



Paul D. Joyce, CPA
State Examiner

SPECIAL DISTRICTS BULLETIN

ISSUED BY THE STATE BOARD OF ACCOUNTS

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STATE BOARD OF ACCOUNT CONTACT INFORMATION

SBOA Homepage: www.in.gov/sboa

(for information specific to Special Districts, select Political Subdivisions and then select Special Districts)

Government Technical Assistance & Compliance (GTAC) Directors:

Beth Goss and Mitch Wilson

Email Address: SpecialDistricts@sboa.in.gov – *NOTE: if you are emailing questions, please send them to this email address and not our individual work emails.*

Phone Number: (317)232-2513

Gateway Help Desk: gateway@sboa.in.gov or AnnualReports@sboa.in.gov
(either email address will take you to the helpdesk)

SBOA Communications: communications@sboa.in.gov

2025 Indiana General Assembly – link for Indiana Code search:

<https://iga.in.gov/laws/2025/ic/titles/1>

UPCOMING TRAINING

October 7th we will present a webinar to Conservancy Districts. We will provide an overview of our agency's role and resources available to conservancy districts.

In addition, on December 1st we will present at the Bi-annual Financial Training for Soil & Water Conservancy Districts.

COOPERATIVE - SOURCEWELL

Periodically, we receive questions from units of government wanting to utilize the out-of-state Purchasing Cooperative Soursell to make large purchases such as assets without having to advertise for bids. A political subdivision may only avoid standard procurement procedures and rely on another entity's purchase price if the original entity's procurement was fully compliant with the requirements of Indiana Code, in this case Indiana Code 5-22. In general, any cooperative used by an Indiana political

subdivision must comply with Indiana purchasing statutes or public works laws, and we always recommend the local units obtain the written opinion of their attorney. Sourcewell (formerly NJPA) was established under the laws of the State of Minnesota and the SBOA is not aware of any provisions in Minnesota law for a cooperative taking bids for equipment and supplies. Sourcewell's website notes that their members are able to utilize the cooperative purchasing laws "in their respective jurisdiction." [<https://www.sourcewell-mn.gov/compliance-legal>]

Therefore, SBOA would recommend a local unit of Indiana government obtain the written legal opinion of an attorney stating that using a cooperative such as Sourcewell would be in compliance with all Indiana laws. If purchases and/or lease agreements through Sourcewell were identified during an audit of a local governmental unit, we would take an attorney's written legal opinion into consideration. If items were purchased from an out-of-state cooperative without the support of a written legal opinion, SBOA may take audit exception in the form of a written comment/finding in our Audit Report.

Some of the statutes cited by Sourcewell to support Indiana political subdivision purchases are IC 5-22-10-5, IC 5-22-10-12, and IC 5-22-10-14, special purchasing laws. If justifying a purchase from Sourcewell or other cooperative as a special purchase, political subdivisions should ensure they comply with Indiana Code, including (but not limited to) retaining documentation supporting the special purchase. IC 5-22-10 *et seq.* For instance, Sourcewell cites IC 5-22-10-5 as providing a special purchase can be made "when there exists a unique opportunity to obtain supplies or services at a substantial savings". Because some of the terms in this statute, namely "unique opportunity" and "substantial", are not defined, our position is when an Indiana governmental unit is obtaining supplies using IC 5-22-10-5 as the authority, they should obtain a written legal opinion from their attorney that the purchase complies with this statute. SBOA would take the opinion into consideration during an audit.

Regarding IC 5-22-10-12, this statute provides when the market structure is based on price, a local unit of government can make a purchase when they are able to receive a dollar or percentage discount "of the established price". In the case of a bid and price offered by Sourcewell, we are unclear as to what the discount of the "established price" would be. Is the bid price the "established price"? Is there a discount off of the bid price? Is the bid price considered the discount – if so, what would the established price be? Our audit position is when an Indiana governmental unit is obtaining supplies using IC 5-22-10-12 as the authority, they should obtain a written legal opinion from their attorney that the purchase complies with this statute. SBOA would take a written legal opinion into consideration during an audit.

Regarding IC 5-22-10-14, this statute provides the purchasing agent may make a purchase when they determine, in writing, that the supplies can be purchased at prices equal to or less than prices stipulated in current federal supply service schedules established by the federal General Services Admin and it's advantageous to the government body's interest in efficiency and economy. Because the purchasing agent at the local government has to make a written determination the prices are equal to or less than federal supply service schedules and that it's to their advantage because of "efficiency and economy", we would take the written legal opinion of any attorney that making a purchase under this statute would comply with Indiana's laws.

