

ILMCT Institute & Academy

Indiana State
Board of
Accounts



Horizon Convention Center
Muncie
March 2022



Municipal Payroll Matters

- Salaries
- Payroll Accounting
- Overtime
- Bonuses & Incentives
- Payroll Records
- Common Findings
- Miscellaneous (ARPA Update)



Salary Ordinance

Cities:

- IC 36-4-7-2; 36-4-7-3; 36-4-7-4
- IC 36-8-3-3 (Police)
- IC 8-1.5-3-4 (Utility Service Board)
- IC 8-1.5-4-4 (Waterworks Board)

Towns:

- IC 36-5-3-2
- IC 8-1.5-3-4
- IC 8-1.5-4-4

Board of Metropolitan Police Commissioners IC 36-8-9



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Salary Ordinance

Cities:

IC 36-4-7-2(b) states the legislative body shall, by ordinance, fix the annual compensation of all elected city officers.

Towns:

IC 36-5-3-2(b) states, in part, the legislative body shall, by ordinance, fix the compensation of its own members, the town clerk-treasurer, and the town marshal.



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Salary Ordinance

- A new Ordinance should be adopted every year
- *Cities*– adoption should be not later than November 1 for the ensuing budget year (IC 36-4-7)
- *Towns*– no statutory deadline. We recommend passing at the time budget is passed or by 12/31.



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Compensation– Elected Officials

Compensation –

The total of all money paid to an elected city/town officer for performing duties as an officer, regardless of the source of funds from which the money is paid.

The term includes all employee benefits paid to an elected officer, including life insurance, health insurance, disability insurance, retirement benefits, and pension benefits.

IC 36-4-7-2(a) & IC 36-5-3-2(a)



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Compensation– Elected Officials

For purposes of determining an increase or decrease in compensation of an elected officer, the term does not include any of the following:

- (1) Payment of an insurance premium.
- (2) Payments in recognition of:
 - (A) longevity;
 - (B) professional certifications; or
 - (C) educational advancements;
 that are separately identified on a salary ordinance or resolution.



Compensation– Elected Officials

(continued) For purposes of determining an increase or decrease in compensation of an elected officer, the term does not include any of the following:

- (3) Payment of a stipend or per diem allowed by statute.
- (4) A payment authorized under section 4 [cities] or 36-5-3-2(d) [towns] IC 36-4-7-2(a) & IC 36-5-3-2(a)

EXAMPLE

	2019	2020
Clerk-Treasurer		
Salary	\$ 50,000	\$ 50,000
Insurance Premium	2,500	1,500
Total Compensation per		
Cities [36-4-7-2] & Towns [36-5-3-2]	\$ 52,500	\$ 51,500



Compensation – Elected Officials

IC 36-4-7-2(c) [cities] and IC 36-5-3-2(c) [towns] state the compensation of an elected city or town officer may not

- be changed in the year for which it is fixed, nor
- reduced below the amount fixed for the previous year.

	2019	2020
Clerk-Treasurer		
Salary	\$ 50,000	\$ 50,000
Insurane Premium	2,500	1,500
Total Compensation per Cities [36-4-7-2] & Towns [36-5-3-2]	<u>\$ 52,500</u>	<u>\$ 51,500</u>



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Compensation – Elected Officials

An elected city/town officer is not required to report hours worked and **may not** be compensated based on the number of hours worked.

Cities – IC 36-4-7-2(b)
Towns – IC 36-5-3-2(b)



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Compensation - Elected Officials

Audit Position:

- Elected officer's compensation is the total of all monies paid for performing duties as a city/town officer. It also includes insurance, disability, and retirement benefits.
- Compensation may not be changed during the year for which it is fixed.



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Compensation – Elected Officials

Audit Position (continued):

- Compensation may not be reduced below the amount fixed for the preceding year.
- Payments for longevity, certifications, educational achievements, stipends, and per diem will not be considered for determining increases or decreases in compensation.
- Consult your attorney with legal questions/concerns.



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Payroll: Non-Elected Personnel

Cities - IC 36-4-7-3:

- Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employee of the city.
- The legislative body may reduce but may not increase any compensation fixed by the executive.
- Compensation must be fixed by November 1



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Payroll: Non-Elected Personnel

Cities - IC 36-4-7-3 (continued):

- Compensation may be increased or decreased by the Mayor during the budget year for which it is fixed.
- Notwithstanding subsection (b), the city clerk may, with the approval of the legislative body, fix the salaries of deputies and employees appointed under IC 36-4-11-4.
- This section does not apply to city police and fire dept. members.



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Payroll: Police & Fire Members in Cities

Cities - IC 36-8-3-3(d):

- Annual compensation of all members and other appointees shall be fixed by ordinance of the legislative body not later than November 1.
- If legislative body fails to adopt, public safety board may fix members' compensation.



