



City of Jackson
Annual Report
Budget and Audit Committee

Fiscal Year End: June 30, 2021

PART 1. FORMATION

Budget Committee. Upon taking office, at the first City Council Meeting under the leadership of Mayor Scott Conger, a Budget Committee was formed to provide policy, procedural, and other financial recommendations to the Mayor and City Council on matters of a budgetary nature. Two City Council Members were appointed, along with 4 citizens of the City of Jackson.

The formalization of a “standing” Budget Committee via Ordinance was recommended to the Council in October of 2019. The Council approved the Ordinance forming the standing committee and tasked the committee to “function in an advisory capacity to provide policy, procedural, and other financial recommendations to the Mayor and Council on budgetary matters.” This formalization expanded the committee to 7 members, adding another representative from the City Council.

FY20-21 Membership:

Councilman Paul Taylor, Chairman

Andrew Long, Vice-Chairman

Councilman Ross Priddy, Secretary

Councilman Johnny Dodd

Mark Johnstone

Ron Tharpe

Doug Roth

Audit Committee. The formation of an Audit Committee to provide management oversight, discuss and follow-up on external audit findings, and assist in the development of internal audit planning was a topic of discussion amongst the Budget Committee in the early months of the fiscal year. Following the completion and submission of the external audit for FY19, the Comptroller’s Office for the State of Tennessee placed the requirement of the City Council to resolve to form an Audit Committee and tasked the Committee with the following duties and responsibilities:

1. To carefully review, upon completion of the city’s annual audit, all audit findings in audit report and consult with the external auditors regarding any irregularities and deficiencies disclosed in the annual audit. The Audit Committee is empowered to meet with management to discuss audit findings and/or disagreements with the external auditors. The committee should satisfy itself that appropriate and timely corrective action has been taken by management to remedy any identified weaknesses. The committee should determine what corrective action, if any, should be recommended to the City Council.
2. To consider the effectiveness of the internal control system, including information technology security and control, review the effectiveness of the system for monitoring compliance with laws and regulations, and review the process for communicating the city’s ethics policies to city personnel and monitoring compliance therewith.

3. To establish a process by which employees, taxpayers, or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity under provisions of T.C.A. § 9-3-406.
4. To annually present a written committee report detailing how it discharged its duties and any committee recommendations to the full City Council.

It was suggested by the Budget Committee, approved by the Comptroller's Office, and resolved by the Council that the Budget Committee would serve as the Audit Committee and be responsible for their duties and responsibilities.

PART 2. AREAS OF CONCENTRATION

Fraud, Waste, and Abuse Reporting and Response Policy. In coordination with the Mayor's office, the Committee spearheaded the development and implementation of city-wide Fraud, Waste, and Abuse Policy. Coupled with an anonymous reporting platform, the policy helps employees and citizens identify potential misuse and directs them toward an appropriate reporting hierarchy.

Budget Process and Facilitation. The Committee worked with Management and the Mayor's Office in the continued development of the City's budget process. Below are some areas of focus that the committee has worked toward in the previous fiscal year.

Budget Calendar - continued refinement of the Budget Calendar with the budget season beginning in January. Extending the budgeting season aims to integrate stakeholders (Citizens, Department Heads, Council Members, and the Mayor's Office) into the process. This calendar will need to be continually refined, with additional focus on incorporating more public input, alignment of shared fiscal goals and overarching municipal objectives.

Goals and Objective Planning – the committee, along with the Mayor's Office, facilitated a goal and objective planning session organized through the Municipal Technical Advisory Service (MTAS) with the Mayor and Council members at the start of the budget season.

Budget Work Sessions – work sessions were distributed across the budget calendar to prevent "marathon" budget sessions and to sub-divide departments into similar divisions for the consideration of departmental requests.

COVID-19 Pandemic Impacted Revenue Monitoring. With the uncertainty of the COVID-19 pandemic, the Committee focused monthly on reviewing and monitoring potentially impacted municipal revenue. State and local sales tax, as well as hotel-motel taxes were reviewed monthly to evaluate the City's recovery in these areas and allow for budgetary pivoting in the instance of revenue shortfall.

Quarterly Financial Reviews. As with the monitoring of potentially impacted revenue sources, the Committee received quarterly financial updates on the revenues and expenses to track and monitor budget progress.

Internal Auditor Position. This year saw the hiring of an Internal Auditor for the City, a position that had previously been dissolved. The initial task of the position was an internal control review and providing corrective actions for external and internal investigations into dealings with Waste Management and the Jackson Generals. Corrective actions were provided by the Internal Auditor for review by the committee and adopted by the Mayor's Office and Purchasing.

