

LIBRARY BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES ISSUED BY STATE BOARD OF ACCOUNTS

March 2022

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SPRING LIBRARY WORKSHOP

This year's Spring Library Workshop hosted by the Indiana State Library will be on May 24. Please mark this date on your calendar. We look forward to joining you at this event.

GOVERNMENT TECHNICAL ASSISTANCE AND COMPLIANCE DIRECTORS

We are renaming the Directors' division of the State Board of Accounts so that our title provides more clarity on the functions we perform and services we provide. For the last few years, the title of each director has been "Director of Audit Services" and our new title is "Government Technical Assistance and Compliance Directors". Our responsibilities are not changing as we will continue to strive to provide the most beneficial training and technical assistance possible to each governmental unit.

SBOA RESOURCE LIBRARY

The State Board of Accounts (SBOA) is pleased to present an online resource library for our clients and the citizens of Indiana. We have received many requests in the past to provide the information available on our website in a searchable format. The following information can now be searched in the resource library.

- SBOA Uniform Compliance Guidelines (including previously issued bulletin articles)
- State Examiner Directives
- Best Practice Documents
- Indiana Code Section Summaries
- Frequently Asked Questions
- Other Miscellaneous Materials

SBOA Resource Library Home Page: <https://www.in.gov/sboa/library/>

We highly recommend you review the short tutorial video linked below. This video addresses how to navigate the resource library and what information is included in the library. If you have questions for SBOA, we recommend first to search through the library before contacting SBOA personnel.

SBOA RESOURCE LIBRARY (continued)

SBOA Resource Library Tutorial: <https://www.youtube.com/watch?v=bf82lq6pQZk>

If you have any questions about how to use this library or would like additional information on a topic you were unable to find, you can contact us at libraries@sboa.in.gov

DISASTER RECOVERY AND BACKUPS

A disaster recovery is a written plan that contains detailed instructions on how the library will respond to incidents such as a natural disaster, cyber-attack, or other disrupting events. The plan will allow for continuity of service despite these events. This includes access to data as well as access to critical documents and resources. One of the key components for protecting data is adequate backup of the data.

A disaster recovery plan should include procedures for backing up financial data frequently, if not daily, and for storing those backups in a separate and secure location. Backups that are saved on the same server as the financial software will most likely be affected by the same malware as the main data, leaving the backup useless. Storing the backup in a secure location not connected to the main server is the safest option. The plan should also include procedures to test this data regularly to ensure that the backup system is working. Storage of back-ups may be on an isolated server, in the cloud or on a server maintained by your software vendor. Being able to quickly restore access to the financial and other data of the library will greatly aid the library's ability to continue to provide service. In addition, by statute, all transactions that occur in the accounting system must be recorded and accessible upon request whether for audit or a public records request.

Governmental entities also should keep their anti-virus software up-to-date and apply security patches in a timely manner. Additional training for staff in recognizing and avoiding malware would also be beneficial in avoiding a disruption to service from a cyber-attack. The Indiana State Office of Technology has a website with a wealth of information available on cyber security and can be a great resource. The website can be found at www.in.gov/cybersecurity/

CASH CHANGE FUND

IC 36-1-8-2 states:

“(a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body, without need for appropriation to be made for it.

(b) The officer and employee who establishes a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as is required for other funds of the political subdivision. (c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change of the custodian of the fund or if the fund is no longer needed.”

A claim should be filed by the officer or employee designated by the fiscal body. The claim should contain a statement regarding the necessity for such fund together with the statutory reference (IC 36-1-8-2) authorizing its establishment. We do caution officials the amount advanced should not be greater than seems reasonably needed by the officer or employee.

PETTY CASH FUND

IC 36-1-8-3 states:

“(a) The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by Section 2 of this chapter.

(b) The custodian of a petty cash fund shall use it to pay small or emergency items of operating expense. A receipt shall be taken for each expenditure made from the fund.

(c) The custodian of a petty cash fund shall periodically file a voucher, with all original receipts totaling the cash claimed expended being attached to it, so that the fund can be reimbursed for expenditures from it. Reimbursements must be approved and made in the same manner as is required for other expenditures of the political subdivision.”