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Payroll: Non-Elected Personnel

Towns - IC 36-5-3-2:

- Compensation is to be fixed in the same salary ordinance that sets the compensation of town elected officials.
- Compensation of town employees can be changed (up or down) by council through ordinance amendment.

Another Board - Utility Service Board (IC 8-1.5-3-4) or Waterworks Board (IC 8-1.5-4-4): these boards set the salaries of utility employees.



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Payroll: Waiving Compensation

Towns - IC 36-5-3-6

- Allows for an elected town officer to waive their total compensation for any year. Clerk-Treasurer must be notified before January 1 of the year in writing of such a waiver.
- Such a waiver includes the officer's benefits: life insurance, health insurance, retirement/pension benefits, disability, etc.



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Payroll Accounting – What to consider

What to include in the Salary Ordinance -

- Base salary
- Benefits to be paid
- Other items if applicable:
 - *Longevity*
 - *Bonuses*
 - *Stipends*
 - *Overtime*
- Leave benefits
 - Required by IC 5-10-6-1
- Be clear on
 - Termination (paid out or not)
 - Balances rolled over (or not)
 - How leave is accrued



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Payroll Accounting – What to consider

Pay Rates & Cycles

- Consider using bi-weekly pay rates in the salary ordinance and not annualized amounts or ranges.
 - ✓ Will help with what to do with 26 pays vs. 27 pays.
- If using pay ranges, have documentation or evidence how each person's pay was determined/approved.



www.flickr.com



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Payroll Accounting - Overtime

Overtime Policy

- Should document rate of payment (time and a half, double time, etc.)
- When (or if) compensatory time is paid.

Police & Fire

- IC 36-8-4-8 – police
- IC 36-8-4-9 - fire

Documentation

- Records supporting all overtime paid (timecards, approvals, etc.)



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An official website of the United States government. [Here's how you know](#)

U.S. DEPARTMENT OF LABOR

TOPICS ▾ AGENCIES ▾ FORMS ▾ ABOUT US ▾ NEWS ▾

Home > Wages > Overtime Pay

FAQ CONTACT US

Payroll Accounting - Overtime

Overtime Pay

- Back Pay
- Commissions
- Educational Level and Pay
- Garnishment
- Government Contracts
- Hazard Pay
- Holiday Pay
- Industrial Homework
- Last Paycheck
- Merit Pay
- Minimum Wage
- Overtime Pay**
- Recordkeeping and Reporting
- Severance Pay
- Subminimum Wage

An employer who requires or permits an employee to work overtime is generally required to pay the employee premium pay for such overtime work. Employees covered by the [Fair Labor Standards Act \(FLSA\)](#) must receive overtime pay for hours worked in excess of 40 in a workweek of at least one and one-half times their regular rates of pay. The FLSA does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime hours are worked on such days.

The [FLSA](#), with some exceptions, requires bonus payments to be included as part of an employee's regular rate of pay in computing overtime.

Extra pay for working weekends or nights is a matter of agreement between the employer and the employee (or the employee's representative). The [FLSA](#) does not require extra pay for weekend or night work or double time pay.

Webpages on this Topic

[Overtime Website](#)
The federal overtime provisions are contained in the Fair Labor Standards Act. The overtime site contains helpful guidance materials, fact sheets, and e-tools and presentations that address overtime pay requirements.

[Fact Sheets](#)
Consult these fact sheets for specific information about overtime pay for certain exempt employees and in your occupation.

[Fact Sheet on the Overtime Pay Requirements of the Fair Labor Standards Act \(FLSA\)](#) (PDF)
Provides general information concerning the application of the overtime pay provisions of the FLSA.

["When Is Overtime Due?"](#)
Information about overtime.


["Is Extra Pay Required For Weekend Or Night Work?"](#)

<https://www.dol.gov/general/topic/wages/overtimepay>

Also:

317-232-2655 (option #3)

wagehour@dol.in.gov




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Job Postings

Post and/or advertise openings?

- We're not aware of any requirement that job openings be posted or advertised
- Local policy or union contracts could require
- Consult your attorney



<https://ecori.org/job-listings/>

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Payroll Accounting – Bonuses & Incentives

Bonuses

- Need to be on the salary ordinance
- Paid through the payroll process
- Nonmonetary payments (gift cards, etc.) could be taxable

✓ *Consult the IRS*

Incentives

- Need to be part of the salary ordinance
- Clearly stated how earned and when paid
- Paid through the payroll process
- Nonmonetary (prizes, gift cards, etc.) could be taxable

✓ *Consult the IRS*

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Payroll Accounting – Nonmonetary Bonuses & Incentives

Nonmonetary Payments

- Prizes
- Gift Cards
- Food

Consideration given to the Promotion of Business Ordinance

CITIES AND TOWNS BULLETIN - DECEMBER 2015

PAGE 5

PROMOTION OF CITY AND TOWN BUSINESS

IC 36-7-2.7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the general fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with IC 36-1-3 in order to enable a city or town to pay for such expenses. Additionally, an appropriation for such expenses must also be obtained.

