




MVH AUDIT GUIDANCE


2021 Auditors Fall Conference

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STATE EXAMINER DIRECTIVE 2018-2

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STATE EXAMINER DIRECTIVE 2018-2

Date: December 20, 2018
Subject: Motor Vehicle Highway Account
Authority: IC 5-11-1-2, -6, -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

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
Paul D. Joyce, CPA
State Examiner

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- Did the county establish an MVH Restricted sub-fund?
- Did the County establish the MVH fund (1176) and the MVH Restricted sub-fund (1173) using the fund numbers provided by the Chart of Accounts?
- Did the County report the MVH fund and MVH Restricted sub-fund separately on the Annual Financial Report?

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- Did the county appropriately allocate 50% of the distribution to the MVH Restricted sub-fund 1173?
- If greater than 50% was allocated, was an ordinance adopted for the excess and appropriately followed?

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- Did any transfers out of MVH Restricted occur?
- If yes, did the transfer only consist of funds in excess of the 50% requirement?
- Were these transfers of the excess approved by the council?

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- Were the expenditures from the MVH Restricted Fund (1173) used for Construction, Reconstruction, and Preservation of the county's highways?

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STATUTE DEFINITIONS

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Definitions per IC 8-14-1-1

(4) The term "construction" means the planning, supervising, inspecting, actual building, draining, and all expenses incidental to the construction of a highway.

(5) The term "reconstruction" means a widening or a rebuilding of the highway or any portion thereof.

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Definitions per IC 8-14-1-1

(6) The term "maintenance" when used in reference to cities, towns, and counties as applied to that part of the highway other than bridges, means the constant making of needed repairs, to preserve a smooth surfaced highway, adequately drained, marked and guarded by protective structures for public safety and, as to bridges, means the constant making of needed repairs to preserve a smooth surfaced highway thereon and the safety and preservation of the bridge and its approaches, together with the substructure and superstructure thereof; and such term also means and includes the acquisition and use, in any manner, of all needed equipment, fuel, materials, and supplies essential and incident thereto.

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Definitions per IC 8-14-1-1

(7) The term "preservation" means the preventative treatment, nonstructural treatment, rehabilitation, or structural repairs made to transportation infrastructure and related drainage that are included in an asset management plan approved by the Indiana department of transportation in collaboration with the local technical assistance program at Purdue University.

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Definitions (SBOA MEMO – Dec. 2018)

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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 standards 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 the intention 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, materials, 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 overlay, chip seal, 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 sandblasting bearing assemblies and joints, clearing bents and abutment accumulations at piers, deck overlays, scour repair, substructure repair, repairing approach abutts and guardrails, and repairing bridge ratings. 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, crowned shoulders (e.g. berms), vegetation control for infrastructure preservation, supplies, tools, 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, tree control (including dead animal removal), and reception 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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Can MVH Restricted funds be used for.....

Q Highway Department mows and does the landscaping for all county buildings?

A No. Mowing and landscaping the county buildings does not meet the definitions of Construction, Reconstruction, & Preservation

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Can MVH Restricted funds be used for.....

Q Highway Department plows the parking lots of all county buildings?

A No. Snow plowing and related costs are “winter operations” and considered a maintenance activity.

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Can MVH Restricted funds be used for.....

Q Highway Department makes signs for some of the parks in the county?

A Depends on the sign...
A sign for trucks to enter slowly is different than a Welcome to Pleasant Park sign.

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Can MVH Restricted funds be used for.....

Q Highway Department purchasing 4 tri-axles of stone to be used in upcoming road construction, reconstruction, and preservation projects through the summer?

A Yes. Document the use of the stone for each project. However, if the stone gets used for anything else the cost would need to be allocated properly.

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Can MVH Restricted funds be used for.....

Q Costs of the Highway Department moving supplies to job site for reconstruction of a road?

A Yes. Document the allocated costs including all calculations and determinations.

