

CITIES AND TOWNS BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES ISSUED BY STATE BOARD OF ACCOUNTS

MARCH 2019

PAGE 1

REGIONAL TRAINING SCHOOLS

Pursuant to the provisions of Indiana Code 5-11-14, the State Board of Accounts will conduct a series of identical half-day training schools at five (5) locations across the State in April. This particular training will be geared to small towns.

The meeting locations have been selected to provide greater access to officials without the need for overnight accommodations. Each location was selected to be accessible by car in less than two hours. Our goal with this series of meetings is to bring training closer to you at minimal or no cost. There is no registration fee for this training. *Please see the attached memorandum for more information on how to register for this event.*

Please Note: This set of Regional Training Schools is geared toward **SMALL TOWNS** and is focused on accounting and compliance matters common to small towns. Any city or town is welcome to attend the training with this objective in mind. *Seating is limited so please register early.* If your desired location is full and you are unable to attend another location, please let us know so that we can explore other options for you.

JUNE TRAINING SCHOOL

This June Training School will be held at the Grand Wayne Convention Center in Fort Wayne as part of the Indiana League of Municipal Clerks and Treasurers' Annual Conference.

The State Board of Accounts will be conducting two (2) days of training on June 11 and 12, which will be State-called meeting days. Please mark these dates on your calendar. An explanatory letter along with a tentative agenda will be sent prior to the meeting.

TRAVEL EXPENSE

The following sets forth the audit position of the State Board of Accounts with regard to reimbursements made by local governmental units to their officers and employees for travel and meal expenses.

A local unit may reimburse such persons for actual miles traveled in their own motor vehicles on official business of the local unit at a reasonable rate per mile as fixed by an ordinance or resolution of the unit's legislative body. The mileage rate should be fixed by the board or commission having authority to approve claims for travel expenses. No particular mileage rate has been set by the State of Indiana for local units of government and, consequently, the mileage rate lies within the discretion of legislative body, board or commission, unless otherwise provided by statute. The body setting the mileage rate should also determine whether parking fees and toll charges are included in the rate or, on the other hand, whether such expenses are to be reimbursed separately based on the submission of receipts.

Reimbursed mileage should not include travel to and from the officer's or employee's home and regular place of employment. If more than one person rides in the same vehicle, only one mileage reimbursement is allowable. General Form 101 (or an approved substitute) should be used for claiming mileage. The odometer reading columns on this form are to be used only when the distance between points cannot be determined by fixed mileage or official highway maps.

TRAVEL EXPENSE - Continued

When traveling outside the local unit's boundaries on official business, officers and employees may also be reimbursed for meals, lodging, and incidental expenses as defined in the travel policy. The claim for reimbursement should be supported by itemized receipts from hotels, restaurants, and taxi cabs used by the officer or employee while traveling on official business.

It is permissible for the legislative body of the local unit or the board or commission having the authority to approve claims to adopt an ordinance or resolution establishing a reasonable per diem rate intended to cover travel expenses other than hotel and mileage costs and the officer or employee may be reimbursed on the basis of such a per diem rate in lieu of submitting receipts. If a fixed per diem rate is established by policy, the policy should clearly indicate which type of expenses, in addition to meals, are included in the rate and which related expenses are to be reimbursed on the basis of actual receipts being submitted by the officer or employee. The policy should also define the local unit's boundaries for purposes of reimbursing travel; i.e. outside a 50-mile radius of the office, outside of the county, etc. The policy should cover a proportionate reduction in the per diem rate when meals are provided by an outside party.

When state statutes (See the two following articles) govern the amounts of allowable travel reimbursements, those statutes supersede local policy. Also, when determining the reasonableness of a mileage rate or per diem rate, consideration should be given to rates established by the State of Indiana and the Federal government. The local unit should, however, consider the income tax implications of setting its rates higher than the current Federal rates.

In all cases, an officer or employee requesting reimbursement for overnight travel is required to submit a receipt from the hotel or other meeting place where such accommodations were provided.