In an effort to assist cities and towns that have not passed an enabling ordinance but who wish to establish the promotion of business ordinance, we are repeating wording contained in the old statute. Many municipalities have used similar wording in their enabling ordinance.

"City and town councils are authorized to budget and appropriate funds from the general fund of the city, or town, to pay the expense of or to reimburse city officials or town officials, as the case may be, for expenses incurred in promoting the best interest of the city or town. Such expenses may include, but not necessarily be limited to, rental of meeting places, meals, decorations, memorabilia, awards, expenses incurred in promoting industrial, commercial, and residential development, expenses incurred in developing relations with other units of government and any other expenses of a civic or governmental nature deemed by the mayor or the town council to be in the interest of the city or town."

This is furnished only for your information. Each city and town should establish, by ordinance, the parameters for such appropriations and expenditures. Such ordinance should list the specific types of promotional expenses which can be paid from moneys appropriated for such purpose. Please note that excessive amounts expended for employee meals, awards, gifts and similar expenses could be considered an audit result and comment item in an audit.

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Payroll Accounting - Miscellaneous

Last pay

- Elected official or salaried employee quits or otherwise terminates employment in the middle of a pay period.
- Pro rate the last check

EXAMPLE

Earl quits on the second Tuesday of pay period
(worked 7 of the 10 days in the 2 week period)

Normal gross check	\$2,000.00
Number days worked divided by total (7 worked / 10 in period)	<u>0.70</u>
Pro rated gross last check	<u>\$1,400.00</u>



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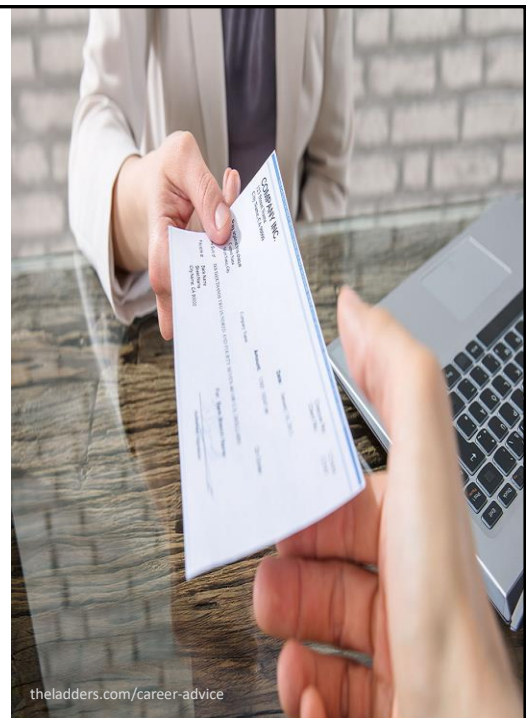
Payroll Accounting - Miscellaneous

Paying Council & Board of Work members

- Compensation included on salary ordinance
- Paid through payroll process and not as an APV or vendor claim



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theladders.com/career-advice

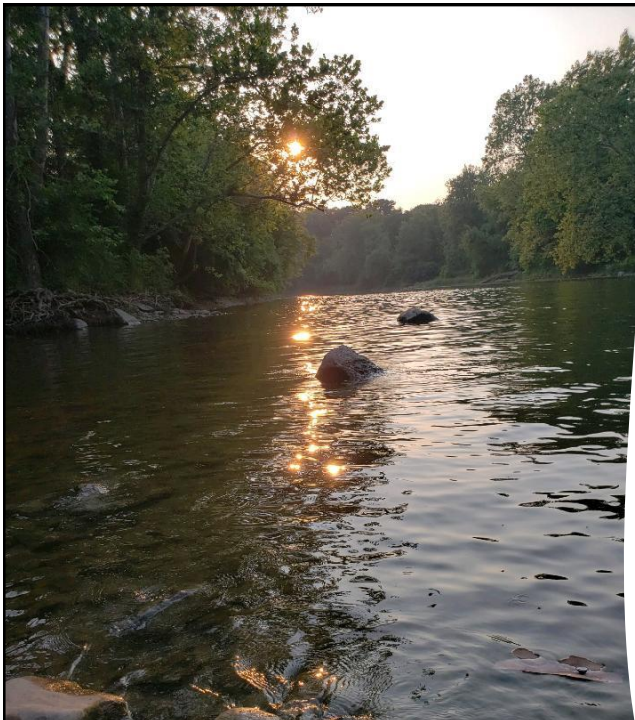
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Muncie, Indiana (*in person!*)

March 14, 2022

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Payroll Forms

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Payroll Forms

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees.

These requirements can be met by use of the following prescribed general forms:

- General Form 99A
- Employee's Service Record General Form 99B
- Employee's Earnings Record General Form 99C (certain nonexempt employees)

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Payroll Forms

For use of a computerized system in lieu of the prescribed forms, see Chapter 1 of the *Accounting and Uniform Compliance Guidelines Manual for Cities and Towns*

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Payroll Forms

Employee Service Record Form 99A

This form must be kept by each office or department for each employee in order to properly prepare "Payroll Schedule and Voucher, General Form No. 99."