BONDS - REGISTERED

IC 5-1-15 authorizes entities to issue "bonds, notes, evidences of indebtedness, or other written obligations" in fully registered or book entry form.

A question frequently comes up as to whether a depository issuing debt needs to be an approved depository. IC 5-1-15 authorizes political subdivisions to issues "bonds, notes, evidence of indebtedness, or other written obligations" in fully registered or book entry form. Then IC 5-1-15-4 states "The entity

may employ any bank or trust company as paying agent or registrar, co-registrar, or depository institution. The bank or trust company need not be a depository bank under [IC 5-13](#), and need not be located within the state of Indiana.

Regardless of any other legal provisions, registrars, registration books, and transfer records related to bonds, notes, debt instruments, or other written financial obligations of any entity are not considered public records. These documents are intended solely for use by the entity itself, as well as any trustee, fiduciary, paying agent, registrar, co-registrar, or transfer agent involved. If a bank's trust department holds such records, it must not disclose them to the bank's bond or commercial departments, nor to any of its subsidiaries or those of its parent corporation. (IC 5-1-15-5)

In an effort to facilitate accounting procedures, the State Board of Accounts has issued the following instructions:

1. If a bank, trust company, or other financial institution has been employed as a paying agent or registrar, a properly certified listing of bondholders from the paying agent or registrar shall serve as a mailing list for the fiscal officer. There is no requirement for each individual bondholder to file a claim.
2. The mailing of the funds for bonds and coupons coming due must be mailed in such a manner to ensure receipt by the bondholder by the due date specific. Personnel of financial institutions state they usually make such mailing by first class mail one to three business days in advance of the due date. They do not mail by certified or registered mail due to costs involved. We suggest you review this with your attorney.
3. Since the paying agency or the registrar shall keep a register of ownership of bonds and all bonds and coupons shall be paid when becoming due, we see no reason for the political subdivision to duplicate those same records maintained by the paying agent or registrar by keeping a bond register. There should be no unpaid outstanding matured bonds or coupons.
4. In all instances when employing a bank, trust company, or other financial institutions, be sure to protect the political subdivision from any liability arising due to any possible errors relating to names and addresses of current bondholders. This protection may be obtained by the financial institution furnishing a bond or insurance in favor of the political subdivision.

As stated previously, please consult your attorney with questions regarding procedures for registered bonds.

CVET AND FIT DISTRIBUTIONS

Recent legislative changes allow a taxing unit to deposit distributions of Financial Institutions Tax (FIT) and Commercial Vehicle Excise Tax (CVET) in "any fund maintained by the taxing unit," and the distributions may be used for any purpose allowed by law. [IC 6-5.5-8-2(c); IC 6-6-5.5-20(h)]. While this broad language benefits taxing units by allowing them to receipt the funds where they will be most effectual, if a unit does not take steps to ensure the distribution is adequately tracked, critical audit findings may result.

During audit, it is imperative that SBOA be able to identify into which fund the distributions are receipted. Therefore, if a unit receipts FIT and CVET distributions into any fund other than the General Fund, the legislative body of the unit must identify into which fund the distributions will be receipted. The fund identification must be made prior to the distribution and may be done through ordinance, resolution, or vote (memorialized in meeting minutes). If the distributions are receipted into the General Fund, the unit need not adopt an ordinance, resolution, or vote.

ENGAGEMENT COSTS

As economic conditions fluctuate and budgets tighten, political subdivisions face growing pressure to manage costs with precision and plan audits more strategically. This article takes a closer look at how the Statement of Engagement Costs can serve as a vital tool for forecasting expenses for future audit costs.

Rates

If necessary, our rates are amended annually and submitted to the audit committee for review to ensure the cost of performing an audit does not exceed an amount equal to eighty percent (80%) of the market rate cost. Our rates are not changing for the upcoming fiscal year and can be found on our website: <https://www.in.gov/sboa/about-us/our-rates/>.

Statement of Engagement Costs

At the end of an audit engagement, the State Board of Accounts sends a Statement of Engagement Costs to each political subdivision, including the County. This statement details a summary of the engagement, including the number of days spent on the audit, the daily/hourly rate, and any report processing fees. This statement is not an invoice that is to be paid by the entities.

The process for the county to pay the examination fees is outlined in statute:

“The state examiner shall certify to the auditor of each county the amount chargeable to each taxing unit within the county for the expense of its examinations as provided in this chapter. Immediately upon receipt of the certified statement, the county auditor shall issue a warrant on the county treasurer payable to the treasurer of state out of the general fund of the county for the amount stated in the certificate. The county auditor shall reimburse the county general fund, except for the expense of examination and investigation of county offices, out of the money due the taxing units at the next semiannual settlement of the collection of taxes.”