MEAL EXPENSE ADVANCES

IC 5-11-10-1.6 allows cities and towns to make meal expense advances to city or town employees who will be traveling on official city or town business if the city or town fiscal body has adopted an ordinance allowing the advance payment. The ordinance must specify a maximum amount that may be paid in advance and specify the required invoices and other documentation that must be submitted by city or town employees. The ordinance must provide for reimbursement from the wages of city or town employees if the employees do not submit the required invoices and documentation.

STATE CALLED MEETINGS – TRAVEL EXPENSES

IC 5-11-14-1 allows for city and town officials who attend State-called meetings to be reimbursed for travel expenses from unappropriated funds and provides that a claim for reimbursement of travel expenses incurred while attending a State-called meeting may not be denied by the body responsible for the approval of the claim if the claim complies with IC 5-11-10-1.6 and IC 5-11-14-1.

**POLICE OFFICERS AND FIREFIGHTERS – CLOTHING
AND EQUIPMENT ALLOWANCE**

IC 36-8-4-4 states:

“(a) A city shall provide the active members of the police and fire departments with all uniforms, clothing, arms, and equipment necessary to perform their duties. Except as provided in section 4.5 of this chapter, after one (1) year of regular service in either department, a member may be required by the city to furnish and maintain all of the active member's uniforms, clothing, arms, and equipment upon payment to the member by the city of an annual cash allowance of at least two hundred dollars (\$200). The city may credit the uniform allowance to each member against the active member's purchases during the calendar year and provide for the payment of any cash balance remaining at the end of the calendar year.

(b) All uniforms, clothing, arms, and equipment provided by the city under this section remain the property of the city. The city may sell the property when it becomes unfit for use, and all money received shall be paid into the general fund of the city. Any property lost or destroyed through the carelessness or neglect of an active member shall be charged against the active member and the value deducted from the active member's pay.”

In response to recurring inquiries, the following audit positions have been established.

1. The city shall provide active members of the police and fire department with clothing and equipment. After one year of regular service the city may require the department members to maintain their clothing and equipment by payment of a cash allowance.
2. The cash allowance is “at least two hundred dollars (\$200)”; however, the common council has authority to establish, by ordinance, the amount of clothing allowance payable to each police officer and firefighter.
3. The cash payments shall be made only after service has been rendered.
4. Volunteer firefighters do not qualify for this allowance since IC 36-8-12-5 establishes statutory amounts authorized for clothing and auto allowance. See following article.
5. Town police officers do not qualify for this allowance. See following article.

VOLUNTEER FIREFIGHTERS – CLOTHING AND AUTOMOBILE ALLOWANCES

IC 36-8-12-5 states:

“(a) Unless otherwise provided by contract, a unit served by a volunteer fire department shall pay to each active and participating member of the department:

- (1) a clothing allowance of not less than one hundred dollars (\$100) per year; and
- (2) an automobile allowance of not less than one hundred dollars (\$100) per year for the use of the member's automobile in the line of duty.”

TOWN MARSHALS – CLOTHING AND EQUIPMENT ALLOWANCES

We find no specific statutory reference authorizing a clothing allowance for a town marshal or his/her deputies. However, it appears if the proper action was taken under provisions of the Home Rule statute, such allowances could be provided.

Under Home Rule, IC 36-1-3, a town could provide necessary items of uniforms, clothing, arms, and necessary equipment for the performance of duties for the town marshal and his/her deputies. This can only be made after an appropriation is provided and all such items provided remain the permanent property of the town.

APPROPRIATIONS OF FEDERAL AND STATE FUNDS

When funds are provided by the federal government either directly to a city or town or through a state agency for any program or project, the following procedures should be followed:

Advance Grants. Advance grants should be handled as follows:

1. Where funds are “advanced” directly to a city or town by the federal government for a specific purpose prior to making any disbursements by the city or town, the money should be placed in a separate project fund and disbursements subsequently made from that fund. No appropriation of the federal funds is required.
2. Where federal funds are “advanced” to a city or town through a state agency or department with no state funds added thereto prior to making any distributions, the money should be placed in a separate project fund and subsequent disbursements made from that fund. No appropriation of the federal funds is required.
3. Where federal funds are “advanced” to a city or town by a state agency or department and state funds are included along with the federal funds in one check or voucher and the funds are for a specific purpose, the money should be placed in a separate project fund and disbursements made from that fund. Appropriation(s) must be obtained for the combined total (i.e., federal and state) prior to any disbursement being made from that project fund.