It records the hours or days worked, sick leave, vacation and days lost.

It may also be used to comply with the requirements of IC 5-11-9-4 regarding recording hours worked each day by an employee.

Payroll Forms

Employee Service Record Form 99A

Prescribed by the State Board of Accounts General Payroll Form No. 99A (Rev. 1985)

(Unit) _____

EMPLOYEE'S SERVICE RECORD YEAR _____

REMARKS		NAME AS ON SOCIAL SECURITY CARD		EMPLOYEE NUMBER																											
Workweek Begins: Hour of Day _____ : Day of Week _____		(Mr., Mrs., Miss)		ADDRESS																											
Basis of Pay: (Hr., Day, Week, Bi-Weekly, Month)		SOC. SEC. NO.		CLASSIFICATION																											
Date of Birth: _____		OFFICE, BOARD OR DEPT.		BEGIN. DATE EMPL.																											
Normal Work Schedule *		LEAVE ACCRUAL DATE																													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
	REGULAR VACATION LEAVE																SICK LEAVE			OTHER LEAVE											
	EARNED																EARNED			TAKEN			TAKEN			EXPLANATION					
	BALANCE																BALANCE			BALANCE											
BALANCE BROUGHT FORWARD FROM LAST YEAR																															
JAN.																															
FEB.																															
MAR.																															
APR.																															
MAY.																															
JUNE.																															
JULY.																															
AUG.																															
SEPT.																															
OCT.																															
NOV.																															
DEC.																															

* V - VACATION LEAVE S - SICK LEAVE L - LOST TIME OL - OTHER AUTHORIZED LEAVE SHOW VACATION, SICK LEAVE AND OTHER ABSENCES IN DAYS AND HALF DAYS.
 * EXCEPTIONS TO THE NORMAL WORK SCHEDULE SHALL BE NOTED AND ATTACHED TO THIS FORM.

Payroll Forms

Payroll Schedule and Voucher Form 99

Each claim should be certified to by the department head and the Clerk-Treasurer
The Clerk-Treasurer may elect to certify on the Accounts Payable Voucher Register

Approval signatures by a majority of the board is required in the appropriate section unless the Accounts Payable Voucher Register, General Form No. 364, is signed.

Posting from this form will be to the Ledger...for the gross amount of the pay and to the Employee's Earnings Record, General Form No. 99B.

Payroll Forms

Payroll Schedule and Voucher Form 99

Prescribed by State Board of Accounts

General Payroll Form No. 99 (Rev. 1993)

PAYROLL SCHEDULE AND VOUCHER

(Office, Board, Department or Institution)
 For Period Beginning _____ and Ending _____
 NOTE: Total hours or days to be paid shall equal the days or hours worked plus authorized leave to which an employee might be entitled by law and under the leave policies established by the governing body. The "Days Lost" column will apply only to salaried employees (not hourly) not entitled to pay for such days.
 Page _____ of _____ Pages
 Fund _____

NAME OF EMPLOYEE	Approp. No. or Class Title	C o d e	Non-cash Benefits	Worked	DAYS OR HOURS IN PERIOD				Total Days of Hours To Be Paid	Rate of Pay	Gross Pay	Total	DEDUCTIONS					Amount of Warrant (Gross Pay Less Deductions)	Warrant Number						
					Sick Leave	Vacation Leave	Lost Days	O t h e r Leave					Fed. W/H Tax	Social Security Tax	Medicare Tax	State W/H Tax	County W/H Tax			I n s u r a n c e C o d e	R e t i r e m e n t C o d e				
1.																									
2.																									
3.																									
4.																									
5.																									

Payroll Forms

Payroll Schedule and Voucher Form 99

STATE OF INDIANA, _____ COUNTY, SS.

I, _____
 _____ of _____
 Title Agency

hereby certify that I have examined the time record of each employee listed on pages _____ to _____ of this payroll, that each employee has performed the services for which the salaries or compensation is paid: that to the best of my knowledge and belief no part of the salary or compensation of any employee listed hereon is being divided or paid to any other person on account of or by reason of his employment: that the compensation listed opposite the name of each employee is based upon either statutory or regulatory authority and is justly due each such employee: that the deductions have been authorized for the purpose stated: that this payroll totaling \$ _____ is correct and has by me been approved. Basic Pay

Date _____, 20__

 (Signature)

 (Official Title)

I have examined the within claim and hereby certify as follows:
 That it is in proper form.
 That it is duly authenticated as required by law.

That it is based upon { contract.
 statutory authority.

That it is apparently { correct.
 incorrect.

 Disbursing Officer

Payroll Forms

Employee's Earnings Record Form 99B

This form is for the purpose of recording the compensation paid each employee and at the same time record the various authorized deductions from such pay.

