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Local Government Modernization Act of 2005

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Local Government Modernization Act of 2005

Reference Number: CTAS-706

The Local Government Modernization Act of 2005, T.C.A. §§ 9-3-401 through 9-3-407, directs the comptroller of the treasury to determine those local governments that are not in compliance with the accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). Governments not in compliance must submit an implementation work plan to the comptroller. For counties, the county mayor will serve as the primary person with responsibility for the work plan's development and implementation.

Any local government failing to implement GASB standards is subject to penalties and restrictions, including withdrawal of eligibility for economic and community development grants and reduction of bank excise tax and Hall income tax revenues (not to exceed 5 percent of the total amount due in any fiscal year) until the local government is in compliance. If a school system fails to comply, then it will not be eligible for certain state funded education grants as determined by the comptroller and the commissioner of education. If a county highway department fails to comply, then the comptroller and the commissioner of revenue shall determine the amount reduction of monthly state gasoline tax proceeds going to the county. The gasoline tax proceeds reduced will be held in reserve and allocated to the county upon the county becoming compliant as determined by the comptroller.

The comptroller will provide a list of professional firms to any local government not in compliance with GASB standards to assist in the work plan. The local government must provide funds for the cost of this assistance.

The comptroller will review and evaluate the financial management system in those county governments not in compliance with GASB standards. The comptroller will then make a recommendation to the county legislative body on how to improve the system to facilitate compliance. The county legislative body has 90 days from receiving the recommendation to take action on it.

Local governments are encouraged to form an audit committee, and the comptroller may require it for local governments not in compliance with GASB standards, or having recurring findings or material weakness in internal control for three or more consecutive years. T.C.A. § 9-3-405. The audit committee, if created, must establish a process to allow employees, taxpayers, and other citizens to report confidentially any suspected illegal, improper, wasteful or fraudulent activity, and the records of the reports and investigations are declared confidential. T.C.A. § 9-3-406.

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