Reimbursement Grants. Reimbursement grants should be handled as follows:

Where a federal or state grant provides for payments to be made directly to a city or town on a “reimbursement” basis after payment of expenses by the city or town, the entire amount of the federal or state reimbursement may be appropriated by the city or town council without using the additional appropriation procedures under IC 6-1.1-18-5, if the funds are provided or designated by the state or the federal government as a reimbursement of expenditures. [IC 6-1.1-18-7.5].

No separate fund for the project or program is required unless the terms of the grant require one.

Matching Grants. Matching Grants should be handled as follows:

When a federal grant or program requires expenditures or “matching” funds to be provided from city or town funds, an appropriation must be obtained for the amount of such expenditures or local matching funds. Individual program requirements will dictate whether the appropriation should be obtained within the applicable city or town fund for expenditures there from or whether an appropriation should be obtained within the applicable city or town fund for a transfer to a required separate fund. This matter should be set out in the terms and conditions entered into between the city or town and officials of the federal agency.

APPROPRIATIONS OF FEDERAL AND STATE FUNDS - Continued

Summary. To summarize, no appropriations of federal funds are necessary:

1. when advanced directly from the federal government for a specific purpose prior to making disbursements, and the money is placed in a separate project fund with disbursements made from that fund; or
2. when federal funds are received in advance through a state agency for a specific purpose prior to making disbursements and the money is placed in a separate project fund with disbursements made from that fund and there is no state match.

Please keep in mind, if a city or town wishes to obtain an appropriation for all funds to be spent (i.e., federal, state, and local), there is certainly no prohibition in state statutes.

DISASTER RELIEF FUNDS – ACCOUNTING AND BUDGETING

Based upon language contained in IC 10-14-3-17(j)(5) which states that a political subdivision may waive procedures and formalities otherwise required by law pertaining to the appropriation and expenditure of public funds where a national disaster or security emergency has been declared, the following procedures should be followed when disaster relief funds are received.

Money received or expected to be received from the Federal Emergency Management Agency (FEMA), the State Emergency Management Agency, or the State Lottery Commission for tornado, flood, ice storm, or other types of declared disasters should be accounted for in the following manner:

1. If the money is to be used to reimburse funds for expenditures already incurred and paid and the conditions of IC 10-14-3-12 have been met, the amount received may be added back to the appropriation balances from which the expenditures have been previously made.
2. If the money is to be used for future expenditures, a separate fund should be set up entitled "Disaster Relief Fund." Such fund would not require appropriation or additional appropriation prior to spending the money in the fund.

It is recommended that all related expenditures records (claims, minutes, correspondence, contracts, damage survey report, etc.) be maintained in a separate file for future audits required by State and Federal agencies.

ADVANCE PAYMENTS OF SALARIES PROHIBITED – EXCEPTIONS

IC 5-7-3-1 states:

“(a) Public officers may not draw or receive their salaries in advance.

(b) This section does not prohibit a payment under IC 36-4-8-9.”

IC 36-4-8-9 states:

“(a) One (1) to three (3) days before the vacation leave period of a city officer or employee begins, the city may pay the officer or employee the amount of compensation the officer or employee will earn while on vacation leave.

(b) Compensation for services paid to a salaried city officer or employee pursuant to a fixed schedule set forth in a written contract or salary ordinance shall not be construed as having been paid in advance. Under such an arrangement, the city shall maintain records to verify that actual work is performed for all salary paid.”

IC 36-5-4-7 states:

“One (1) to three (3) days before the vacation leave period of a town officer or employee begins, the town may pay the officer or employee the amount of compensation the officer or employee will earn while on vacation leave.”

CANCELLATION OR REJECTIONS OF BIDS

IC 5-22-18-2 states that when the purchasing agency determines it is in the best interests of the governmental body:

1. A solicitation may be canceled; or
2. Offers may be rejected; in whole or in part as specified in the solicitation. IC 5-22-7-2 requires this statement to be included in an invitation for bids.

The reason for a cancellation of a solicitation or rejection of offers must be made part of the contract file.