Posting to this record will be made from "Payroll Schedule and Voucher, General Form No. 99."

The total of the accumulations of each kind of deduction on all individual accounts should agree with the amount set aside in each payroll clearing fund.

Payroll Forms

Employee's Earnings Record Form 99B

EMPLOYEE'S EARNINGS RECORD

UNIT _____ BASIS OF PAY (PER MONTH, WEEK, HOUR) _____ MR. MRS. MISS _____
 OFFICE, BOARD OR DEPARTMENT _____ OTHER COMPENSATION TYPE _____ ADDRESS _____
 (SEE OTHER SIDE FOR INSTRUCTIONS) AMOUNT _____ CITY _____ ZIP CODE _____
 EXEMPTION STATUS FEDERAL _____ STATE _____ SOC. SEC. NO. _____

FORM PRESCRIBED BY STATE BOARD OF ACCOUNTS General Payroll Form 99B (Rev. 1993)

	DATE OF WARRANT	PAYROLL PERIOD ENDING	C o d e	NONCASH BENEFITS	GROSS PAY	TOTAL	DEDUCTIONS							AMOUNT OF WARRANT	WARRANT NUMBER
							FEDERAL WITH TAX	SOCIAL SECURITY	MEDICARE	STATE WITH TAX	COUNTY WITH TAX	INSURANCE	RETIREMENT		
1	FORWARD														
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															
13															
14															
	TOTAL 1ST QUARTER														

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Payroll Forms

Employee's Weekly (Work Period) Earnings Record Form 99C

This form must be prepared and maintained for all employees who are not exempt from minimum wage and overtime provisions of the Fair Labor Standards Act (FLSA), are not on a fixed work schedule.

The form also provides necessary information required by FLSA for accounting for hours of those employees who work optional alternative work periods such as firemen, policemen, and other qualified public safety employees.

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Payroll Forms

Employee's Weekly (Work Period) Earnings Record Form 99C

Prescribed by State Board of Accounts

General Form No. 99C (1985)

UNIT _____

EMPLOYEE'S WEEKLY (WORK PERIOD) EARNINGS RECORD FEDERAL WAGE AND HOUR REQUIREMENTS

YEAR ____

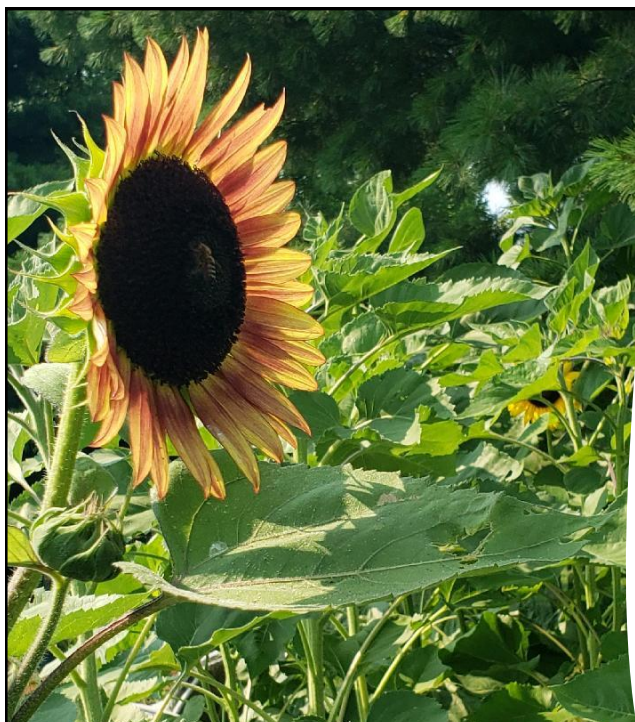
NAME (Mr./Mrs./Ms.) _____ SOC. SEC. NO. _____ WORK WEEK BEGINS:
Day of Week _____
Time of Day _____

ADDRESS _____ EMPLOYEE NUMBER _____ ESTABLISHED WORK PERIOD _____
(Police and Fire ONLY)

CLASSIFICATION _____

SOC. SEC. NO. _____ Zip Code _____ OFFICE, BOARD OR DEPARTMENT _____ BASIS OF PAY: _____

Week (Period) Ending	Hourly Rate of Pay	Total Hours Worked for Week (Period)	Straight Time Earnings for Week (Period)		Overtime Excess Compensation for Week (Period)	Other Compensation



Payroll Audit Comments - Compliance

Audit Comment – Rate paid was incorrect Condition

The hourly rate, for one of the fifteen employees tested, did not agree with the rate stated in the pay schedule of the Union's contract which was adopted by the Common Council for those employees.

41

Audit Comment – Rate paid was incorrect Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements.

42

Audit Comment – Rate paid was incorrect

Internal Control Considerations

Control Activity:

Salaries and wage rates are verified to the salary ordinance / union contract by someone outside of the payroll process.

