaulted economic development loans. Alabama and Arkansas also only write off loans after all collection options have failed. In addition, state officials with the Department of Finance and Administration, as well as the State Comptroller of the Treasury, who are required to review and approve the department's requests to write off large debts report that the department's write-off requests are typically appropriate

and well documented. Likewise, the department appears to have made reasonable efforts to collect defaulted loans prior to write-off.

#### Additional Collection Tools Could Be Considered

Although the department already uses many appropriate collection methods, it may have additional options to further enhance its ability to pursue past-due payments. First, the department may be able to collect additional payments from debtors by referring troublesome accounts to a state-contracted private collection agency. The Department of Finance and Administration contracts with a private business to assist state agencies in collecting debts owed to the state. State agencies are specifically limited to referring cases to the private collector only after they have made reasonable efforts to collect the debt on their own. State agencies using this service pay 7.5% of any monies recovered by the private contractor.

In order to determine whether it would be helpful to use the private collections contractor, the department would need to confirm whether it has sufficient legal authority to do so. The Attorney General's Office has conducted some preliminary legal research on whether department loans are subject to any statutes of limitations, which might become important if additional time is taken to refer cases to a private collector. However, a definitive opinion has not been issued on whether the department has all the authority needed to refer cases to a contractor.

*Offsets might help pay some debts* – In addition to exploring the use of private collectors, the department could explore opportunities to divert state and/or other governmental payments to debtors, such as lottery winnings and federal tax refunds, to offset past-due loan payments. State policy encourages state agencies to seek out such offset opportunities. The Department of Finance and Administration's Policy 23, concerning Accounts Receivable, requires agencies to consult with its Division of Accounts to determine if the debtor is receiving any state funds that could be used to offset the debt. Similarly, Sections 4-51-201 through 206, *Tennessee Code Annotated*, authorize the State Lottery to work with state agencies to divert prizes over \$600 to cover debts larger than \$100 owed to the state.

The department currently does not have any formal relationships or processes in place to directly work with other state or federal agencies which may be making payments to department debtors, other than standard garnishment options available to all lenders. However, other agencies' experiences suggest offsets are worth considering. For example, the Tennessee Department of Human Services reported in April 2008 that it had worked with the United States Internal Revenue Service to divert tax refunds to offset over \$26 million in child support payments the state is responsible for collecting.

As with private collector referrals, the department would need to ensure that it has appropriate legal authority and that establishing offset relationships and procedures would be cost-effective. The latter would be particularly important as defaulting department borrowers sometimes declare bankruptcy, leaving no entity against which to claim offsets.

---

## ADDITIONAL AUDIT WORK CONDUCTED

---

### FEES OF THE LOCAL PLANNING ASSISTANCE OFFICE ARE BUDGET BASED

The Department of Economic and Community Development's Local Planning Assistance Office provides professional advice and technical assistance to local government planning programs across Tennessee under Section 4-3-726, *Tennessee Code Annotated*. The local planning staff work out of six regional offices located in Chattanooga, Cookeville, Jackson, Johnson City, Knoxville, and Nashville. Examples of provided services include local planning design, long-range and strategic planning, land-use controls, and flood plain management. Traditionally, the office primarily serves smaller cities and counties because large metropolitan areas typically employ their own professional planners.

Under Section 4-3-726, *Tennessee Code Annotated*, the Office has authority to set and collect fees, if any, for planning services and to contract with cities and counties to provide such services. The office has historically tried multiple approaches to setting its fees. For example, the planning office (then located within the now defunct State Planning Commission) set its first fees in 1957 at 25 cents per capita, per annum. In contrast, in 1970 the office charged all localities a flat \$750 base fee in addition to the same 25 cent per capita rate, not to exceed \$3,750. Since 1978, the office has charged fees based on population ranges, as illustrated in the following tables.

**Local Planning Assistance Office  
City Contract Fees  
Effective July 1, 2007**

<b>Population Range</b>	<b>Fee</b>
Under-1,500	\$5,250
1,500-2,999	\$6,750
3,000-4,999	\$7,250
5,000-9,999	\$9,250
10,000-14,999	\$11,250
15,000-over	\$12,000

Source: ECD's Local Planning Assistance Office.

**Local Planning Assistance Office  
County Contract Fees  
Effective July 1, 2007**

<b>Population Range</b>	<b>Fee</b>
Under 5,000	\$5,750
5,000-10,000	\$7,750
10,000-20,000	\$9,250
20,000-30,000	\$11,250
30,000-50,000	\$12,250
Over 50,000	\$13,500

Source: ECD's Local Planning Assistance Office.