PENALTIES ON UTILITY BILLINGS

Situations sometimes arise where utility customers are charged penalties on late fees. There has been some question as to whether or not late fees in subsequent billings for those customers should include previously assessed penalties.

IC 36-9-23-31, which requires penalties on late fees for sewage utilities, states, in part:

“If fees assessed against real property under this chapter or any statute repealed by IC 19-2-5-30 (repealed September 1, 1981) are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of fees attaches to the delinquent fees.”

PENALTIES ON UTILITY BILLINGS - Continued

We are not aware of provisions in the Indiana Code specifically addressing late fees for water, gas, and electric utilities organized under IC 8-1.5. The amount and manner of charging late fees on such utilities should be set out in the various bond ordinances, rate ordinances, or other ordinances, resolutions or policies adopted by the governing body.

It is our audit position that the 10% penalty specified in IC 36-9-23-31 should be assessed one time and one time only. Subsequent billings should not include additional assessments on this penalty. Similarly, unless specifically directed by statute, ordinance, or other legal directives, penalties on late fees for water, gas, and electric utilities organized under IC 8-1.5 should be charged only one time. Future late charges should not include additional charges added to the penalties on late fees.

The following is an example of a penalty on late fees calculation. Assume that a sewage utility account is billed \$10 each month, but no payment has been received for the January or February billings:

January bill:	
January usage	<u>\$ 10</u>
February bill:	
February usage	\$ 10
plus 10% late fee on January billing	1
plus outstanding amount not yet paid	<u>10</u>
Total February bill	<u>\$ 21</u>
March bill:	
March usage	\$ 10
plus 10% late fee on February billing	1
plus outstanding amount not yet paid	<u>21</u>
Total March bill	<u>\$ 32</u>

Note: We do not recommend assessing an additional ten percent for the unpaid January bill on the March billing since the 10% penalty has been charged in February.

DAILY DEPOSITS – PARK AND RECREATION DEPARTMENTS

IC 36-10-3-22 requires a park and recreation department to deposit monies it receives with the city or town fiscal officer at least once each month. However, it is our audit position that this provision would not relieve a park and recreation department from making daily deposits in a city or town depository selected under IC 5-13-6-1 (d) before turning the monies over to the city or town fiscal officer.

RECORD OF HOURS WORKED

For officers and employees of cities and towns who are employed by more than one (1) public agency or in more than one (1) position by the same public agency, detailed time records are to be maintained for the hours worked for each public agency or each position at the same public agency. (IC 5-11-9-4)

An employee who works for more than one (1) governmental unit should not be paid by more than one (1) governmental unit for the same period of time worked. Such employee should use his/her accumulated leave time from one (1) governmental unit while serving the other governmental unit when there is an overlap in a work schedule. For example, a city police officer, who is also a member of a school board, attends a school board meeting during his/her normal police work shift. The police officer would be expected to use his/her leave time accumulated at the city while attending such meeting.

RECORD OF HOURS WORKED - Continued

In cities and towns where time cards are not used, this requirement can be met by preparing an endorsement on the payroll claim form showing the general work schedule and listing the specific affected employees who worked hours different from the general work schedule. Each elected office or head of each department would be responsible for preparing such endorsement on the payroll claim for their office or department.

Another alternative is to add a statement on each affected Employee's Service Record, General Form 99A and/or Employee's Earning's Record, General Form 99B indicating the specific hours to be worked daily by that employee or official. (Example: 8 a.m. to 4 p.m.) In cities and towns where time cards are used, each elected officer or head of each department should be approving the time cards of each of the employees that they are responsible for.

GROUP HEALTH INSURANCE

Indiana Code 5-10-8-2.6(b) states:

"A public employer may provide programs of group insurance for its employees and retired employees. The public employer may, however, exclude part-time employees and persons who provide services to the unit under contract from any group insurance coverage that the public employer provides to the employer's full-time employees. A public employer may provide programs of group health insurance under this section through one (1) of the following methods:

- (1) By purchasing policies of group insurance.
- (2) By establishing self-insurance programs.
- (3) If the local unit public employer is a school corporation, by electing to provide the coverage through a state employee health plan under section 6.7 of this chapter.

