

# Comptroller's Financial Excellence Award

## Policies to Submit with Application

The Comptroller's Office often recommends best practice policies as a normal part of our oversight of local governments. We do this in our annual audit reports, in our budget review letters, in our manuals, and in our online resources. Sound financial policies lay the foundation for good financial decisions and strong resilient local governments. Accordingly, to be eligible for the Comptroller's Financial Excellence Award, your local government must have adopted the policies outlined in this document, as applicable. We want to emphasize that the following list is not all-inclusive, but rather, policies that we believe strongly support good oversight of public dollars. There may be legally required policies not addressed here that you are still required to adopt, and most local governments will have additional policies. Further, our Office will continue to recommend policies that are not necessarily part of the award program.

The following descriptions of the policies are meant to offer an overview. Please reach out to your regional contacts from the Divisions of Local Government Finance and Local Government Audit, as well as MTAS, CTAS, and TAUD for additional guidance and help in drafting policies. All local governments should have the following adopted policies.

**Table 1: Financial Policies For the Annual Award for Financial Excellence**

Comptroller Award Eligibility Financial Policies	Also Required by TN Law or TN State Funding Board Guidelines
Counties, Metro Govts, Municipalities, Utilities	
Budget Adoption Calendar	Counties
Budget Monitoring	
Capital Asset Management	
Cash Management	
Cybersecurity Plan	Utilities
Debt Management	Counties, Metro Govts, Municipalities, Utilities
Fund Balance / Unrestricted Net Position	
Internal Control	Counties, Metro Govts, Municipalities
Investment	Certain Investments
Purchasing	
County and Metro Govts Only	
Audit Committee	
Utility Systems Only	
Rates and Fees Policy	

## **Audit Committee – *Counties and Metropolitan Governments Only***

Audit committees provide for review of the audit, establish procedures and oversight for correcting deficiencies, and produce a written report. Tenn. Code Ann. § 9-3-405 allows for the creation of an audit committee. The audit committee should establish responsibilities and duties that are stated in a resolution approved by the legislative body. The responsibilities and duties, at a minimum, should address financial and other reporting practices, internal controls, compliance with laws and regulations, and ethics. For more information, please visit the Comptroller's Division of Local Government Audit's [website](#). Although only county governments are required to have an audit committee policy to be eligible for the award, we recommend that all local governments have an audit committee.

## **Budget Adoption Calendar**

A budget calendar should result in a local government adopting the annual budget before the new fiscal year starts. This is important so that planned spending can begin day one of the fiscal year. To ensure timely adoption, it is recommended that all local governments have an adopted budget calendar that sets the timeline for when certain milestones occur during the budget creation, adoption, and implementation process. See the [Comptroller's Budget Manual](#) for more details. Title 5 of Tennessee Code Annotated includes requirements that govern budget calendars for county governments.

## **Budget Monitoring Policy**

After the budget is adopted, it must be monitored for changes in initial budget estimates. This helps ensure a local government stays within its legal spending authority, meets any legal spending requirements, complies with other statutory requirements, such as for utilities, and maintains adequate reserves.

## **Capital Asset Management Policy**

Capital assets have a life longer than one year and are used in the operations of the local government and include buildings, vehicles, streets and bridges, utility plant and infrastructure, and heavy equipment. Capital assets have a finite life and require regular maintenance to operate efficiently. A capital asset management policy will outline how to assess the current condition of capital assets, plan and budget for needed maintenance, and plan for replacing capital assets when needed. This plan should address both general government assets as well as utility assets. For additional information, please refer to the [Tennessee Department of Environment and Conservation](#) for water and sewer systems, and GFOA for all other government operations.

## **Cash Management Policy**

Cash must be available to pay invoices and payroll when due; therefore, local governments must have a plan to maintain sufficient cash throughout the year. The plan starts with the minimum amount of cash to keep on hand to meet cash flow needs throughout the year and a requirement to perform an annual cashflow forecast to determine cash needs. The policy should also address pooled cash accounts and reimbursements between

funds. The policy should identify adequate reserve levels, how those levels are established, and the intended use of each reserve. Reserves for unexpected events should be addressed. Both the short-term and long-term health of the local government should be considered. If cash reserves dip below minimum levels, immediate measures should be taken to restore the reserves. Additionally, utility systems should consider cash reserves needed to maintain stable rates. Once cash flow needs are sufficiently covered the remainder of cash can be invested according to state statutes and the local government's investment policy (see Investment Policy below).