The office reports that during fiscal year 2007, it contracted with a total of approximately 56 counties and 162 cities. Total contract fees collected were approximately \$1.6 million.

The department sets the current rate level based on its budget needs and its expectations of what communities would be willing to pay. The office heavily relies on these fees to support the local planning function. For example, the office estimated that approximately 40 percent of its revenues would come from these fees. The department is concerned that increased fees would result in fewer communities contracting with the office, thus decreasing total planning revenues and potentially jeopardizing the department's ability to provide other planning services. Given the state's current budget situation and the importance of economic development to the prosperity of Tennessee communities, the balance the department is striking with its charges appears appropriate.

---

## RECOMMENDATIONS

---

### LEGISLATIVE

This performance audit identified areas in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Department of Economic and Community Development's operations.

1. The General Assembly may wish to consider amending Section 4-3-708(4), *Tennessee Code Annotated*, to remove references to the terminated federal institutional conservation program.

### ADMINISTRATIVE

The Department of Economic and Community Development should address the following areas to improve the efficiency and effectiveness of its operations.

1. The department should improve recipient monitoring procedures for its grants and loans. Specifically, the department should enhance program monitoring policies by requiring additional on-site monitoring visits for those programs already subject to at least some on-site visits. In addition, the department should develop monitoring requirements, including but not limited to on-site monitoring, into program policies where they do not currently exist and ensure that all monitoring activity is appropriately documented. When developing on-site requirements, the department should consider developing a method to identify and then concentrate on those projects which present the highest risk to the state.
2. The department should continue to improve its performance measurement system by using the results of its internal performance management questionnaire to evaluate and enhance its performance measurement data validity. The department should also collect and report additional performance measures that are used in other states or are recommended by industry literature, especially measures related to economic development program outcomes.
3. The department should work with the Secretary of State to withdraw Rule 0500-3-3, which solely addresses the terminated federal institutional conservation program, as well as Rule 0500-5-2 addressing the Enterprise Demonstration Project. Additionally, the department should work with other state departments currently administering programs addressed in rules to identify and address those rules which can be transferred to the other departments or eliminated if no longer needed.

4. The department's procedures should be strengthened to further encourage and enable board members to disclose potential conflicts of interest. Although department policy requires new board members to disclose any conflicts of interest, the department's conflict-of-interest form is not constructed in a way to encourage this disclosure. As a result, there is an increased risk that board members could inappropriately act on board business with which they have a potential conflict that they have not fully disclosed.

---

## APPENDIX

---

### TITLE VI INFORMATION

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. In response to a request from members of the Government Operations Committee, the audit team compiled information concerning federal financial assistance received by the Department of Economic and Community Development, and the agency's efforts to comply with Title VI requirements. The results of the information gathered are summarized below.

According to *The Budget: Fiscal Year 2008-09*, the Department of Economic and Community Development was the recipient of \$27,706,600 in federal assistance during fiscal year 2006-07 and was estimated to have received \$38,382,100 in federal assistance during fiscal year 2007-08. The majority of the federal funds were for Community Development Block grants that are distributed to local governments for assistance with economic and community improvement projects such as industrial infrastructure, water and wastewater improvements, and housing rehabilitation. The energy division also receives federal funds which are distributed to local governments for assistance with energy efficiency improvements as well as educational programs. Listed below are the department's major programs that must meet Title VI requirements:

#### Program Contract Totals for FY 2007-2008

Program	Funding Source	Amount
Community Development Block Grant	U.S. Department of Housing and Urban Development	\$26,736,998.00
Energy Policy Office	U.S. Department of Energy	\$1,234,285.15
Rural Enterprise Micro-Loan Fund	U.S. Department of Agriculture	\$15,000.00
FastTrack Job Training Assistance	State of Tennessee	\$32,578,065.12
	<b>Total</b>	\$60,564,348.27

Source: Information provided by ECD Program Management.

According to the department's Title VI compliance plan for 2007-2008, the department's official policy is that all programs be administered as required by Title VI. The department's plan also states that the policy will continue to be communicated to employees through training

programs and announcements. The department communicates the policy to recipients through workshops and through language contained in all contracts and grant agreements.

### Title VI Staff

The ultimate responsibility for ensuring that the department complies with the requirements of Title VI rests with the Commissioner, who is responsible for the administration of the department's personnel and programs. The day-to-day responsibility of compliance rests with the assistant commissioners and directors, as well as program recipients who receive assistance from the department. The department has a Title VI coordinator whose job responsibilities are as follows:

- prepare and update annual Title VI plan,
- file annual plan and updates with the Comptroller's office,
- collect Title VI compliance data from each department division,
- review annual reports submitted by division directors,
- maintain reports on the department's compliance efforts, and
- inform directors and program managers of compliance issues.