A public employer may provide programs of group insurance other than group health insurance under this section by purchasing policies of group insurance and by establishing self-insurance programs. However, the establishment of a self-insurance program is subject to the approval of the unit's fiscal body."

Indiana Code 5-10-8-1 defines an employee to mean:

- (A) an elected or appointed officer or official, or a full-time employee;
- (B) if the individual is employed by a school corporation, a full-time or part-time employee;
- (C) for a local unit public employer, a full-time or part-time employee or a person who provides personal services to the unit under contract during the contract period; or
- (D) a senior judge appointed under [IC 33-24-3-7](#);

whose services have continued without interruption at least thirty (30) days.

Similar provisions for group insurance for public safety employees, surviving spouses, and dependents can be found in IC 5-10-8-2.2.

RECORD RETENTION

Indiana Code 5-15-6-3 states:

“No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration.”

Indiana Code 26-2-8-111 states in part:

“(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) Accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) Remains accessible for later reference...

(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a).”

More information on record retention is available on the Indiana Archives and Records Administration website at www.in.gov/iara, including retention schedules and electronic records management.

PRIMARY AND ELECTION EXPENSES

ALL CITIES AND ALL TOWNS WITH A POPULATION OF 3,500 AND OVER

The expenses of city or town primaries and elections are paid by the county with each city or town conducting a primary or election being billed for its share of the expenses. Each city and town should include an item under "Other Services and Charges" (Account No. 439.07, Election Expense) in the budget for the election year for the total estimated amount to be paid to the county. The county auditor or clerk of the circuit court can supply information as to the amount to be included for primary and election expenses. IC 3-5-3-8 and IC 3-5-3-9 provide the procedure for the county to allocate primary and election costs to all cities and those towns with populations of 3,500 and over.

The City or Town Attorney and the State Election Board should be consulted for guidance on questions related to city or town elections.

TOWNS UNDER 3,500

The expenses of a town primary and election in a town with less 3,500 population are to be paid directly by the town. It is recommended that the total amount of such expenses be budgeted as one item under "Other Services and Charges" (Account No. 439.07, Election Expense) in the General Fund. [IC 3-10-7-16 and IC 3-10-7-17]

A county election board and a town may enter into a written agreement providing that the county election board will conduct a municipal primary or a municipal election, or both, in the town. A county election board that enters into such agreement shall conduct the municipal election in the same manner as it conducts a general election in a town that has a population of three thousand five hundred (3,500) or more. (IC 3-10-7-4)

The Town Attorney and the State Election Board should be consulted for guidance on any questions related to town elections.



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MEMORANDUM

TO: All City and Town Clerk-Treasurers, City Clerks and City Controllers
DATE: February 28, 2019
SUBJECT: Upcoming State Called Meeting

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This training opportunity is geared toward towns with a population of less than 1,000. However, any city or town is welcome to attend the training with the understanding that topics will be focused for small towns.

Pursuant to the provisions of Indiana Code 5-11-14, the State Board of Accounts will conduct a series of identical **half-day** training schools at **five locations** across the state in April. Our goal with this series of meetings is to bring training closer to you at minimal or no cost.

Topics: The training offered at this series of meetings will be geared toward accounting and compliance topics for small towns, including bank reconciliation, transaction recording, internal controls over receipting, disbursing, and financial reporting, fund sources and uses, capital assets, and the monthly upload process.

Registration: Please register on our website at www.in.gov/sboa by selecting Political Subdivisions > Towns (or Cities) > Hot Topics > Pre-Registration for State-Called Meeting.

Cost: There is no registration fee for this training.

Meeting Time: Each training location will begin at 8:30 a.m. local time and end at 12:00 p.m.

Locations: The meeting dates and locations are as follows:

April 1, 2019
Pulaski Co. Highway Garage
1131 N. US 35
Winamac, IN 46996

April 3, 2019
Huntington City-Twp Public Library
225 W. Park Drive
Huntington, IN 46750

April 9, 2019
Eaton Hall – Brownsburg
61 N. Green Street
Brownsburg, IN 46112

April 10, 2019
Washington Eastside Park Comm. Bldg.
501 Burkhart Drive
Washington, IN 47501(gps = eastside park)

April 11, 2019
Greensburg City Hall
314 W. Washington Street
Greensburg, IN 47240

Upcoming State Called Meeting
February 28, 2019
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Location Setting: Each location has different amenities – some will have tables and chairs, others will have auditorium-type seating with a lap desk, etc. When deciding on what to bring with you, please be mindful that your location may not have the traditional table and chair as workspace.