## **Cybersecurity Plan**

All local governments should adopt a Cybersecurity Plan; however, those local governments with utilities are required to adopt a plan pursuant to Tenn. Code Ann. § 7-51-2301 et seq. Being prepared to respond to a cyber-attack will reduce the impact that it has on operations. It is important to have a written plan that can be referenced in the event the local government experiences an incident. This plan should be developed in cooperation with the office's IT personnel or vendor. For more information please see: [tncot.cc/cyberaware](http://tncot.cc/cyberaware).

## **Debt Management Policy**

All local governments that issue debt must have an adopted debt management policy pursuant to Tennessee State Funding Board [Guidelines](#) that were issued by authority of Tenn. Code Ann. § 9-21-134(b).

## **Fund Balance Policy and/or Unrestricted Net Position Policy**

**Fund Balance:** Local governments should have a policy that establishes the amount (or level) of unrestricted fund balance that will be maintained in its operating governmental funds. Having available unrestricted fund balance when needed is important to the viability of all local governments. Consider amounts needed to fund the ongoing operations of the local government during the time until taxes are received to minimize and preferably avoid the need for tax and revenue anticipation notes to manage cash flows, as well as reserve amounts for current and future risks associated with revenue and expenditures. Because each local government faces different economic and financial risks, the amount needed will vary by local government. The policy should also address when unrestricted fund balance reserves can be used and the plan for replenishing the used amount in a reasonable timeframe.

**Unrestricted Net Position:** Local governments should have a policy that establishes the amount (or level) of unrestricted fund balance that will be maintained in its utility funds and other business-type activities. When determining an adequate unrestricted net position balance, considerations may include but are not limited to reserves for known and unknown contingencies, reserves to support stable rates and stable services to ratepayers, reserves to meet operating expenses and debt service costs, and reserves to support strong debt ratings.

## **Internal Control Policies**

As defined by the COSO Report: internal control is a structure of policies and procedures that systematically provides reasonable assurance that management will achieve its basic objectives in operations, financial reporting, and compliance. Internal control is at the top of this list because without strong internal control, management will not know if the governing body's goals are being met. All local governments should have adopted internal controls. See the [U.S. Government Accountability Office Green Book](#) and online resources from the Division of Local Government Audit, including the Comptroller's Internal Control and Compliance Manual <https://comptroller.tn.gov/office-functions/la/resources/information.html> for more details. Internal Control is required for county, municipal, and metropolitan governments by Tenn. Code Ann. § 9-18-102.

## **Investment Policy**

Public dollars should be invested with consideration given to legal limitations, safety, risk, and yield (or earnings). Certain legal investments for local governments require an investment policy and it is recommended that all local governments have an investment policy that outlines: legal investments that fit the local government's risk tolerance, who can make investment decisions, what funds can be invested, and the process for purchasing investments. Even if your local government only invests in Certificates of Deposit and the State's Local Government Investment Pool (LGIP), we recommend that you have an investment policy. For more information, please see the Comptroller's Division of Local Government Finance's [website](#).

## **Purchasing Policy**

Local governments should adopt a purchasing policy to help achieve the objectives and goals of the purchasing function. A purchasing policy will set certain parameters for the purchasing process: designate persons authorized to make purchases, require prenumbered purchase orders, set emergency purchase requirements, set certain bid limits for complete bids, designate persons that can use purchase cards. See [MTAS](#) & [CTAS](#).

## **Rates and Fees Policy - *Utility Systems Only***

Rates and charges set by the governing body should be sufficient for all reasonable expenses of operation including depreciation, interest expense, and any other nonoperating expenses. Rates should also generate enough cash to pay both principal and interest requirements on debt. Each utility should have rates sufficient to have a positive change in net position separate from grant proceeds and contributions. Periodic rate studies is a proactive and strategic approach to managing the financial health of a utility. Some utility systems have an annual cost-of-living rate increase that is adopted once, and then rates adjust at an inflationary percentage each year.