The department also has a Title VI Review Committee that was established to monitor the implementation of the Title VI plan. The committee is made up of department staff from various divisions that administer both state and federal funds.

### Reports

The department reports to the Comptroller of the Treasury and to the General Assembly concerning Title VI. The most recent report submitted was the department's *Title VI Compliance Plan 2007-2008*. The report was submitted to the Comptroller's Division of State Audit on September 25, 2007, as required.

The department also submits a Performance Evaluation Report to the U.S. Department of Housing and Urban Development which includes information related to Title VI compliance; the department also submits an evaluation report to the U.S. Department of Agriculture on a quarterly basis. The department is not required to submit a Title VI report to the U.S. Department of Energy but does submit an annual report detailing the program's activities.

### Title VI Training and Awareness

According to the Title VI coordinator, Title VI training workshops for the department are conducted annually, specifically for assistant commissioners, directors, program managers, and managers who administer federal and state financial assistance. The department's compliance

plan states that the department will provide public notification about Title VI and about its programs and activities. Information on various programs will be disseminated to the public by the department website and Public Information Officer. The department's Communications and Creative Services Division will work closely with all divisions to ensure that pertinent compliance information is made available through the use of newspaper, newsletters, periodicals, radio, television, brochures, various development districts, community groups, and civic organizations.

### Title VI Complaints

The agency's compliance plan outlines the process for handling any complaints of discrimination. A complaint alleging discrimination may be filed with the Title VI coordinator. All entities receiving assistance from the department are required to have information available on the procedures for filing a complaint. The Title VI coordinator has the responsibility for receiving, logging, acknowledging, and investigating complaints and for reporting any findings resulting from a complaint investigation. The coordinator will notify the Commissioner and the appropriate program director when a complaint is received.

The Title VI coordinator is responsible for conducting an investigation within 30 calendar days of the receipt of a complaint. The complainant, Commissioner, and program director will be informed of the outcome of this investigation. The complainant does have the right to appeal a decision made regarding a complaint. Any appeals made will be reviewed by the Title VI review committee within 10 calendar days. If the complaint cannot be resolved by the committee, a report will be sent to the Tennessee Title VI Compliance Commission. If the complaint involves a federally funded program, the federal agency will be notified of the complaint. If either the Title VI Compliance Commission or other federal agency determines that discrimination has occurred, the offending party will be denied further services of the department's program until the discriminatory activities have been terminated. The department has not received any formal complaints in the last two years.

### Title VI Tracking and Monitoring

Recipients are monitored for Title VI compliance during both the pre- and post- phases of an award. As a result of a finding from a 2008 Policy 22 review by the Department of Finance and Administration, the department has also begun a process of monitoring recipients for Title VI compliance during the contract period. The department developed a checklist that will be used for annual desk audits and will include monitoring for Title VI compliance.

*Community Development Block Grants* – The department's compliance plan contained information on the agency's monitoring activities. The Community Development Division uses a *Resolution to Affirm Compliance with Federal Title VI Regulations* form that is completed and signed by program recipients. Compliance reviews are also conducted for Community Development Block Grant (CDBG) program recipients. The department's plan states that a compliance review was conducted for July 1, 2006, through June 30, 2007; 150 recipients were reviewed for pre-award compliance, and 64 recipients were reviewed for post-award compliance.

In addition to these reviews, 58 recipients were reviewed on-site. All recipients for this review were found to be in compliance. The U.S. Department of Housing and Urban Development (HUD) reviewed the state's CDBG program in May 2008. HUD provided the program's documentation related to civil rights to the Office for Fair Housing and Equal Opportunity, which found the program's documentation to be acceptable and in compliance with program requirements.

The applications for the CDBG program contain a requirement for compliance with Title VI as well as a checklist for pre- and post-award compliance that includes a Title VI component; these processes were confirmed during a file review of the program. All files reviewed contained documentation that the recipients were reviewed for Title VI compliance.

*Energy Division* – The Energy Division uses a Title VI Pre-Audit Survey for its Title VI monitoring and tracking for its recipients (e.g., Board of Regents universities and non-profit organizations). The division also compiles a Title VI compliance report at the end of each fiscal year. The files for the Local Government Energy Loan program were reviewed; the files did not contain any documentation that recipients were reviewed for compliance with Title VI. (See Finding 1.)