A claim for expenditures must be prepared and filed for reimbursement to the petty cash fund. Such reimbursement shall be approved, allowed and paid in the same manner as other claims. If desired, for safeguarding funds and providing proper records, the petty cash fund may be maintained and accounted for through a separate bank account under jurisdiction of the responsible officer or employee with bank issued check forms used for all payments from the account. If this method is desired, it should have prior approval by ordinance of the fiscal body of the political subdivision.

CASH CHANGE AND PETTY CASH FUNDS – CHANGING THE AMOUNTS SET BY FISCAL BODY

Since IC 36-1-8-2 and IC 36-1-8-3 require the fiscal body to set the amount of each cash change and petty cash fund, it is our position that any change in the amount of either fund would require the approval of the fiscal body.

CERTIFICATION OF NAMES AND ADDRESSES TO COUNTY TREASURER

The following questions concerning delinquent property taxes were asked recently:

Question: If a library employee appears on the list certified by the County Treasurer as being delinquent in the payment of his/her property taxes, is the library required to make deductions from the employee's payroll check?

Answer: Yes. IC 6-1.1-22-14 states that on or before June 1 and December 1 of each year, the disbursing officer of each political subdivision shall certify the name and address of each person who has money due the person from the political subdivision to the county treasurer of each county in which the political subdivision is located. Upon the receipt of this information, the county treasurer shall search the records to ascertain if any person so certified is delinquent in the payment of property taxes. IC 6-1.1-22-15 states that if the county treasurer finds that a person whose name is certified to him under 6-1.1-22-14 is delinquent in the payment of taxes, he shall certify the name of that person and the amount of delinquency to the official of the political subdivision who is to make payment to the person. The disbursing officer shall periodically make deductions from money due the person and shall pay the amount of these deductions to the county treasurer. (Our Emphasis)

CERTIFICATION OF NAMES AND ADDRESSES TO COUNTY TREASURER (continued)

Question: How much money should be deducted from an employee's wages when making these periodic deductions?

Answer: While IC 6-1.1-22-15 requires a library to make these deductions, the statute does not address how much can be deducted. We have always recommended to use the garnishment law in IC 24-4.5-5-105 as a guide to determine how much can be deducted. It is recommended that the library also consider entering into a written agreement with the employee which sets out the terms of the deductions.



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MEMORANDUM

TO: All Civil Taxing Units
FROM: Tammy R. White, CPA, Deputy State Examiner
RE: Income Tax Distributions for Certified Shares
DATE: February 10, 2022

It has come to our attention that some units are not recording Local Income Tax (LIT) Certified Shares distributions into the General Fund upon receipt. The purpose of this memorandum is to remind civil taxing units of the Indiana State Board of Account's (SBOA) position that LIT Certified Shares be receipted into General Fund. For those civil taxing units that have budgeted LIT Certified Shares with plans on receipting into a fund other than General for the 2022 year, we will not take exception. We will expect that for years 2023 and beyond, LIT Certified Shares be receipted and accounted for in the General Fund.

Indiana Code 6-3.6-6-17 states that LIT Certified Shares can be used for any purpose of the civil taxing unit and does not provide for a designated fund.

The SBOA uniform compliance guidelines provide that LIT Certified Shares must be deposited into the General Fund of the unit, which would align with the principles of fund accounting.

While each unit of government may use its LIT Certified Shares for any purpose, the LIT Certified Shares must be accounted for in a manner that is consistent with fund accounting principles so that the users of the financial statements can have complete confidence in the integrity and accountability of public funds. The SBOA prescribed system of accounting authorized per IC 5-11-1-2 is based on fund accounting principles. According to the SBOA ***Accounting and Financial Reporting Regulation Manual***:

"Fund accounting enables governmental entities to easily monitor and report compliance with spending purposes (fund restrictions), spending limits (budget), and other fiscal accounting objectives. Fund accounting is an accounting system organized on the basis of funds. Each fund is considered to be a separate accounting entity . . .

The purpose of the funds maintained by a governmental entity is established from various sources and depends on the individual fund. Some funds are established and governed by state statute. The sources and uses of these funds are limited to what is authorized per the statute."

The General Fund is the fund used to account for and report all financial resources not accounted for and reported in another fund. **Government Auditing, Accounting, and Financial Reporting (GAAFR)** defines the General Fund as the fund used to account for all financial resources except those required to be accounted for in another fund. As the general operating fund of the unit, tax revenues and other receipts that are not allocated by law to another fund are accounted for in the General Fund.