Monitoring:

Procedure to periodically review salary and wage rates paid to determine if internal controls are in place and functioning properly.

Must have written procedures and evidence that control activity and monitoring were performed.

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Audit Comment – Charge for Overpayment

Condition and Criteria

Council authorized mid-year salary increase for elected officials of \$5,000.

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Audit Comment – Charge for Overpayment *Criteria*

- IC 36-5-3-2(c) for towns
- IC 36-4-7-2(c) for cities

The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year.

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Audit Comment – No Approval of Voucher *Condition*

The Payroll Voucher was not approved by the department head for seven of the fifteen employees tested.

46

Audit Comment – No Approval of Voucher *Criteria*

Officials and employees are required to use prescribed or approved forms in the manner prescribed.

Supporting Documentation

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Audit Comment – No Approval of Voucher *Internal Control Considerations*

Control Activities:

Employee time and attendance records are approved by their supervisors.

Monitoring:

Review timesheets/payroll voucher for supervisory signature as supporting documentation for the payroll claim. Document that the review was performed.

48

Audit Comment – Timecards not located

Condition

Timecards for two pay periods could not be located for an employee of the Street and Sanitation Department.

49

Audit Comment – Timecards not located

Criteria

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees...

Supporting Documentation

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Audit Comment – Timecards not located

Internal Control Considerations

- Control Activity:
A timecard is required for each employee with approval signatures.
Timecards are filed alphabetically by pay period.
- Monitoring:
Periodically check to make sure all employee payments are supported by a timesheet and are filed properly. Document review.

51

Audit Comment – Record of Hours Worked

Condition

An employee of the Street and Sanitation Department was paid overtime on five of the six payrolls tested. The timecards of this employee did not provide enough detail to determine the number of hours worked each day or the number of hours worked for each department.

52

Audit Comment – Record of Hours Worked *Criteria*

IC 5-11-9-4(b)

The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees:

...(2) employed by more than one public agency or in more than one position by the same public agency...

Form 99A Employee Service Record

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Audit Comment – Record of Hours Worked *Internal Control Considerations*

Control Environment:

Policy that all employees holding more than one position with the city or town must document hours worked each day for each position; hours worked on both positions may not overlap. Form 99A required.

Control Activity:

Review all timesheets to make sure hours worked are documented for each position and that hours do not overlap.

54

Audit Comment – Allocation of Payroll *Condition*

The Water Utility-Operating fund was used to pay for expenses related to the Town. The salaries for the Clerk-Treasurer and the Town Council members were allocated between the Town and Water Utility. Documentation of how the Town determined the allocations was not presented for audit to determine if the amounts were reasonable.

55

Audit Comment – Allocation of Payroll *Criteria*

- Expenses paid from utility funds should be directly related to the operation of the municipally owned utility...
- The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

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Audit Comment – Allocation of Payroll

Internal Control Considerations

- Control Environment:
Ordinance shows allocation of compensation among various departments with basis for allocation.
- Control Activity:
Verify total compensation of employee for compliance with the salary ordinance and compensation from various departments for compliance with allocation percentage.

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Audit Comment – Gift Card Compensation

Condition

The Town gave... gift cards in the amount of \$200 as a retirement gift. The Town Council approved the gift cards during a public meeting, but the gift card compensation was not included on the salary ordinance or in a resolution.

58

Audit Comment – Gift Card Compensation *Criteria*

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements.

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Audit Comment – Gift Card Compensation *Internal Control Considerations*

Control Environment:

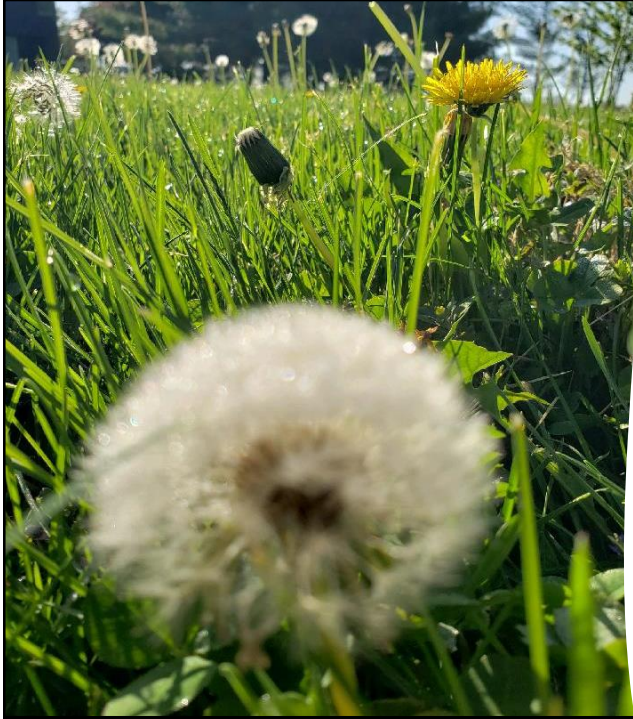
Policy to provide employee incentives and how those incentives should be accounted for on the records and reported for tax purposes. Include in policy how gift cards are to be accounted for and safeguarded.