*FastTrack* – The FastTrack Job Training Assistance Program uses a form that collects data to support Title VI compliance, which a company submits when it seeks partial or full reimbursement for the contracted training activities, as specified in its training assistance contract with the department. The applications for the FastTrack Job Training Assistance Program and the FastTrack Infrastructure Development Program both contain a requirement for compliance with Title VI as well as a checklist for pre- and post-award compliance that includes a Title VI component; these processes were confirmed during a file review of the program. All files reviewed contained documentation that the recipients were reviewed for Title VI compliance.

*Local Planning* – The Local Planning Assistance Program sends ongoing correspondences as part of its compliance initiatives. These letters are to remind recipients of Title VI regulations and encourage that nominees to local planning commissions be reflective of the racial composition, gender, and ethnicity of the planning jurisdiction.

### Staffing

The department reported statistics concerning its staff and gender composition which are presented below.

**Tennessee Department of Economic and Community Development  
Staff by Job Title, Gender, and Ethnicity  
As of June 28, 2008**

Title	Gender		Ethnicity				
	Male	Female	Black	White	Asian	Hispanic	Other
Accounting Manager	0	1	0	1	0	0	0
Accounting Technician 1	0	1	0	1	0	0	0
Accountant 2 and 3	3	1	1	2	0	0	1
Assistant Commissioner 2	3	0	0	3	0	0	0
Administrative Assistant 1, 2, and 3	1	6	4	3	0	0	0
Administrative Service Assistance 2, 3, 4, 5	2	10	4	8	0	0	0
Administrative Secretary	0	6	1	5	0	0	0
Affirmative Action Officer 1	1	0	1	0	0	0	0
Attorney 2	0	1	1	0	0	0	0
Audit Director 1	1	0	1	0	0	0	0
Auditor 2 and 3	1	1	0	2	0	0	0
Budget Analyst Coordinator	0	1	0	1	0	0	0
Business Development Consultant 2, 3, and 4	9	7	1	15	0	0	0
Business Enterprise Resource Consultant	2	4	5	1	0	0	0
Community Development Planning Director	1	2	0	3	0	0	0
Community Planning Director	1	0	0	1	0	0	0
Community Planning Regional Director	5	1	1	5	0	0	0
Community Principal Planner	30	11	3	38	0	0	0
Commissioner 3	1	0	0	1	0	0	0
Creative Services Coordinator 1 and 2	1	2	0	2	0	0	1
Creative Services Director	0	1	1	0	0	0	0
Deputy Commissioner 2	0	1	1	0	0	0	0
ECD Administrator	3	0	0	3	0	0	0
Communications Officer	0	1	0	1	0	0	0
Economic Development Regional Specialist	3	9	1	11	0	0	0
Economic Research Analyst	1	1	0	1	1	0	0
Economic Research Director	2	1	0	3	0	0	0
Energy Policy Director	1	0	0	1	0	0	0
Executive Administrative Assistant 2 and 3	3	2	0	5	0	0	0
Executive Director - TN Film Entertainment Commission	0	1	0	1	0	0	0
Existing Industry Consultant 2 and 3	2	3	0	5	0	0	0
Fiscal Director 1 and 2	0	2	1	1	0	0	0
General Counsel 1	0	1	1	0	0	0	0

Title	Gender		Ethnicity				
	Male	Female	Black	White	Asian	Hispanic	Other
Geographic Information Systems Technician 2	6	2	2	6	0	0	0
Geographic Information Systems Technical Supervisor 1	2	1	0	3	0	0	0
Grants Analyst 2 and 3	2	2	0	4	0	0	0
Grants Director	1	0	0	1	0	0	0
Grants Program Manager	4	2	1	5	0	0	0
Human Resources Director 2	1	0	0	1	0	0	0
Industrial Training Consultant 3 and 4	2	0	0	2	0	0	0
Industrial Training Manager	0	1	0	1	0	0	0
Information Resource Specialist 3 and 4	2	2	0	3	1	0	0
Information Systems Director 2	1	0	0	1	0	0	0
Information Systems Manager 1	1	0	0	1	0	0	0
International Investment Director	1	1	0	2	0	0	0
International Marketing Director	1	0	0	1	0	0	0
Job Development Regional Director	1	2	0	3	0	0	0
Librarian 2	0	1	0	1	0	0	0
Loan Officer 2	2	0	1	1	0	0	0
Loan Program Director	1	0	0	1	0	0	0
Location Coordinator 2	1	0	0	1	0	0	0
Manufacturing Extension Program Director	0	1	1	0	0	0	0
Main Street Program Manager	0	1	0	1	0	0	0
Music Media Coordinator	1	0	0	1	0	0	0
Program Analyst Supervisor	1	0	0	1	0	0	0
Secretary	0	3	0	3	0	0	0
Small Business Enterprise Director	0	1	0	1	0	0	0
Statistical Analyst 3	0	1	0	1	0	0	0
Statistical Research Specialist	1	1	0	1	0	0	1
Telephone Operator 2	0	1	1	0	0	0	0
Web Developer 2	1	0	1	0	0	0	0
<b>Totals</b>	<b>110</b>	<b>101</b>	<b>35</b>	<b>171</b>	<b>2</b>	<b>0</b>	<b>3</b>

### Award Demographics

The department reported statistics regarding the ethnic composition of its 2007 award recipients and beneficiaries which are reported below.