We are aware that there were some issues in the past where statute restricted the General Fund from being used for certain purposes. Townships, for example, were not allowed to use the General Fund for fire protection due to the wording in the statute for the fire protection fund. This wording was changed in 2017 to allow the General Fund to be used for fire protection and so removed the concern that LIT Certified Shares deposited into General Fund could not be used for fire protection.

There are significant issues when depositing general use money in any fund other than the General Fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. This allows the use of those special revenue sources to be transparent. When LIT Certified Shares are comingled with specific revenue sources, the identity of the specific revenue source is no longer evident, and as a result the ability to analyze the sufficiency of the specific revenue source may be skewed, the flexibility for the use of those funds may be lost, and noncompliance with statutory provisions may result.

For example, if LIT Certified Shares are placed into the Township Firefighting Fund established by IC 36-8-13-4, it may appear that the township levy (and other specified revenue sources) is in an amount sufficient to pay costs attributable to fire protection and emergency services, when it is not sufficient. If LIT Certified Shares are placed into the Motor Vehicle Highway (MVH) Fund, meaningful analysis as to whether distributions from the State Highway Account are sufficient would not be possible and the unit would not have the ability to move those funds out of MVH in the event the funds are needed elsewhere. In both of those examples, if the Certified Shares were placed and disbursed from the General Fund for fire protection or MVH, it would be clear from year to year how those purposes had been funded and the balance in the special revenue fund would be directly attributable to the special revenue funding source.

An additional example would be the deposit of LIT Certified Shares into the Rainy Day Fund. If LIT Certified Shares are placed directly into the Rainy Day Fund, the unit may exceed the statutory limitation on the amount which can be transferred from the General Fund to the Rainy Day Fund; in addition, the amount placed into the balance of Rainy Day Fund could not be used to reduce the actual or permissible levy of a unit as if it had been placed in the General Fund.

If there is a pledging of LIT Certified Shares receipts for debt purposes, a restrictive fund may be created to account for this financial activity.

A civil taxing unit may pledge its certified shares to the payment of bonds or to lease payments in accordance with IC 6-3.6-6-18. Each unit of government is responsible for budgeting LIT Certified Shares and should work together with its DLGF representative to arrive at the best possible outcome to meet the budgetary needs of the unit. If the unit has pledged its LIT Certified Shares to the payment of debt, the debt could be paid from the General Fund or the unit could establish a local debt service fund to account for the debt repayment.

Examples:

Scenario 1: The unit receives \$100,000 in LIT Certified Shares per month for a total of \$1,200,000 for the year. The unit has pledged certified shares to make the debt service payment on Bond "A," which is \$400,000 for the year; \$200,000 is payable in June and \$200,000 is payable in December. The unit budgeted the payment out of a Debt Service Fund for Bond "A." In this case, the unit will transfer \$400,000 in LIT Certified Shares from the General Fund to the Debt Service Fund for Bond "A." Payment will be made from the Debt Service Fund for Bond "A."

Scenario 2: The unit receives \$100,000 in LIT Certified Shares per month for a total of \$1,200,000 for the year. The unit has pledged certified shares to make the debt service payment on Bond "A," which is \$400,000 for the year; \$200,000 is payable in June and \$200,000 is payable in December. The unit budgeted the payment for Bond "A" out of the General Fund. Payment will be made from the General Fund for the debt service payment on Bond "A."

Again, the professional standards for fund accounting have been created specifically to accommodate the transparency and accountability that government strives to achieve for its constituents. For these reasons, it is important that all units of government deposit LIT Certified Shares into the General Fund to be budgeted and used for any lawful purpose of the unit for the years 2023 and beyond.

This memorandum will not affect the deposit of distributions in 2022.

For years 2022 and prior, the SBOA will not take audit exception to a unit of government following a DLGF budget order that includes LIT Certified Shares as revenue in a fund other than the General Fund.

No changes are required for Local Income Tax for Property Tax Relief, Economic Development, Public Safety, and Special Legislation as these revenues will continue to be accounted for in separate funds.

Questions regarding fund sources and uses should be directed the to the SBOA Directors for your political subdivision at (317) 232-2513.

SG/LR