Special Accommodations: If you need special accommodations, please email cities.towns@sboa.in.gov.

Refreshments: In order to keep costs minimal or nonexistent, refreshments will *not* be provided by the SBOA. Please plan accordingly. If you bring your own refreshments, please note that kitchen facilities are not available. Some locations may not permit food or drink inside the meeting space. If you bring a food or drink, we would recommend packing it in a type of cooler can leave in your car and retrieve during the break.

Statutory Provisions: As provided in Indiana Code 5-11-14-1, “the elected official, at the direction of the State Examiner, may require the attendance of:

1. each of his appointed and acting chief deputies or chief assistants: and
2. if the number of deputies or assistants employed:
 - A. does not exceed three (3), one (1) of his appointed and acting deputies or assistants; or
 - B. exceeds three (3), two (2) of his duly appointed acting deputies and assistants.”

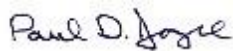
Each official, deputy, or assistant attending the conference shall be allowed mileage at a rate per mile set by your city or town council for each mile necessarily traveled in going to and returning from the training. Only one (1) mileage shall be allowed to the official, deputy, or assistant furnishing the conveyance, although they may be transporting more than one (1) person.

Reimbursement for meals purchased while attending the training in an amount determined by the city or town council through an approved travel policy is also authorized.

The State Board of Accounts will certify attendance for the school to each official, deputy, deputies or assistants attending. All payments of mileage and meals purchased shall be made by the proper disbursing officer in the manner provided by law on a duly verified claim or voucher to which shall be attached the Certificate of the State Board of Accounts. All payments shall be made from the general fund from any money not otherwise appropriated and without any previous appropriation being made therefore.

You are cordially requested to attend the training which has been called in an effort to assist you in properly discharging the duties and responsibilities of your office.

Sincerely,



Paul D. Joyce, CPA
State Examiner

TEC/csc



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STATE EXAMINER DIRECTIVE 2018-2

Date: December 20, 2018

Subject: Motor Vehicle Highway Account

Authority: IC 5-11-1-2, -9, -10, -21, -24; IC 8-17-4.1-2, -3, -4, -6

Application: This Directive applies to all local governmental units that receive distributions from the Motor Vehicle Highway Account

From: Paul D. Joyce, CPA, State Examiner

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

Counties

Fund 1176	MVH
Fund 1173	MVH Restricted

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report and Annual Operational Report.

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to

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MVH. *In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.*

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation.


Qualified expenditures will then be entered accordingly to MVH and MVH Restricted:

MVH: Permissible uses of the State Motor Vehicle Highway (MVH) Account distributions are outlined in Indiana Code 8-14-1-4 for counties and in Indiana Code 8-14-1-5 for cities and towns.

MVH Restricted: Effective July 1, 2018, Indiana Code 8-14-1-4(b) and Indiana Code 8-14-1-5(c) requires at least 50% of the MVH distributions to be used for construction, reconstruction and preservation of the unit's highways. (Maintenance expenditures no longer count toward the 50% requirement.)

Accounting for distributions from the State Motor Vehicle Highway Account in MVH and MVH Restricted will promote the transparency and accountability of public funds. This will also assist counties and municipalities with more than 15,000 residents in completing and filing the Annual Operational Report required under Indiana Code 8-17-4.1.

This Directive may be amended from time to time and may be rescinded at any time in writing by the State Examiner or a Deputy State Examiner.