Significant Budget Amendment Review and Recommendations. Throughout the year significant budget amendments have been considered by the committee for review, financing recommendations, and supplemental input. Two capital investment proposals were submitted to the committee for review and recommendations.

Fire Apparatus Lease Purchase – To address an outdated fleet of fire apparatuses, the Jackson Fire Department presented a proposal to the Committee for replacement of 3 pumpers, 2 rescue pumpers, a ladder truck, and a heavy-duty tower. Following the recommendation of the Committee from the prior fiscal year, the Department reorganized staffing and identified efficiencies within their operating budget to offset the lease cost. This program was recommended by the Committee to the Council and returned the Department's apparatuses to compliance with NFPA standards.

Police Vehicle Capital Outlay Note – To address a portion of the aging patrol fleet, the Jackson Police Department submitted a proposal for lease-purchase to the City Council to lease 30 patrol vehicles and pick-up truck through Ford Motor Company. The Council requested that the Committee review the proposal and provide recommendations. Upon review, the Committee recommended the use of a Capital Outlay Note to fund the purchase with a significantly lower interest rate.

External Auditor Selection. The Committee served in a review and recommendation capacity to evaluate proposals submitted for Annual Audit Services for the City of Jackson. The recommendation by the Committee was to proceed with Mauldin and Jenkins for External Auditing services.

Public Private Partnership for Madison Academic Review. The Committee reviewed financial, construction, and partnership documents for the construction of a new Madison Academic High School on the campus of the University of Memphis Lambuth. This building was a part of a larger project to build/renovate two schools through a public-private partnership between the City of Jackson, Madison County, and Healthy Community LLC. After thorough review, the Committee did not recommend the project to City Council due to significant discrepancies in financial information, a sudden increase in cost, the reduction of the project's square footage, and the lack of the construction company's experience with school construction projects. The Committee did recommend that the City hire a Construction Manager to represent the City's interest and guide special capital projects to keep projects on schedule and within budget.

Audit Findings and Corrective Actions. The Committee reviewed and was satisfied with the proposed corrective actions for findings noted in the prior year Audited Financial Statement.

Core Financial Software Update. The Committee was regularly updated on the need and subsequent budget approval for modern financial software. This software will become a vital component in financial management, identifying financial irregularities, and public transparency.

Financial Health Monitoring. Following the publishing of the City's Annual Financial Statement, the Committee reviews 17 indicators of municipal financial health. Based off these indicators the Committee saw significant improvement in the City's financial health from FY19-20 to FY20-21. Additional information on these indicators and City specific data is available upon request.

The indicators are outlined below (an indicator's status is identified by GREEN for positive, YELLOW for cautionary, and RED for critical):

1. Unrestricted Net Position (Government Type Activities)

FY20-21 Outlook: Positive, prior year Critical

Why it is important: This indicator identifies if net assets/position is available for unrestricted purposes. Although unrestricted net assets/position may not be in liquid form, it is important to have net assets/position available and unrestricted as to use. If an entity's unrestricted net assets/position is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

2. Unassigned Fund Balance (General Fund)

FY20-21 Outlook: Positive, prior year Positive

Why it is important: This indicator identifies if fund balance is available for unrestricted purposes. Although unassigned fund balance may not be in liquid form, it is important to have fund balance available without restrictions as to use. If an entity's unassigned fund balance is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

3. Change in Unrestricted Net Assets/Position (Government Type Activities)

FY20-21 Outlook: Positive, prior year Cautionary

Why it is important: A declining unrestricted net assets/position can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unrestricted net assets/position as well as how rapidly it is deteriorating.

4. Change in General Fund Unassigned Fund Balance

FY20-21 Outlook: Positive, prior year Positive

Why it is important: A declining unassigned fund balance can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating unassigned fund balance as well as how rapidly it is deteriorating.

5. Total General Fund (GF) Balance / GF Revenues

FY20-21 Outlook: Positive, prior year Cautionary

Why it is important: This indicator identifies a low reserve of fund balance even if Indicators 1 through 4 do not indicate negative unrestricted net assets/position or unassigned fund balance.

6. Decline in General Fund Property Tax Revenue

FY20-21 Outlook: **Cautionary**, prior year **Cautionary**

Why it is important: This indicator reflects declines in property tax revenue and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It will also reflect the need for additional sources of revenue to maintain stability.

7. Decline in General Fund Sales Tax Revenue

FY20-21 Outlook: **Positive**, prior year **Positive**

Why it is important: This indicator reflects declines in these revenue types and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It will also reflect the need for additional sources of revenue to maintain stability.

