



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

MEMORANDUM

TO: Counties, Cities, and Towns

FROM: Paul D. Joyce, CPA, State Examiner

RE: Accounting Processes for ARP Subtitle M-Coronavirus State and Local Fiscal Recovery Funds

DATE: March 18, 2021

The purpose of this memorandum is to provide guidance to recipients of funding available under Section 603 of the Social Security Act, as added by Section 9901 of the American Rescue Plan Act of 2021 (ARP). The ARP established the Coronavirus Local Fiscal Recovery Fund (the Fund) and appropriated \$130,200,000,000 to remain available through December 31, 2024, for making payments to metropolitan cities, non-entitlement units of local government, and counties to mitigate the fiscal effects stemming from the public health emergency with respect to COVID-19.

The allocations for metropolitan cities, non-entitlement units, and counties may be found on our website at in.gov/sboa. Metropolitan cities and all counties will receive funding directly from the federal government. Cities and towns determined to be non-entitlement units will receive the allocation through the State of Indiana. The information on SBOA website about allocations also provides which cities are determined metropolitan and which cities and towns are designated as non-entitlement units.

The federal government will make the first payment from the Fund to the State of Indiana, the metropolitan cities, and Indiana Counties by May 11, 2021. The State of Indiana will distribute the first payment received from the Fund within 30 days based on the allocation provisions contained in the ARP. A second payment will be received by the State of Indiana, the metropolitan cities, and the Indiana Counties not earlier than twelve months after the first payment. The State of Indiana will distribute the second payment received from the Fund within 30 days based on the allocation provisions contained in the ARP. It is important to follow the prescribed accounting system procedures and documentation requirements for the use of these funds. According to the ARP, a detailed accounting for the uses of the funds is required. Any unit that fails to comply with the provisions of the ARP shall be required to repay an amount equal to the amount of funds used in violation of the ARP. The Secretary of the Treasury may issue additional regulations related to these funds.

Ordinance and Plan. The governing body must adopt an ordinance establishing a local ARP fund to receive the allocation in accordance with State Examiner Directive 2021-1 (Directive). For a county, the ARP grant fund must be established by ordinance of the County Commissioners. For a city or town, the ARP grant fund must be established by ordinance of the legislative body. The ordinance should specifically list the uses described in Section 603(c) that are applicable to the unit and that the unit envisions utilizing. The ordinance should reference a plan that will provide the details for the use of these funds. The plan should be laid out in a way that corresponds to the elements as laid out in Section 603 of the ARP. The ordinance and plan may be amended as any other ordinance or plan as long as the amendment complies with Section 603.

Appropriations and Disbursements. As stated in the Directive, funds must be appropriated by the fiscal body before use in accordance with the Section 603, the ordinance, and the plan. Only local appropriation is required. All disbursements must go through the normal claims process in IC 5-11-10-1.6 and be supported with sufficient documentation. All disbursements must be made directly from the ARP grant fund. Money in the ARP fund may not be transferred to another fund of the unit.

Fund Uses. The uses of the fund are specified in Section 603(c) as follows:

- "(1) USE OF FUNDS – Subject to paragraph (2), and except as provided in paragraphs (3) and (4), a metropolitan city, nonentitlement unit of local government, or county shall only use the funds provided under a payment made under this section to cover costs incurred by the metropolitan city, nonentitlement unit of local government, or county, by December 31, 2024
- (A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- (B) to respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- (C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
- (D) to make necessary investments in water, sewer, or broadband infrastructure."

Grants and programs to respond to the public health emergency or its negative economic impacts under Section 603 (c)(1)(A) should be through written agreement with the recipient. Disbursements to grantees and program recipients must be documented and in compliance with the written agreement.

The premium pay allowed for eligible workers of your unit under Section 601(c)(1)(B) is limited to work during the COVID-19 Public Health Emergency. Premium pay is defined in Section 602(g) as "an amount of up to \$13 per hour that is paid to an eligible worker, in addition to wages or remuneration the eligible worker otherwise receives, for all work performed by the eligible worker during the COVID-19 public health emergency. Such amount may not exceed \$25,000 with respect to any single eligible worker." Eligible worker is defined as "those workers needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as each chief executive officer of a metropolitan city, nonentitlement unit of local government, or county may designate as critical to protect the health and well-being of the residents of their metropolitan city, nonentitlement unit of local government, or county."