Because gift cards are included in compensation, gift card incentives should be included on the salary ordinance.

Control Activity:

Compare gift card awards to the salary ordinance. Reconcile gift card purchases to gift card awards. Ensure that gift cards awarded are included as part of the normal payroll process and reported on the W-2.

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Payroll Audit Comments – Internal Controls

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Audit Comment – Internal Controls *Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards.

To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, Uniform Internal Control Standards for Indiana Political Subdivisions.

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Audit Comment – Internal Controls *Criteria*

All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities...

Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . .If compensating controls are necessary, documentation should exist to identify...the compensating controls implemented

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UNIFORM INTERNAL CONTROL STANDARDS FOR INDIANA POLITICAL SUBDIVISIONS



Paul D. Joyce, CPA
State Examiner

September 2015

Internal Control Manual

- Payroll Control Activities: Section 2 – Page 8
- www.in.gov/sboa
 - Go to Political Subdivisions, the select
 - Cities or Towns
 - Uniform Compliance Guidelines
 - Manuals
 - Internal Control Manual

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Audit Comment – Internal Controls: Posting of Records

Condition

A review process had been established to ensure that payroll disbursements were accurate; however, this process took place before the payroll disbursements were posted to the financial accounting system. A review or oversight process was not in place to ensure the accuracy, completeness, and classification of the payroll disbursements after posting to the financial accounting system occurred.

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Audit Comment – Internal Controls: Posting of Records

Internal Control Considerations

Control Activity:

Review amounts posted to the financial system for proper classification and fund.

Must have written procedures and evidence that control activity and monitoring were performed.

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Audit Comment – Internal Controls: Approval *Condition*

The timesheets for the Town Manager were prepared and approved by the Town Manager. There was no documentation of controls in place, such as an oversight, review, or approval process.

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Audit Comment – Internal Controls: Approval *Internal Control Considerations*

- Control Environment:
Organizational Chart or policy to determine who supervises each employee (and therefore reviews timesheet).
- Control Activity:
Employee time and attendance records must be approved by their supervisors.
- Monitoring:
Periodically check to make sure all employee payments are supported by a timesheet that has been approved by a supervisor.

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Audit Comment – Internal Controls: Segregation of Duties *Condition*

The employee responsible for processing payroll was also the same individual responsible for adding new employees, inactivating employees, and entering pay rates without any oversight or review to ensure the accuracy of the information.

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Audit Comment – Internal Controls: Segregation of Duties *Internal Control Considerations*

Control Activity:

The responsibilities for approving time sheets are segregated from those preparing payroll transactions or inputting data.

Compensating Control when segregation of duties is not possible:

Someone outside of the payroll process reviews payroll adjustments and compares compensation with salary ordinance.

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Fraud Example

- Small office
- No review process over payroll
- Person responsible for payroll paid herself \$80,160 in excess of the salary ordinance over a four-year period.
- She reported on the AFR the compensation actually paid rather than the salary ordinance amount.

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Audit Comment – Internal Controls: Clearing Account *Condition*

A review of the balance in the payroll clearing account to supporting payroll deductions was not performed to verify the accuracy of the ending balance in the clearing account.

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Audit Comment – Internal Controls: Clearing Account

Internal Control Considerations

Control Activity:

Reconcile the deductions on the Form 99 to the amount set aside in each payroll clearing fund.

Reconcile the deductions on the Form 99 to the amount paid from the payroll clearing fund.

Investigate unexplained variances

Monitoring Activity:

Review to see if reconciliations have been performed properly and unexplained variances investigated

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Audit Comment – Internal Controls: Payroll Provider

Condition

The City used a service organization to process payroll. The City had not separated incompatible activities for reporting hours worked to the service organization from approved time sheets. The payroll clerk input hours worked to the service organization from the approved time sheets, and verified that the hours input were correct from the service organization's reports. There was no evidence of an oversight, review, or approval process of hours worked, separate from the payroll clerk.

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Audit Comment – Internal Controls: Payroll Provider

Internal Control Considerations

Control Activity:

The responsibilities for inputting data are segregated from the verification of the data from the service provider.

Compensating Control when segregation of duties is not possible:

Someone outside of the payroll process verifies data from the service provider by comparing it to the timesheets and salary ordinance.

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Fraud Example – Internal Controls: Payroll Provider

- Outside company hired to process payroll.
- Payroll clerk was sole person to communicate with payroll company.
- No one reviewed compensation payments for compliance with salary schedule or leave benefits policy.
- Payroll clerk paid herself extra benefit leave, bonus and incentive payments, and extra wages totalling over \$483,000. In addition, she authorized an extra \$27,000 for her coworker.

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Payroll Comments - Summary

Make sure you know the rules!

