



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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MEMORANDUM

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

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

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

DATE: December 20, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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