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Can MVH Restricted funds be used for.....

Q Highway Department removes vegetation along a right of way?

A Yes. This would be considered preservation per the definition memo.

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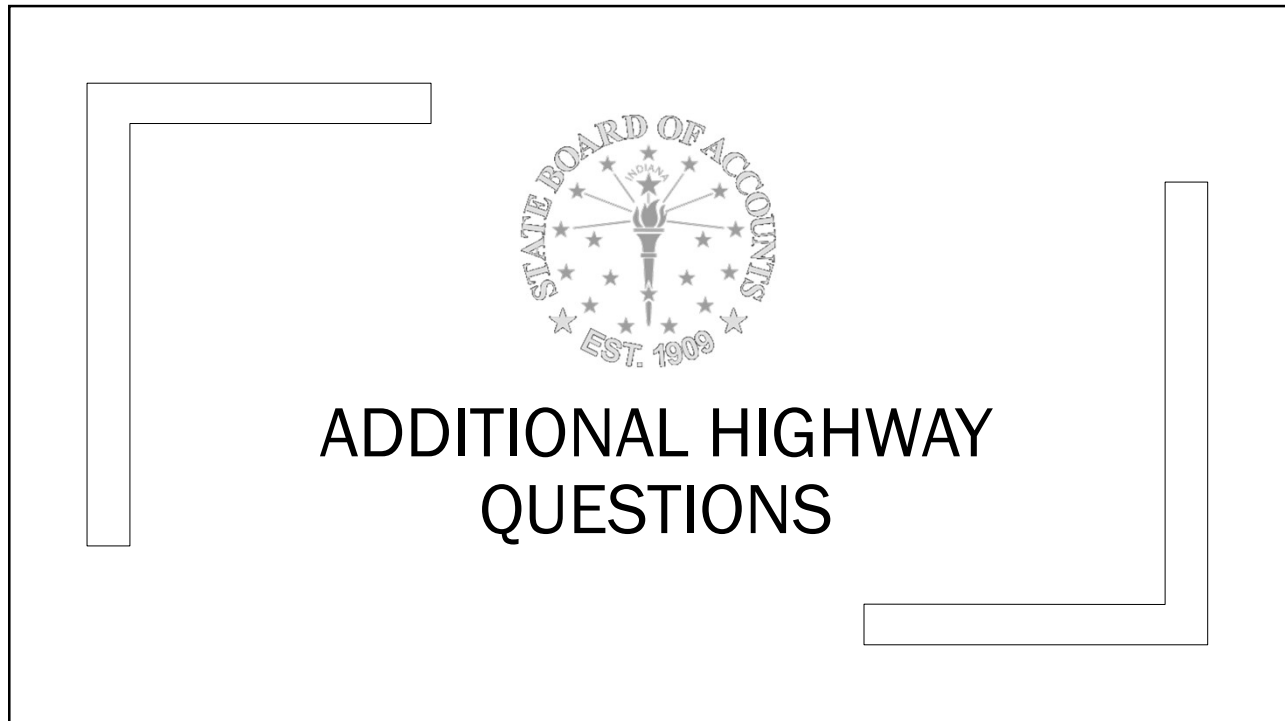
Can MVH Restricted funds be used for.....

Q Grant matches (in its entirety)?

A It would depend on the grant and if it met the definitions for constructions, reconstruction and preservation. Community crossing grant for example would.

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Q Can Right of Way permit fees be receipted into MVH or do they need a separate fund?
Also, what can these permit fees be used for?

A Right of Way permit fees are a local determination. County ordinance is needed to collect fee and determine if it needs to be accounted for in a separate fund for certain uses. We would not take audit exception to putting them in MVH (1176).

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Q Can Highway Departments do jobs not related to roadways or road right of ways? ?

A Yes. Though time should be allocated properly. Example: If a highway worker is mowing the Park every week, then the park should be allocated the cost of the highway worker mowing.

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