Paul D. Joyce, CPA
State Examiner

Cities and Towns Bulletin

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STATE BOARD OF ACCOUNT CONTACT INFORMATION

SBOA Homepage: www.in.gov/sboa
(*for information specific to Cities or Towns, select Entities We Examine and then select Cities or Towns as applicable)*

Government Technical Assistance & Compliance (GTAC) Directors:
Beth Goss and Susan Gordon
Email Address: Cities.Towns@sboa.in.gov – *NOTE: if you are emailing questions, please send them to this email address and not our individual work emails*.
Phone Number: (317)232-2513

Gateway Help Desk: gateway@sboa.in.gov or AnnualReports@sboa.in.gov
(either email address will take you to the helpdesk)

SBOA Communications: communications@sboa.in.gov

REPORTING CYBERSECURITY INCIDENTS

State Examiner Directive 2026-04, Required Reporting to the SBOA Regarding a “Cybersecurity Incident” - State Examiner Directive 2026-04 link

This State Examiner Directive was issued July 29, 2026, and instructs that any amount of public funds associated with any “cybersecurity incident” are subject to the reporting requirements of IC 5-11-1-27(j) and must be reported to the SBOA immediately. This directive applies when the audited entity makes payment to the hacker directly or through a third party. The web link to be used for the SBOA required reporting is linked here: Report Government Fraud - SBOA Form link

In addition, IC 4-13.1-2-9 requires all special districts to report cybersecurity incidents within 2 business days of discovery to the Indiana Office of Technology (IOT). The statute allows IOT to share anonymous attack information to warn others and provides an overview of cybersecurity attacks.

To learn more about the cybersecurity incident reporting law, including what a cybersecurity incident is, which attacks must be reported, and how to report, please visit Indiana Cybersecurity Hub . Reporting incidents can be made here IOT Cyber Incident Reporting link

DISASTER RELIEF FUNDING

With recent storms and flooding within the State, we felt it was an appropriate time to review the disaster relief funding that units may receive. Under IC 10-14-3-17(j)(5), a political subdivision may waive procedures and formalities normally required by law for the appropriation and expenditure of public funds when a national disaster or security emergency has been declared. When disaster relief funds are received, the following procedures should be followed.

Money received or expected to be received from the Federal Emergency Management Agency (FEMA), the Indiana Department of Homeland Security, or the State Lottery Commission for tornado, flood, ice storm, or other types of declared disasters should be accounted for in the following manner:

1. If the money is to be used to reimburse funds for expenditures already incurred and paid and the conditions of IC 10-14-3-12 have been met, the amount received may be added back to the appropriation balances from which the expenditures have been previously made.

2. If the money is to be used for future expenditures, a separate fund should be set up entitled “Disaster Relief Fund.” Such fund would not require appropriation or additional appropriation prior to spending the money in the fund. It is recommended that all related expenditure records (claims, minutes, correspondence, contracts, damage

survey report, etc.) be maintained in a separate file for future audits required by State and Federal agencies.

APPROPRIATION TRANSFERS

As year-end approaches we often receive questions related to the transfer of appropriations. The transfer of appropriations is discussed within IC 6-1.1-18-6.

In addition, here are some key reminders when it comes to transferring appropriations:

- No transfers are allowed between funds
- Transfer between budget classifications within a fund (i.e. Transfer from personal services to supplies within the General fund) requires board approval.
- Transfer between line items of a specific budget classification within a fund does not require board approval (i.e. Transfer within Personal Services between full time to part time).

STATE MILEAGE REIMBURSEMENT RATE

Some cities and towns have adopted travel policies that use the State approved mileage rate for reimbursing officials and employees who use their personal vehicle for city/town related business. Effective August 7, 2026, the State mileage reimbursement rate was changed by the Indiana Department of Administration to $.64/mile. For those who use the State rate, any mileage reimbursed to officials or employees for travel after August 7, 2026 should be at this new rate.

If you use a rate other than the State rate, this change will not have an impact on your travel reimbursement policy.

CUMULATIVE FIREFIGHTING, BUILDING AND EQUIPMENT AND POLICE RADIO FUND

IC 36-8-14 authorizes cities and towns to provide a cumulative building and equipment fund for the purchase, construction, renovation, or addition to buildings, or the purchase of land used by the fire department and for the purchase of firefighting equipment, including making the required payments under a lease rental with option to purchase agreement made to acquire the equipment. A municipality may also use the fund to purchase police radio equipment. The fund may also be used for the purchase, construction, renovation or addition to a building, the purchase of land, or the purchase of equipment for use of a provider of emergency medical services under IC 16-31-5 to the city or town establishing the fund.

The statute limits the tax levy to no more than thirty-three hundredths' cents ($0.0333) on each one hundred dollars ($100) of assessed valuation in the taxing district. Any tax collected

after establishing this tax levy shall be deposited in a special fund to be known as the "building or remodeling, firefighting, and police radio equipment fund." This fund may not be used for any purpose other than the purpose for which it was raised. Expenditures may be made only after an appropriation has been made available.