[IC 5-11-4-3(b)].

The statute does not specifically restrict the use of any of the funds taken from settlement and a distribution is not viewed the same as a disbursement from the fund so we will not take exception to taking a distribution from a fund other than general. We do however recommend avoiding taking from the debt funds without discussing with the unit first as these funds are levied for the exact amount needed to cover a political subdivisions debt.

If the county knows or reasonably believes that it does not have on hand or will not have collected enough taxes by the next distribution date for a taxing unit included on the examination of records billing, the county auditor will send the certified statement to the taxing unit for payment of costs. The taxing unit should contact the State Board of Accounts to arrange for payment of examination costs directly to the State Board of Accounts. The cost must be paid prior to the next audit. If the audit costs due to the State Board of Accounts are not paid prior to the next audit, the independence of the State Board of Accounts is impaired and future audits are delayed.

When the taxing unit is required to pay audit costs directly, these costs may be allowed to be paid from funds other than General fund. For example, Rainy Day funds could be used if your Rainy Day

Ordinance allows for the payment of audit costs. Payment of audit costs does not require an appropriation per IC 5-11-4-4, which states:

“All disbursing officers be and they are hereby authorized to make all disbursements or payments required to be made under the provisions of this chapter without any appropriation being made therefor.”

Planning for Future Audits

For political subdivisions, planning for audit costs is a strategic exercise that ensures transparency, compliance, and fiscal responsibility. Whether preparing for a routine financial audit or a more complex single audit of federal programs, understanding the drivers of audit costs can help entities plan effectively and avoid surprises.

There are a number of key factors to consider when planning for audit costs:

- **Amount of federal assistance disbursed during the audit period** - If you have expended \$1,000,000 or more of federal awards (whether the award is direct or passed through another entity) in a year, the taxing unit is required to have a single audit conducted in accordance with the Federal Office of Management and Budget's Uniform Guidance. Single audits require an annual audit. If your unit does not need a Single Audit, there may be a longer time between your examinations.
 - **Tip** – Review your Schedule of Expenditures of Federal Awards (SEFA) to identify the amount of federal assistance disbursed over the threshold.
 - **Tip**– If you will not need a single audit, the anticipated audit costs will be less than audit costs for a year that needs a single audit.
 - **Tip** – Review the grant agreement for any large federal grant to determine whether grant funds may be used to pay a portion of the audit costs.
- **Number of years in the audit period** - Multi-year audits or audits covering extended periods require an increased number of audit days and staff hours needed for the engagement.
 - **Tip** – During the entrance conference, confirm the number of years the audit period covers.
- **Prior period audit costs** – Past audit costs offer a benchmark for estimating future costs. The prior Statements of Engagement Costs outline the number of years included in the audit, hourly rates, number of days, and fees which calculate the total cost.
 - **Tip** - Review prior statements of engagement costs to form a baseline for future engagement costs. Current rates and fees are included on our website: <https://www.in.gov/sboa/about-us/our-rates/>.
- **Entrance and exit conference documentation** – Field examiners are required to provide estimates of audit costs at the entrance and exit conference of each engagement. These forms give insight into the estimated time spent on the audit.
 - **Tip** - Use entrance and exit forms to calculate an estimated total cost of the audit. Multiply the number of hours spent by the current daily rate to estimate future costs, plus fees for processing and technology costs. If a federal audit is performed, you will also have to add the number of federal programs audited: multiply the number of hours for each federal program by the full direct cost rate.

- **Complexity and Readiness of Financial Records** – Well-organized records reduce audit time; disorganized or incomplete records increase it. The more issues and difficulty encountered during the audit increase the length of the engagement.
 - **Tip** - Invest in pre-audit preparation. Clean books and reconciled accounts can reduce audit hours and overall cost.
- **Prior period comments and follow-up** - Prior period audit comments can significantly impact future audit costs, especially if issues remain unresolved. These comments often lead to follow-up, the possibility of expanded testing, and increased documentation requirements, all of which increase audit time and costs. Addressing them proactively not only demonstrates a commitment to financial integrity but also reduces the risk profile of the engagement.
 - **Tip** – Prior period comments should be reviewed prior to the next audit and corrected. Clear documentation of corrective actions can streamline the audit process and help control costs.

Planning for audit costs isn't just about numbers—it's about understanding your entity's financial landscape and anticipating changes. By analyzing federal assistance, audit history, and examiner documentation, a political subdivision can plan ahead for realistic audit costs. Please reach out to the Directors if you want additional guidance on planning for audit costs.