Paul D. Joyce, CPA
State Examiner

Indiana State Board of Accounts

MVH and MVH Restricted sub-fund Information

December, 2018

The following are definitions and examples as provided in the 2018 Annual Highway Operational Report for items related to MVH and specifically the MVH Restricted sub-fund. These were developed to bring professionally based standardized application to the statutory definitions provided under IC 8-14-1-1(4) through IC 8-14-1-1(7) and were compiled by a committee chaired by the Local Technical Assistance Program at Purdue University (LTAP). It is these definitions that the Indiana State Board of Accounts will consider when determining compliance with the MVH Restricted sub-fund. Items identified under the heading of Construction, Reconstruction, and Preservation would be considered in compliance with expenditures allocated to the MVH Restricted sub-fund. Expenditure items identified under either the heading of Maintenance and Repair or General Administration and Unallocated would not be considered in compliance if allocated to the MVH Restricted sub-fund expenditures.

Construction, Reconstruction, and Preservation (CRP)

CRP activities are defined as expenses for work performed by internal forces or outside contractors that result in a new or improved roadway - paved or unpaved, including capacity enhancements. Activities result in the structural improvement of a roadway improving its ability to support vehicle traffic. Costs include personnel, material, and equipment expenses.

Preservation:

Defined as actions or strategies applied to existing infrastructure that prevent, delay or reduce further deterioration and maintain or improve the functional condition of the system without increasing structural capacity and extend the service life of the infrastructure. Preservation activities are intended to correct infrastructure problems before the structural integrity is impacted.

Preservation is a broad category of treatments that include activities such as thin overlays or micro surfacing. Nonstructural preservation treatments are usually less than 2 inches in depth and are designed to address age-related problems (such as block cracking) or distress caused by exposure to the elements (such as transverse cracking). Crack sealing and patching of pavement and deck patching for bridges would be included in this category. Costs include materials, personnel, contracted services and equipment rental/operation expenses.

Within preservation, costs can be defined more specifically to their associated categories:

Pavement: Costs associated with activities that retain or extend the current roadway condition. Includes treatments to curbs, gutters, and paved shoulders and alleys. Pavement preservation is a broad category of treatments that include nonstructural treatments that are usually less than 2 inches in depth and are designed to address age-related problems (such as block cracking) or distress caused by exposure to the elements (such as transverse cracking). Some examples of such treatments are thin overlays, wedge and leveling, mill and overlays, chip seals, fog seals, scrub seals, slurry seals, microsurfacing, and crack sealing. Activities such as grinding, grading unpaved sections, line striping, raised pavement markers, and similar activities are also considered pavement preservation.

Bridges: Costs associated with activities that preserve a bridge and its approaches. Activities include: deck patching, sealing, painting, repairing and maintaining bearing assemblies and joints, clearing brush and debris accumulations at piers, deck overlays, scour repair, substructure repair, repairing approach slabs and guardrails, and repairing bridge railings. Work on culverts,

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pipes, and other small drainage structures underneath roads and streets are included in this category.

Right of Way: Costs associated with activities that occur in the area between pavement (including paved shoulders) and right-of-way boundaries. This would include, but not be limited to, preservation, replacement and repair of standard MUTCD signs, traffic signals, barriers, guardrails, sidewalks and ramps, unpaved shoulders (e.g. berming), vegetation control for infrastructure preservation purposes only, and inspection of roadside assets for the purpose of asset management planning. It would also include work performed on drainage assets such as ditches, pipes, catch basins, underdrains and their outlets, etc.

Maintenance and Repair (these are not considered CRP)

Disbursements associated with the routine maintenance and repair of paved and unpaved roads, streets, bridges and highways. Maintenance & Repair disbursements retain the asset above a certain condition level established by a unit and encompasses work that is performed in reaction to an event, season, or activities that are done for short-term operational need that do not have preservation value. Costs include materials, personnel, and equipment rental/operation expenses.

Within maintenance, costs can be defined more specifically to their associated categories. Of special interest is **snow plowing** and related costs (salt, sand, etc.) are "winter operations" and are considered a maintenance activity:

Winter Operations: Costs associated prior to, during, and following winter events, such as planning, material purchases, and management, equipment preparation and usage, and human resources. Also includes the use of external resources and services contracted in winter operations.

Pavement: Pavement maintenance includes activities such as graffiti removal, cleaning, pothole filling and patching, event cleanup, repairs due to vehicular accidents or storm damage to roadways.