8. Percentage of General Fund Revenues that Exceed General Fund Expenditures

FY20-21 Outlook: **Positive**, prior year **Cautionary**

Why it is important: This indicator is important because it reflects if an operating deficit exists but also emphasizes the size of the deficit as compared to the current year's budget. This is an indication of the shortage in the current budget. A trend of operating deficits indicates potential financial hardship.

9. Ratio of Revenues (GTA) to Expenses (GTA)

FY20-21 Outlook: **Positive**, prior year **Positive**

Why it is important: This indicator is important to be aware if a shortage in revenues to cover expenses exists. A declining trend would indicate fiscal stress.

10. General Fund Intergovernmental Revenues as a Percentage of Total GF Revenues

FY20-21 Outlook: **Critical ***, prior year **Critical ***

Why it is important: It is important to be aware of the percentage of total revenues that are not considered "own-source," or local sources, of revenue. Understanding the percentage of total revenues derived from intergovernmental sources is important when trying to maintain fiscal stability, while dealing with an economic downturn.

*It should be noted that Local Sales Tax and Hotel-Motel Taxes are considered intergovernmental revenues, as their collection and distribution is facilitated through Madison County.

11. Condition of Capital Assets

FY20-21 Outlook: **Cautionary**, prior year **Cautionary**

Why it is important: When entities delay improving or replacing assets in order to maintain cash flows for other purposes, improvements and replacements become absolutely necessary and may contribute to financial hardship on an already strained budget.

12. Debt Service Expenditures / Total Revenues

FY20-21 Outlook: Positive, prior year Positive

Why it is important: Higher debt service expenditures to total revenues is unfavorable since the entity spends more of its current budget on debt repayment. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for asset repair/replacement or meeting current service demands.

13-15. Average Daily Expenses or Expenditures Ratio

Why these are important: These indicators are important because they identify the number days the entity may operate using their unrestricted net assets/position, unassigned fund balance, and cash and investments. The fewer days the entity can operate, the more financial stress they are under. It provides an early indication of an entity's need to adjust their financial/expenditure planning.

13. Unrestricted Net Position/Average Daily Expenses (GTA)

FY20-21 Outlook: Cautionary, prior year Cautionary

14. Unassigned Fund Balance/Average Daily Expenses (GF)

FY20-21 Outlook: Positive, prior year Positive

15. Cash and Investments/Average Daily Expenses (GF)

FY20-21 Outlook: Positive, prior year Positive

16. Total Liabilities-to-Net Position

FY20-21 Outlook: Critical, prior year Critical

Why it is important: This indicator identifies entities that are over-extended in terms of the percentage of every dollar which is owed to others.

17. Budgetary Non-Compliance

FY20-21 Outlook: Critical, prior year Critical

Why it is important: This indicator will reflect if an entity is not complying with Tennessee budgetary law and/or proper accounting methods. Maintaining accurate, reconciled accounting records and adherence to Tennessee budgetary law is a significant factor in maintaining fiscal stability.

PART 3. FUTURE GOALS

Comprehensive Pay Scale and Staffing Review. A comprehensive review of the City's pay scale and staffing levels is needed. The city should consider these types of reviews on a recurring basis to retain qualified employees and incentivize vertical progression through departments.

Clean Audit (Budgetary Compliance). A goal of the City should be to achieve a "clean" and compliant audit every fiscal year. This should be achieved through cooperation and coordination between the Mayor's Office, Management, and the City's Internal Auditor.

Internal Control Review. The Committee, Internal Auditor, Council, and Mayor's Office will need to continue to work together to review the effectiveness of internal controls for compliance with any laws and regulations.

Internal Audit Plan. The Internal Auditor and Committee will need to develop an annual audit plan for submission to the Mayor's Office and City Council.

Refinement of 5-year Capital Plan. The Committee, Mayor, and Financing Department will need to continue to refine the 5-year Capital Plan and develop systems for the identification of needs and through ongoing asset and infrastructure management.

Address Budget Gaps. The Committee will need to continue to review and advise on present expense growth coupled with revenue shortfalls and assist management with strategizing long-term solutions to budget gaps.

Maintain Budget Calendar. The Committee, Mayor's Office, and Finance Department will need to develop and maintain a budget calendar to increase involvement amongst stakeholders and communicate with the Council during the budgeting cycle.

Increase Stakeholder Involvement in Budget Process. The Committee, Council, and Mayor's office will need to continually improve involvement and engagement in the budget process, in addition to allowing and facilitating public input throughout.