Any questions regarding procedures to establish this fund should be directed to the Indiana Department of Local Government Finance, Indiana Government Center North, Room N1058, 100 N. Senate, Indianapolis, Indiana 46204.

BONDS OF OFFICERS AND EMPLOYEES

OF THE DEPARTMENT OF PARKS AND RECREATION

IC 36-10-3-16 lists the bonding requirements for officers and employees of a department of parks and recreation.

Any officer or employee who handles public funds must have an official bond in place for the duration of their service before performing duties that involve money. The fiscal body may choose to provide coverage through a blanket bond or a crime insurance policy that includes faithful performance, with the coverage amount set by the fiscal body and approved by the executive in the case of a municipality. All such official bonds must be filed with and recorded by the county recorder in the county where the department is located.

FEDERAL EXCISE TAXES

As a general rule, governmental units are exempt from any federal excise tax. To obtain an exemption, a properly executed exemption certificate must be filed with the vendor from whom the purchase is made. This exemption certificate may be prepared at the time the order is placed or at the time payment is made. The exemption certificate may be a printed or copied form and should be substantially in the form currently used. For information concerning the form of the exemption certificate, contact the Internal Revenue Service.

Claims and invoices should be carefully audited to see that no federal excise taxes are included and paid. Disbursing officers should require that invoices show separately the gross price, the amount of the excise tax, and the final price to the governmental unit.

In some instances, a city or town may have erroneously paid the excise taxes from which they are exempt. In such instances, the city or town has three years from the date the tax was paid to the Federal Government in which to file for a refund.

To obtain a refund, the city or town should submit to the seller an exemption certificate for each item on which excise tax was paid accompanied with documentary evidence that the exemption had not been claimed or received. Such evidence may be copies of invoices, affidavits, records, etc.

The Internal Revenue Service will provide forms on which the original taxpayer may claim reimbursement for excise tax erroneously paid by a city or town.

Any questions concerning federal excise tax should be directed to the Internal Revenue Service.

STATE SALES TAXES

Governmental units are eligible for an exemption from the state sales tax on purchases. To obtain the exemption, a Sales Tax Exemption Certificate must be obtained from the Department of Revenue. Application should be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. If sales tax is paid erroneously, a refund application may be obtained from the Sales Tax Division.

Lodging for individuals in hotels and motels is usually not exempt from state sales tax. Therefore, reimbursements for lodging in approved travel status may include state sales tax. However, it should be kept in mind that claims for all such reimbursements must be supported by a fully itemized receipt showing date(s) of lodging, the name(s) of the person(s) occupying the room and the amount paid.

VOLUNTEER FIREFIGHTERS - CLOTHING AND AUTOMOBILE ALLOWANCE

IC 36-8-12-5 requires that volunteer firefighters receive certain minimum annual allowances for clothing and for the use of their personal vehicles when responding to duties. Additionally, a contract between the unit and the volunteer fire department may permit the unit to cover the firefighters' membership fees in a recognized volunteer firefighters' association.

RESIDENCY REQUIREMENTS - CITY POLICE AND FIRE DEPARTMENTS

Per IC 36-8-4-2, members of the police and fire departments are not required to live within the jurisdiction they serve, but they must have reliable transportation to reach the area and maintain telephone service to stay in communication with their department.

TRANSFERS OF TOWN FUNDS

Town with a Population of 500 or Less (IC 36-5-4-13(a)

A town may move money from one of its funds to another as long as the town council adopts an ordinance or resolution that identifies the amount being transferred, the funds involved, the effective date of the transfer, and the general reason for making the transfer.

Town with a Population of More Than 500 But Less Than 2,000 (IC 36-5-4-13(b)

A town is permitted to transfer money from its motor vehicle highway and local road and street distributions into another town fund if the town council adopts an ordinance or resolution authorizing the transfer. That action must specify the amount being moved, which funds are involved, when the transfer will occur, and the general purpose for doing so. However, the total amount a town may transfer under this authority is limited to forty thousand dollars ($40,000).

IC 36-5-4-13(c) provides special rules for certain municipalities, applying only to towns or cities located in counties that fall within specific population ranges, including those with populations between 15,450 and 16,000 and those in counties with populations between 40,000 and 43,000.

ORDINANCE VIOLATIONS BUREAU

IC 33-36-2 discusses the establishment of an ordinance violations bureau. A municipal legislative body may create an ordinance violations bureau through local ordinance or code and must appoint a violations clerk, who may be the clerk or Clerk-Treasurer, to administer it. If the legislative body chooses not to establish such a bureau, the clerk or Clerk-Treasurer automatically serves in that role. The violations clerk is authorized to accept written appearances, waivers of trial, admissions of violations, and payments of civil penalties, following the fee schedule set out in state law.

For additional details on the schedule governing ordinance and code provisions, as well as the corresponding violations, please refer to IC 33-36-3.

IC 36-1-6-3 excludes moving vehicle traffic violations from being enforced under this procedure. State Examiner Directive 2015-1 also addresses the proper procedures for moving traffic violations.

CITY ATTORNEY – POWERS AND DUTIES - COMPENSATION

IC 36-4-9-12 lists the powers and duties of the head of the city department of law.