**Small Cities Community Development Block Grant  
Calendar Year 2007 Awards  
Through the TN Department of Economic and Community Development**

Locality	Activity	Applicant Ethnicity			Beneficiary Ethnicity (see table below)										Total Served
		White	Black	Other	1	2	3	4	5	6	7	8	9	10	
Adamsville	Water System	0	0	0	6,585	0	0	0	0	0	0	0	0	56	6,641
Altamont	Housing Rehab	26	0	0	0	0	0	0	0	0	0	0	0	0	26
Baxter	Water System	0	0	0	4,735	31	0	0	0	0	0	7	0	19	4,761
Bean Station	Sewer Line	1,901	0	49	0	0	0	0	0	0	0	0	0	0	1,956
Bedford County	Water Line	216	6	5	0	0	0	0	0	0	0	0	0	0	227
Bolivar	Sewer System	0	0	0	2,201	2741	0	13	0	0	0	0	0	116	5,071
Brownsville	Sewer System	0	0	0	5,689	3,599	0	0	0	0	0	0	0	198	9,486
Calhoun	Water Line	239	0	8	0	0	0	0	0	0	0	0	0	0	247
Campbell County	Water Line	87	0	0	0	0	0	0	0	0	0	0	0	0	87
Carter County	Water System	0	0	0	1,184	0	0	21	0	0	7	0	0	31	1,243
Clinton	Housing Rehab	40	0	0	0	0	0	0	0	0	0	0	0	0	40
Cookeville	Sewer System	0	0	0	986	97	15	0	0	0	0	0	0	518	1,616
Church Hill	Sewer System	0	0	0	4,885	10	0	0	0	0	0	0	0	0	4,895
Copperhill	Water System	0	0	0	544	0	2	0	0	0	0	0	0	0	546
Cumberland County	Water Line	83	1	0	0	0	0	0	0	0	0	0	0	0	84
Dresden	Sewer System	0	0	0	2,656	111	0	0	0	0	0	0	0	0	2,767
Erwin	Water System	0	0	0	10,327	0	0	0	0	0	0	0	0	83	10,410
Fayetteville	Sewer System	0	0	0	3,917	1,434	0	0	0	0	0	0	0	0	5,351
Fentress	Water System	0	0	0	9,861	0	0	0	0	0	0	0	0	0	9,861
Friendship	Sewer Line	71	45	18	0	0	0	0	0	0	0	0	0	0	134
Greenfield	Sewer System	0	0	0	1,836	194	0	7	0	0	0	0	0	0	2,037
Gruetli-laager	Housing Rehab	42	0	0	0	0	0	0	0	0	0	0	0	0	42
Halls	Fire Protection	0	0	0	3,936	663	0	0	0	13	7	0	0	67	4,686
Harrogate	Sewer Line	109	0	0	0	0	0	0	0	0	0	0	0	0	109