- ✓ Indiana Statutes
- ✓ SBOA Uniform Compliance Guidelines
- ✓ Federal and State Reporting Requirements

Design internal controls to provide reasonable assurance that your city or town will be in compliance with rules and your payroll transactions will be reported properly with the proper authorities and in your ledger.

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Common Questions

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Common Questions - Timesheet

- Do salaried employees have to file a timesheet?

Our audit position is a record of time worked is required for all employees and non-elected officials. The time worked documentation is the supporting documentation you need, as clerk-treasurer, to issue payroll checks – much like an invoice is needed in order to pay an accounts payable voucher. It's not necessary for a salaried employee to "clock in" or "clock out" per se, but some record of the hours for which personal services were provided is required – for example: 4 hours worked on Monday, 4 hours vacation / 8 on Tuesday / 8 sick hours on Wednesday, etc. This documentation can be recorded on the Employee's Service Record, General Form 99A, a description of which is found in chapter 6 of the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns.

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Common Questions – Timesheet Approval

- What if the supervisor refuses to approve the timesheet?

All hourly employees should be paid only for the hours they work. There should be internal controls in place to capture that data, including having the time worked be approved by someone with knowledge of the hours being reported. You, as Clerk-Treasurer, need documentation to support amounts paid out, so you should have the detailed hourly work record of the employee in question.

If we were auditing and found the time was not being approved as having been worked, we would have an audit comment in our section of the report where the approval was not taking place – i.e. if the Mayor was the supervisor, then the Mayor's approval of the time would be expected or we'd have a comment in our report in a section for noncompliance by the Mayor.

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Common Questions - Bonus

- Would a bonus fall into an employee's salary wage range or would a bonus be separate from an employee's wage range?

Our recommendation would be to have bonuses separate on the salary ordinance – apart from the range of an employee's compensation for their normal duties.

If bonuses for 2022 aren't currently on your salary ordinance, they could be added by council amendment of the salary ordinance for non-elected employees.


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ARPA Update



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- In March - small distribution to allocate unclaimed ARPA Funds
 - ✓ Put in the ARPA Fund
- June or July - Balance of Funds
 - ✓ Put in the ARPA Fund



OFFICE OF MANAGEMENT & BUDGET
102 State House
Indianapolis, Indiana 46204-2796
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Christopher R. Johnston
Director

March 4, 2022

Re: American Rescue Plan Act Distributions to Indiana Cities and Towns

Dear Municipal Chief Executive Officer:

The American Rescue Plan Act of 2021 (ARPA) allocated over \$430 million to the State of Indiana for distribution to all Indiana Cities and Towns with a population below 50,000 (referred to by U.S. Treasury as "NEUs"). Pursuant to U.S. Treasury rules, the state received one-half of the allocation last fall for distribution to eligible Indiana NEUs and will receive the balance this summer.

The U.S. Treasury guidance also requires the State to reallocate unclaimed funds to those eligible NEUs that accepted the initial distribution and were not restricted to 75% of their budget. The unused funds totaled just over \$798,000 and will result in most NEU's receiving a subsequent disbursement this month, although some amounts will be very small. Please be aware that this will show up as a deposit from the State Auditor and should be accounted for in the same manner as your distribution last fall. We apologize for the possible inconvenience of managing such a small distribution, however our request to add this to the final distribution was denied. Please note, the balance of your funds will be wired to you in June or July in the same manner. No additional application is required.

The Indiana Finance Authority website will be updated with this new NEU distribution information.
<https://www.in.gov/ifa/coronavirus-state-and-local-fiscal-recover-funds-american-rescue-plan-act-of-2021/>

Finally, I would like to remind you that your first required reporting deadline is approaching on

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U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Economic Relief and Recovery Program Update

Treasury releases updated Compliance and Reporting Guidance for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program

Thank you for your interest in the Department of the Treasury's Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, authorized by the American Rescue Plan Act.

On February 28, 2022, Treasury released [updated Compliance and Reporting Guidance \(Reporting Guidance\)](#) for the SLFRF program. This Reporting Guidance includes updates to reporting requirements to reflect the final rule that Treasury adopted on January 6, 2022. These updates take effect for the next Project and Expenditure Report that all state, local, and Tribal governments need to submit by April 30, 2022.

To access the update Reporting Guidance and learn more about the SLFRF program, please visit <https://www.treasury.gov/SLFRPReporting> website.

If you have questions or need additional information, please send an email to SLFRP@treasury.gov.

Thank you.

ARPA Update

Updated Reporting Guidance

Report Due April 30!

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U.S. Treasury Information Compliance and Reporting Guidance

Start reviewing the guidance on reporting now – webinars & written guidance

Set up the accounts in Login.gov or ID.me

Project and Expenditure report is due **April 30!**

<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>

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Items of Note:



- Resource Library is now available
- Email sent out March 2, 2022
- Tutorial at:

<https://www.youtube.com/watch?v=bf82lq6pQZk>

Indiana State Board of Accounts - 2022



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