The compensation of a city attorney should be set out in the city's salary ordinance. If the city attorney is to receive additional compensation for services performed in connection with the creation or the operation of a municipally owned function or utility, the amount of such additional compensation should also be listed in the salary ordinance and be properly approved by the governing body over the utility, the mayor, and the common council.

We recommend that if a city hires a city attorney through an employment contract, the salary ordinance should incorporate the provisions of such contract. Such contract could provide for a specified dollar sum for annual compensation for normal services plus provisions for payment at hourly rates, or standard fee arrangements, for unique services such as litigation, bond issues, work with administrative agencies, or other similar services.

It is our audit position that, unless otherwise specified in an employment contract, routine litigation and work on general obligation bond issues fall within the duties of the municipal attorney.

RIVERBOAT GAMBLING – ADMISSION TAXES

Admission tax money paid to a unit of local government is discussed within IC 4-33-12. These revenues must be turned over to the unit's fiscal officer and deposited into the general fund, the riverboat fund, or a combination of the two. They cannot be used to lower the unit's maximum or actual property tax levy, although the unit may choose to apply them to reduce its levy for a specific year. The funds may be spent on any lawful purpose of the unit, including being pledged toward bonds, leases, or other obligations, and they are treated as miscellaneous revenue.

RIVERBOAT GAMBLING – WAGERING TAXES

Wagering tax money paid to a unit of local government is discussed within IC 4-33-13-6 These revenues must be directed to the unit's fiscal officer and deposited into either the general fund, the riverboat fund, or a combination of the two. They cannot be applied to reduce the unit's maximum or actual property tax levy but may be used for any lawful governmental purpose, including supporting financial obligations such as bonds or leases. Additionally, IC 4-33-13 allows a city or county that serves as a riverboat's home dock to enter into agreements with other governmental units, whether in Indiana or another state, to share its portion of the tax revenue.

LOCAL MAJOR MOVES CONSTRUCTION FUND

IC 8-14-16 requires cities and towns in counties traversed by the Indiana Toll Road to set up a local major moves construction fund for deposit of a special distribution from the County Auditor on or before September 15, 2006. Money in the fund may be expended only for the following purposes:

1. Construction of highways, roads and bridges.

2. In a county that is a member of the northwest Indiana regional development authority, or in a city or town located in such a county, any purpose for which the regional development authority may make expenditures under IC 36-7.5.

3. Providing funding for economic development projects (as defined in the specified statutes referenced in IC 8-14-16-5).

4. Matching federal grants for a purpose described in IC 8-14-16.

5. Providing funding for interlocal agreements under IC 36-1-7 for a purpose described in IC 8-14-16.

6. Providing the city's or town's contribution to a regional development authority established under IC 36-7.6-2-3.

Such fund must be appropriated as part of the annual budget for the calendar year in accordance with IC 6-1.1-1

FINANCIAL ASSISTANCE TO NON-GOVERNMENTAL ENTITIES

Cities and towns providing financial assistance to non-governmental entities are required to notify those entities annually in writing the following information:

1. The Entity Annual Report (E-1) filing requirement established by IC 5-11-1-4 and the audit requirement established by IC 5-11-1-9;

2. The source(s) of the funding provided;

    a. Local and/or state funds (in the case of subsidies, contributions, or general aid),
    b. Federal grants passed through including the formal name of the program and ALN number, or
    c. Fee for service arrangements,

3. The State Board of Accounts may request documentation to support the categorization of the financial assistance,

4. The E-1 is not to be confused with the Secretary of State's Business Entity report, and

5. The entity may obtain additional information from the State Board of Accounts at notforprofit@sboa.in.gov.

Furthermore, this financial assistance provided is to be reported by the city or town on the Annual Financial Report via Gateway.

"Entity" is defined in IC 5-11-1-16 as "any provider of goods, services, or other benefits that is:

(1) maintained in whole or in part at public expense; or

(2) supported in whole or in part by appropriations or public funds or by taxation."

This includes for-profit and not-for-profit corporations, unincorporated associations, organizations, individuals, etc. Examples of non-governmental entities are volunteer fire departments, a local YMCA, youth leagues, senior citizen centers, 4-H clubs, daycare centers, health service organizations, emergency medical service organizations, community centers, historical societies, etc.

Financial assistance to non-governmental entities is defined as payments received in the form of grants (whether from local, state, or federal sources), subsidies, contributions as permitted by statute, aid, or other agreements. For more information on what constitutes financial assistance, please refer to the State Board of Accounts' *Uniform Compliance Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources* found on the State Board of Accounts' website at www.in.gov/sboa under Entities We Examine /Non-Governmental Entities Receiving Governmental Assistance/Uniform Compliance Guidelines.

Each non-governmental entity receiving financial assistance from governmental units is required to submit a Gateway financial report, the E-1, in accordance with IC 5-11-1-4(a). Information requested includes the source and use of financial assistance provided by governmental units. The entity is subject to a State Board of Accounts audit in accordance with IC 5-11-1-9 if certain funding thresholds are met.