Locality	Activity	Applicant Ethnicity			Beneficiary Ethnicity (see table below)										Total Served
		White	Black	Other	1	2	3	4	5	6	7	8	9	10	
Hartsville	Water System	0	0	0	5,006	1,177	0	0	0	0	0	38	0	205	6,426
Hohenwald	Sewer System	0	0	0	2,249	61	0	0	0	0	0	0	0	0	2,310
Huntingdon	Sewer System	0	0	0	2,721	377	0	0	0	0	0	23	0	122	3,243
Jackson County	Water Line	150	0	0	0	0	0	0	0	0	0	0	0	0	150
Jellico	Sewer System	0	0	0	2,258	29	0	0	0	0	0	0	0	5	2,292
Jonesborough	Water Treatment	0	0	0	17,905	157	45	22	0	45	0	0	0	134	18,308
Lauderdale County	Water Line	0	0	0	3,754	1,231	0	0	0	0	0	21	0	33	5,039
Lawrenceburg	Sewer System	0	0	0	1,844	43	0	4	0	0	0	0	0	40	1,931
Lexington	Water System	0	0	0	20,027	2,152	0	0	0	0	0	0	0	24	22,203
Loretto	Water System	0	0	0	267	21	0	0	0	0	0	0	0	0	288
Madisonville	Sewer System	0	0	0	2,359	8	0	0	0	0	0	8	0	34	2,409
Marion County	Water Line	0	0	0	7,607	70	0	0	14	0	0	0	0	0	7,691
Meigs County	Water Line	181	0	0	0	0	0	0	0	0	0	0	0	0	181
Middleton	Sewer System	0	0	0	635	107	13	0	0	0	0	0	0	7	762
Morgan County	Water Line	99	1	8	0	0	0	0	0	0	0	0	0	0	100
Mountain City	Water Line	0	0	0	5,915	15	8	8	0	55	8	0	0	78	6,087
Mt. Pleasant	Sewer System	0	0	0	2,663	723	0	0	0	0	0	0	0	0	3,386
New Hope	Fire Hall	0	0	0	8,303	357	0	0	0	0	0	0	0	0	8,660
New Port	Drainage Improvement	0	0	0	5,595	280	0	0	0	0	0	0	0	234	6,109
Oakland	Water Storage	0	0	0	6,850	952	0	13	0	0	0	0	0	41	7,856
Perry County	Emergency Operations Facility	0	0	0	9,196	196	0	0	0	48	0	0	0	96	9,536
Petersburg	Water System	0	0	0	880	58	0	0	0	0	0	0	0	9	947
Red Boiling Springs	Water System	0	0	0	4,124	49	0	31	0	0	0	0	0	115	4,319
Ripley	Sewer System	0	0	0	1,569	3,143	7	103	0	151	199	110	15	96	5,393
Roane County	Water Line	479	7	4	0	0	0	0	0	0	0	0	0	0	490
Rockwood	Waste Water	0	0	0	3,444	143	0	0	0	0	0	0	0	0	3,587
Rutherford	Fire Protection	0	0	0	1,085	182	10	0	0	0	0	0	0	0	1,277
Savannah	Sewer Plant	0	0	0	4,665	427	4	0	0	0	0	0	0	19	5,115

Locality	Activity	Applicant Ethnicity			Beneficiary Ethnicity (see table below)										Total Served
		White	Black	Other	1	2	3	4	5	6	7	8	9	10	
Sevierville	Water Line	87	10	6	0	0	0	0	0	0	0	0	0	0	103
<b>Soddy-Daisy</b>	<b>Housing Rehab</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32</b>
St. Joseph	Water Treatment	0	0	0	1,153	0	0	0	0	0	7	0	0	0	1,160
Van Buren County	Ambulances	0	0	0	6,630	8	0	0	0	0	0	0	0	0	6,638
Warren County	Water System	0	0	0	17,867	224	0	22	0	0	112	0	0	448	18,673
Wartburg	Fire & Rescue	0	0	0	5,484	22	0	0	0	0	0	0	0	0	5,506
Waverly	Sewer System	0	0	0	2,838	579	0	0	0	0	0	0	0	48	3,465
Whiteville	Sewer System	0	0	0	736	430	0	0	0	0	0	0	0	18	1,184
	<b>Total</b>	<b>3,842</b>	<b>70</b>	<b>98</b>	<b>214,971</b>	<b>22,101</b>	<b>104</b>	<b>244</b>	<b>14</b>	<b>312</b>	<b>340</b>	<b>207</b>	<b>15</b>	<b>2,894</b>	<b>245,179</b>

Beneficiary Ethnicity			
1	White	6	American Indian/Alaskan Native & White
2	Black	7	Asian & White
3	Asian	8	Black & White
4	American Indian/Alaskan Native	9	American Indian/Alaskan Native & Black
5	Native Hawaiian/Pacific Islander	10	Other Multi-racial

Source: Information provided by CDBG Program Manager.