Bridges: Bridge maintenance includes activities such as graffiti removal, deck cleaning, repairs due to vehicular accidents, or storm damage to bridges.

Right of Way Operations: Costs associated with routine activities that occur in the area between pavement (including paved shoulders) and right-of-way boundaries. This would include, but not be limited to, maintenance and repair of signs damaged from accidents, grass cutting, tree trimming, litter control (including dead animal removal), and inspection of resident complaints.

General Administration and Unallocated (these are not considered CRP)

Costs of an administrative nature and not allocated to any specific road or bridge project. These expenses, referred to as overhead, includes supervisory and support staff personal services, supplies and equipment, general office expenses (rent, printing, utilities, insurance, etc.), facility expenses (repairs, maintenance, insurance), and vehicle expenses. Other type of general expenses would include utilities for traffic signals and street lights, capital outlays (acquisition of land, buildings, and improvements other than buildings, including the acquisition of equipment) and annual pavement and bridge inspections. In the subcategory "Other Services and Charges", disbursements would include incidental expenses not associated with roads or bridges but performed by agency forces, such as mowing grass in a county or city park, or snow and ice removal at a government facility.



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MEMORANDUM

TO: City and Town Clerk-Treasurers, City Controllers, County Auditors,
County Commissioners, Highway Department Supervisors

FROM: Debbie Gibson, CPA, CFE
Director of Audit Services

RE: Frequently Asked Questions Regarding State Examiner Directive 2018-2

DATE: December 20, 2018

The following are frequently asked questions regarding State Examiner Directive 2018-2. The directive provides for a MVH sub-fund to facilitate the accounting of MVH distributions that are restricted to the construction, reconstruction and preservation of highways as required under IC 8-14-1-4 and IC 8-14-1-5.

1. Can we establish a beginning balance for MVH Restricted?

The political subdivision may, by ordinance or resolution, establish a January 1, 2019 beginning balance for MVH Restricted. The amount may be any portion up to and including 100% of the MVH ending balance at December 31, 2018. A book entry reflecting the MVH Restricted January 1, 2019 beginning balance and a corresponding reduction of the January 1, 2019 beginning balance for MVH should be posted. The January 1, 2019 beginning balances for MVH and MVH Restricted should equal the December 31, 2018 ending balance for MVH.

The amount established for the MVH Restricted may not be transferred back to MVH at a later time. Instead, it must be expended for construction, reconstruction, or preservation through the MVH Restricted.

2. Does all of the MVH money received each year have to be spent in that same year?

No. Statute does not provide that MVH money received must be expended in the same year of receipt, and there is no statutory penalty if the MVH money is not spent in the year received.

Balances remaining in MVH or in MVH Restricted at year end do not revert to another fund or to the State but remain in MVH and MVH Restricted respectively.

3. If we do not meet the 50% requirement, what are the implications?

SBoA will not be issuing public report comments regarding the 50% requirement for activity occurring in 2018. However, the establishment of MVH Restricted for 2019 allows for clear accountability that at least 50% of MVH distributions from the State have been restricted for construction, reconstruction and preservation use. Noncompliance of either creation of the sub-fund or receipting of at least 50% of MVH distributions will result in a public report comment.

4. Are there any fund usage preference requirements to be aware of in administering MVH funds?

Indiana Code 8-18-8-5 requires **counties** to first exhaust MVH funds to maintain county highways before using other revenue sources for those purposes. It is our audit position that money in MVH should first be exhausted on purposes specified in Indiana Code 8-14-1-4(a), as applicable, before other revenue sources may be used.

However, it is unclear how Indiana Code 8-18-8-5 applies to MVH Restricted since Indiana Code 8-18-8-5 explicitly references "maintenance." Clarification is being requested from the legislature as to their specific intent in the context of MVH and MVH Restricted.

5. Do we need an ordinance to create the MVH Restricted sub-fund?

No. An ordinance is not required because a "fund" is not being created. Even though it will be shown separately on your ledgers, the Directive requires the creation of a sub-fund of the already existing MVH fund. The creation of the sub-fund is part of the accounting system prescribed by the State Board of Accounts.

If you have any questions regarding this memorandum or State Examiner Directive 2018-2 please call 317-232-2512 or contact:

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