DEDICATED FUND TRANSFERS TO RAINY DAY FUND

The term “dedicated fund” has been used throughout the state, and the officials have asked for a meaning of that term as it relates to Rainy Day transfers. Our audit position is as follows:

Dedicated funds are a generic term not defined in statute but is generally construed to mean a fund set aside for a specific purpose. For purposes of transferring to the Rainy Day fund, we are limiting our position to those dedicated funds that result from statutory authority but do not include home rule funds or clearing accounts. Debt service funds are already specifically prohibited from transfer in the Rainy Day statute and so are not considered here either.

In order to determine whether or not monies in a fund may be transferred to the Rainy Day fund, an analysis would need to be made of the authority creating the fund in light of IC 36-1-8-5.1. It would be up to the political subdivision to show SBOA how money transferred to the Rainy Day fund met the criteria for transfer. However, we can provide general guidance based on our position.

Tax levy and LOIT funds have different criteria than other statutorily created funds in regard to transferring to the Rainy Day fund. The key words to tax levy and LOIT funds are whenever the purposes of a tax levy have been fulfilled and unencumbered balance remains in the fund and unless a statute provides that it be transferred otherwise. In general, it will be up to the unit of government to define when the purposes have been fulfilled. There are certain funds that are raised by levy that have very specific language that the balance may not be transferred, such as the assessment fund. For those funds, we would take exception if there were a transfer to Rainy Day fund. Also, for some cumulative funds such as those found under IC 6-1.1-41-1, balances in these funds may only be transferred to the General fund per IC 6-1.1-41-15 and again we would take exception if they were transferred to the Rainy Day fund.

For other funds, the statute allows for the transfer to Rainy Day fund if the funding source is specified in the ordinance or resolution and the transfer is not otherwise prohibited by law. It is our general position that if the statute provides definitive restrictive language on the use of the funds or that

the balance is not to be transferred, whether Rainy Day fund is specifically included or not, that the monies are not to be transferred to Rainy Day fund. Where there is not such restrictive language or prohibition of transfer, we will consider the unit attorney's written opinion as to why the other fund would not fall under the category of prohibited and so be transferred.

DEFERRED COMPENSATION PLANS – PUBLIC EMPLOYEES RETIREMENT FUND

IC 5-10-1.1-1 allows political subdivisions to contribute amounts before January 1, 1995 and continue or begin to contribute amounts after January 1, 1995, to a nonqualified deferred compensation plan on behalf of eligible employees, subject to any limits and provisions under section 457 of the Internal Revenue Code. IC 5-10-1.1-7 allows political subdivisions to offer to their employees both the state deferred compensation plan and another deferred compensation plan that uses private vendors.

IC 5-10.2-2-1 further provides that it does not prohibit a political subdivision from establishing and providing before January 1, 1995 and continuing to provide after January 1, 1995, retirement, disability, and survivor benefits to the employees of the political subdivision if the political subdivision took action before January 1, 1995, and was not a member of the Public Employees' Retirement Fund (PERF) on January 1, 1995.

A political subdivision has no authority to establish a local pension plan by ordinance, resolution, or contract after January 1, 1995, without specific statutory authority. PERF, deferred compensation plans, police and fire pension plans, and utility employee pension plans are all authorized by statute.

PUBLIC WORK PROJECTS LAW – OVERVIEW

Whenever the cost of a public work project is estimated to be:

1. Less than \$50,000 then IC 36-1-12-5 applies (link: <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-5>)
2. At least \$50,000 and less than \$300,000 then IC 36-1-12-4.7 applies (link: <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-4.7>)
3. At least \$300,000 then IC 36-1-12-4 applies (link: <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-4>).

A bond or certified check *shall* be filed with each bid by a bidder in amount determined and specified by the board if the cost of the public work is estimated to be more than \$200,000. A bond or certified check *may* be filed with each bid by a bidder in an amount determined and specified by the board if the cost of the public work is not more than \$200,000.

The amount may not be more than 10% of the contract price. The bond or certified check shall be made payable to the political subdivision. All checks of unsuccessful bidders shall be returned to them by the board upon selection of successful bidders. Checks of successful bidders shall be held until delivery of the performance bond. (IC 36-1-12-4.5 - <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-4.5>)

In all projects which are under the threshold mentioned in 1. And 2. above, the board shall invite quotes from at least three persons known to deal in the class of work proposed to be done by mailing a notice that plans are specifications are on file in a specified office. The notice must be mailed not less than seven days before the time fixed for receiving quotes. (IC 36-1-12-4.7 (b)(1)- <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-4.7> and IC 36-1-12-5 (b)(1) - <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12-5>)

For all statutory provisions related to Public Works, please see IC 36-1-12 (link: <https://iga.in.gov/laws/2025/ic/titles/36#36-1-12>).