**FastTrack Job Training Assistance Program  
Contracts for FY2007-2008**

<b>County</b>	<b>Location</b>	<b>Project</b>	<b>White</b>	<b>Black</b>	<b>Other</b>	<b>Total</b>
Humphreys	McEwen	Accurate Energetics Systems, LLC	47			47
Anderson	Clinton	Aisin Automotive Casting Tennessee, Inc.	225	22		247
Davidson	Nashville	Akzo Nobel Coatings	24	6	2	32
Maury	Columbia	Al's Garden Art, Inc.	37	36	31	104
Greene	Greeneville	American Technology & Research, Inc.	19		2	21
Jefferson	Jefferson City	Appalachian Door, Inc., dba Algoma Hardwoods, Inc.	62	1	2	65
Hamilton	Chattanooga	Astec, Inc.	59	1	2	62
Clay	Celina	Automated License Systems	30			30
Giles	Pulaski	Bert Co Industries, Inc.	30	5		35
Madison	Jackson	Bodine Aluminum, Inc.	48	30	1	79
Rutherford	Lavergne	Bridgestone/Firestone NA Tire	158	189	38	385
Dyer	Newbern	Briggs & Stratton Power Products Group, LLC	101	18	2	121
Knox	Knoxville	Brink's Home Security	305	50	20	375
Jefferson	Dandridge	Bush Brothers & Company	118	3		121
Lincoln	Fayetteville	C & S Plastics	28	15	2	45
Bedford	Shelbyville	Calsonic North America, Inc.	9	6		15
Tipton	Covington	Charms, Inc.	22	19		41
Shelby	Memphis	Chism Hardy Enterprises, LLC	22	31	1	54
Tipton	Covington	Conopco, Inc. dba Slim Fast Foods (Unilever)	32	11		43
Cumberland	Crossville	Crossville Coal, Inc.	57		2	59
Washington	Johnson City	D & B Specialty Foods	103	15		118
Putnam	Cookeville	DACCO Incorporated	40	2	5	47
Henry	Paris	Dana Corporation	135	22	7	164
Madison	Jackson	Delta Faucet, Co.	64	32		96
Madison	Jackson	Delta Faucet, Co.	379	289	3	671
Blount	Maryville	Denso Manufacturing Tennessee, Inc. 06/07	72	6	2	80
Blount	Maryville	Denso Manufacturing Tennessee, Inc. 07/08	34	3	3	40

County	Location	Project	White	Black	Other	Total
Hardin	Savannah	Design Team Sign Company, LLC	56	1	1	58
Dyer	Dyersburg	Electrical Research & Manufacturing Coop., Inc.	129	25	1	155
Rutherford	Murfreesboro	Emerson Appliance Solutions	3	1		4
Knox	Mascot	Exedy/Daikin Drivetrain Components	16			16
Henderson	Lexington	Falcon Plastics, Inc.	22	3		25
Rutherford	Smyrna	Federal-Mogul Products, Inc.	54	20	11	85
Sumner	Gallatin	GAP, Inc.	238	59	29	326
Madison	Jackson	Gerdau Ameristeel US Inc.	12			12
Lawrence	Lawrenceburg	Green Tool & Stamping, Inc.	4			4
Weakley	Dresden	Greenfield Products, Inc.	26			26
Nashville	Davidson	Hickory Hardware, Inc.	93	67	3	163
Gibson	Trenton	Hobbs Bonded Fibers	23	7		30
Hamblen	Morristown	Howmet Corporation	87	1	3	91
Shelby	Memphis	Johnson & Johnson Health Care Systems, Inc.	13	104	2	119
Madison	Jackson	Kerr Group, Inc. A Subsidiary of Berry Plastics Corporation	7	16		23
Hardeman	Toone	Kilgore Flares, LLC	18	31	1	50
Henry	Henry	Knox Outdoor Products, LLC	2			2
Rhea	Dayton	La-Z-Boy of Tennessee	212	6	16	234
Rhea	Dayton	Lear Corporation	5		1	6
Rutherford	Murfreesboro	Mahle Tennex North America	76	16	28	120
Loudon	Loudon	Malibu Boats, LLC	28	1	4	33
Johnson	Mountain City	Martech/Miller Laser Imaging, Inc.	25			25
Fayette	Gallaway	Medegen Medical Products, LLC	14	27		41
Shelby	Memphis	Medtronic Sofamor Danek USA, Inc.	45	26	7	78
Shelby	Memphis	Memphis Biofuels, LLC	4	13		17
Dickson	Dickson	MetriCan Stamping Co., Inc.	17			17
Madison	Jackson	Most, Inc. dba Missouri Smelting Technology, Inc.	14	2		16
Haywood	Brownsville	MTD Products, Inc.	20	130		150
Anderson		National Coal Corporation	43			43