Grants to eligible employers under Section 603(c)(1)(B) should be through written agreement with the eligible employer. Disbursements to grantees must be documented and in compliance with the written agreement. The term Eligible Employer is not defined in Section 603.

Section 603(c)(1)(C) allows the funds to be used for costs incurred for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency. The revenues of the full calendar year of 2019 will be used as the base year to determine the reduction of revenue in the full calendar years of 2020, 2021, 2022, and 2023. Over the covered period, costs incurred for the provision of government services will be limited to the total amount of revenue reduction in these years.

Information to calculate the revenue reduction for the local income tax revenue may be obtained from the Local Tax Distribution Report available on the Department of Local Government website at www.in.gov/dlgr. Information to calculate the revenue reduction for the MVH/LRS and other state distributions may be obtained from the Auditor of State website at www.in.gov/aos. Information to calculate the revenue reduction for other funds, such as parks, utilities, and other fees, should be obtained from your records. Documentation must be available to show all calculations. Please remember that the reduction in revenue must be due to the COVID-19 public health emergency. Documentation must be available to explain that the revenue reduction is due to the COVID-19 public health emergency and not caused by other factors.

An example of the calculation for revenue reduction is below.

	2019	2020	Difference
Certified Shares	635,000	600,000	-35,000
Economic Development	220,000	215,000	-5,000
MVH/LRS	870,000	800,000	-70,000
Utility Fees	2,025,000	1,050,000	-75,000
Total Revenue Reduction in 2020			-185,000

To find the revenue reduction amount for 2021, you will need to calculate the difference between revenue received in 2021 and revenue received in 2019. The full calendar year of 2019 will be used as a base for the calculation of revenue reduction in 2020, 2021, 2022, and 2023.

The costs incurred for the provision of governmental services may not exceed the total amount of revenue reduction.

Costs incurred to make investments in water, sewer, or broadband infrastructure under Section 603(c)(1)(D) must be documented and recorded on the capital asset ledger in accordance with the local capitalization policy.

The ARP grant fund may not be used to make a deposit into any pension fund.

Transfers to Private NonProfit Organization or the State. Section 603(c)(2) allows money in the ARP fund to be transferred to a private nonprofit organization. The term "private nonprofit organization" is defined in 42 USC 11360(17) to mean an organization - "(A) no part of the net earnings of which inures to the benefit of any member, founder, contributor, or individual; (B) that has a voluntary board; (C) that has an accounting system, or has designated a fiscal agent in accordance with requirements established by the [Secretary](#); and (D) that practices nondiscrimination in the provision of assistance." If money is transferred under this section, documentation must exist to show that the nonprofit organization meets the required definition.


Section 603(c)(4) allows money in the ARP fund to be transferred to the State of Indiana.

Prior Costs Incurred. Permitted expenses incurred in the fund of a unit after the passage of ARP (March 11, 2021) but before the receipt of the ARP funds may be shown as an expense from the ARP local grant fund.

For example, if on March 12, 2021, a city incurred expenses in the amount of \$10,000 from the General Fund in response to the public health emergency, the city may transfer that expense to the ARP fund through a reversing entry. The city will first reverse the \$10,000 expense in the General Fund, which will reinstate the expense appropriation line item and the cash balance of the general fund. The city will then post the \$10,000 disbursement to the ARP fund with a link to the original claim and supporting documentation.

Internal Controls. Internal controls must be designed, implemented, and documented to provide reasonable assurance that the ARP funds will be safeguarded and used in accordance with the ARP. Each of the five components of internal control is necessary to form a complete internal control process: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. For more information on the establishment of internal controls, see the *Uniform Internal Control Standards for Indiana Political Subdivisions* and the Best Practice Documents on our website at www.in.gov/sboa.

This memorandum is considered to be part of the Uniform Compliance Guidelines of the State Board of Accounts and is intended to provide guidance that will promote transparency and accountability of funds received from the Coronavirus Local Fiscal Recovery Fund pursuant to the American Rescue Plan Act of 2021. This memorandum may be amended or rescinded at any time in writing by the State Examiner or Deputy State Examiner.


Paul D. Joyce, CPA
State Examiner