<b>County</b>	<b>Location</b>	<b>Project</b>	<b>White</b>	<b>Black</b>	<b>Other</b>	<b>Total</b>
Rutherford	Smyrna	Nissan North America, Inc.	268	78	43	389
White	Sparta	Norcom of Tennessee, Inc.	6			6
Blount	Maryville	Nortek Industries, LLC	8		1	9
Sumner	Portland	Olhausen Billiard Mfg., Inc.	186	7	7	200
Wayne	Clifton	Praxis Companies, LLC (The)	40	2	3	45
White	Sparta	Precision Molding, Inc.	47		3	50
Greene	Greeneville	Premium Waters, Inc.	52	6		58
Sumner	Portland	Printworks South, LP	18	2	6	26
Sumner	Portland	R B Distribution, Inc.	75	2		77
Hamilton	Chattanooga	ROADTEC, Inc.	22	3		25
Giles	Pulaski	SaarGummi Tennessee, LLC	41	12	1	54
Robertson	Springfield	Saia-Burgess Automotive Actuators, Inc.	52	20	9	81
Bedford	Shelbyville	Sanford LP (Dist. & Mfg.)	76	12	8	96
Blount	Maryville	Sanford LP / Eldon SBU	289	15	6	310
Robertson	Orlinda	Sertapak USA	22	1		23
Shelby	Memphis	Servicemaster Company	131	57	21	209
Shelby	Memphis	SITEL Corporation	51	1217	66	1334
Shelby	Memphis	SITEL Corporation	15	273	9	297
Polk	Ducktown	Southinvest Holding, Inc.	49	2	4	55
Davidson	Nashville	Springs Global US, Inc.	66	60	114	240
DeKalb	Smithville	Star Manufacturing International, Inc.	49	3	1	53
Bedford	Shelbyville	Summit Polymers, Inc.	98	33	4	135
Smith	Gordonsville	SW Manufacturing, Inc.	24			24
Madison	Jackson	TBDN Tennessee Company	28	21	4	53
DeKalb	Smithville	Tenneco Automotive	44	6	20	70
Monroe	Vonore	Tennessee Watercraft, Inc. –Yamaha	51	3	50	104
Sumner	Portland	Titeflex Corporation	48	2	2	52
Hamilton	Chattanooga	T-Mobile USA, Inc.	284	118	21	423
Sullivan	Bristol	Touchstone Wireless, LP	265	43	33	341
Cheatham	Ashland City	Trinity Industries, Inc.	44	7	54	105

<b>County</b>	<b>Location</b>	<b>Project</b>	<b>White</b>	<b>Black</b>	<b>Other</b>	<b>Total</b>
Sevier	Sevierville	TRW Fuji Valve Inc.	50	3		53
Hawkins	Bulls Gap	U.S. Fence, Inc.	405	16	36	457
Monroe	Sweetwater	United Wheel Industries, LLC	12	2	1	15
Lauderdale	Henning	VF Imagewear, Inc.	46	42		88
Davidson	Goodlettsville	Wei-Chuan U.S.A., Inc.	11	1	7	19
Davidson	Antioch	Wm. Wright Co.	47	77	24	148
Hamilton	Chattanooga	Wm. Wrigley Jr. Company	87	67	3	157
Crockett	Alamo	Yield King Manufacturing, Inc.	17	4		21
		<b>Total</b>	<b>6,690</b>	<b>3,585</b>	<b>793</b>	<b>11,068</b>

Source: Information provided by ECD program management.

**Department of Economic & Community Development  
Energy Policy Office Contracts  
Awards Made FY 2007 – 2008**

<b>Contract Recipient</b>	<b>Program/Activity</b>	<b>Funding Source</b>	<b>Contract Value</b>
Tennessee Technological University	Emergency Planning - Geographic Information System provides infrastructure information necessary for emergency planning (5 year contract through 2010)	U.S. Department of Energy	\$484,649.22
University of Memphis	Energy Audits/Small Business and Local Governments - Audits are provided to improve the energy efficiency of buildings.	U.S. Department of Energy	\$408,064.00
Roane State Community College	K-12 Energy Education - Provides energy education materials, newsletter, teacher workshops for teachers and students.	U.S. Department of Energy	\$102,890.00
Tennessee Technological University	Industrial Technologies Program - Provides energy assessments and technical assistance on reducing energy consumption.	U.S. Department of Energy	\$63,006.41
Southface Energy Institute	DOE Special Project - Provided energy building codes training.	U.S. Department of Energy	\$7,268.19
Southern Alliance for Clean Energy	Zero Energy Home - Providing assistance to a reducing residential energy consumption initiative.	U.S. Department of Energy	\$53,533.33
East Tennessee Clean Fuels Coalition	Alt. Fuels Working Group/Clean Cities support - Promotes the use of alternative fuels in the state.	U.S. Department of Energy	\$89,874.00
Southern Alliance for Clean Energy	Tennessee Wind Power Outreach Initiative	U.S. Department of Energy	\$25,000.00
		<b>Total</b>	<b>\$1,234,285.15</b>

Source: Information provided by Director of Energy Policy.