

CITIES AND TOWNS BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES
ISSUED BY STATE BOARD OF ACCOUNTS

March 2021

IN THIS ISSUE

Articles

Upcoming Training Opportunities	1
American Rescue Plan (ARP).....	2
Municipal Utilities – Payments in Lieu of Taxes.....	2
Towns – Metropolitan Police Force.....	2
Wastewater Utility – Operation by Utility Service Board	2
Wastewater Utility – Delinquent Accounts – Discontinuing Water Service.....	2
City and Town Courts – Pro Tempore Judges.....	3
Tuition Reimbursement.....	3
Cumulative Building Fund for Municipal Buildings.....	3
Cumulative Capital Improvement Fund.....	3-4
Cumulative Capital Development Fund	5

UPCOMING TRAINING OPPORTUNITIES

We have been informed that the original dates planned for the Annual Conference of City and Town Fiscal Officers have changed. The Conference will not be June 7-10. As soon as new information is finalized by AIM and the ILMCT, we will send out a message through our E-gov delivery service to all subscribers.

April Monthly Meeting: The SBOA April Monthly Meeting will be on April 14 from 9:00 to 11:00 (eastern). During the first hour we will be covering the State Examiner Directive 2021-1 and Phase II of the Enhanced Regulatory Basis of Accounting which will be applicable for 2021 financial statements. The second hour will be open for questions on any topic. A WebEx invitation has been sent to the Gateway submitter for your city or town.

May AIM Annual Clerk Treasurer’s School: Please join us at the AIM Annual Clerk Treasurer’s School on May 18 where we will have an hour to share information that will help you during an audit.

May AIM Budget Workshops: We hope to see you (virtually) at the AIM Budget Workshops on either May 20, 24, or 27 where we will provide information to assist you in the proper accounting for public funds.

June Monthly Meeting: The SBOA June Monthly Meeting will be on June 23 at 9:00 a.m. (eastern) with a topic related to Phase II of the Enhanced Regulatory Basis of Accounting.

AMERICAN RESCUE PLAN (ARP)

State Examiner Directive 2021-1, Accounting for American Rescue Plan Act (ARP), was issued on March 18, 2021. An accompanying memorandum, Account Processes for ARP Subtitle M – Coronavirus State and Local Fiscal Recovery Funds was also issued on March 18, 2021. Both documents are available on our website at www.in.gov/sboa and are attached at the end of this Bulletin. State and Local Allocation figures are also available on our website. We will provide additional information as it becomes available.

MUNICIPAL UTILITIES – PAYMENTS IN LIEU OF TAXES

IC 8-1.5-3-8(g) provides the Indiana Utility Regulatory Commission (IURC) shall approve rates and charges which are sufficient to compensate the city or town for the taxes due the city or town which would be paid on the utility property were it privately owned. Such payments are included within the definition for “reasonable and just rates and charges.” These rates and charges in lieu of taxes may be transferred to the municipal general fund, if the legislative body so elects.

It is our audit position that municipal utilities not under the jurisdiction of the IURC could also elect to make payments in lieu of taxes under IC 8-1.5-3-8.

IC 36-9-23-25(d)(9) permits municipal wastewater utilities to make payments in lieu of taxes to a city or town.

TOWNS - METROPOLITAN POLICE FORCE

IC 36-8-9 is entitled "Town Board of Metropolitan Police Commissioners" and contains procedures whereby a town council can eliminate the office of town marshal and establish a Board of Metropolitan Police Commissioners. The Board may establish a police force similar in makeup and operation to a city police department.

WASTEWATER (SEWAGE) UTILITY - OPERATION BY UTILITY SERVICE BOARD

IC 36-9-23-3 states that the operation of a municipally owned sewage works shall be supervised by the municipal works board. However, the statute further authorizes the common council or the town council to transfer the powers and duties of the works board to (1) a sanitary board established by IC 36-9-23-4 or (2) the utility service board, if the municipality has such a board operating one or more municipally owned utilities.

WASTEWATER UTILITY - DELINQUENT ACCOUNTS - DISCONTINUING WATER SERVICE

IC 8-1.5-3-4 authorizes the governing body of a municipally owned water utility to discontinue water service to any customer or to any property owner for nonpayment of sewer or sewage disposal plant service charges if unpaid for at least the time fixed by the board governing the sewer or sewage disposal plant service. Certain notice procedures must be followed prior to discontinuing such service. Notice must be mailed not less than ten (10) days before water service is to be discontinued and addressed to the water consumer or the property owner at the last known address. Similar provisions are found at IC 36-9-25-11.5 for those municipally owned wastewater utilities operating under IC 36-9-25.

CITIES AND TOWNS - PRO TEMPORE JUDGES

Trial Rule 63, which deals with the disability and unavailability of a judge, allows for a judge pro tempore that was appointed locally to be paid twenty-five dollars (\$25) for each day or part thereof actually served in a city or town court. A judge pro tempore is to be paid from the city or town general fund, without appropriation, upon allowance by the city or town council.

TUITION REIMBURSEMENT

Under the provisions of the Home Rule statute contained in IC 36-1-3, a city or town could by ordinance authorize tuition reimbursement for qualified training costs directly related to providing city or town services. This assumes sufficient appropriations and funds are available to cover the costs to be reimbursed.

At a minimum, sufficient documentation of course completions and the related tuition cost should be required prior to any reimbursement.

Consideration should be given to the possible tax consequences to the employees and the reporting requirements of the city or town as employer. It will be necessary to contact the Indiana Department of Revenue and the Internal Revenue Service to find out their positions regarding these reimbursements. Pursuant to IC 36-8-1-11, the reimbursements would not be included in salaries in computing pension assessments or pension benefits for police officers and firefighters.

CUMULATIVE BUILDING FUND FOR MUNICIPAL BUILDINGS

IC 36-9-16-4 authorizes municipalities to establish a "Cumulative Building Fund." IC 36-9-16-2 lists the purposes for which the fund may be established. The purposes include "to purchase, construct, equip, and maintain buildings for public purposes" and other costs related to constructing and maintaining the buildings. Questions concerning the procedures for establishing such fund should be directed to the Department of Local Government Finance: www.in.gov/dlqf or telephone number (317) 232-3777.

CUMULATIVE CAPITAL IMPROVEMENT FUND

IC 36-9-16-2 further authorizes the establishment of a cumulative capital improvement fund which can be used for the same purposes as the cumulative building fund as well as for the purchase of body armor for active members of a police department and any use permitted under IC 6-7-1-31.1, which includes the following:

- (1) to purchase land, easement, or rights-of-way;
- (2) to purchase buildings;
- (3) to construct or improve city owned property;
- (4) to design, develop, purchase, lease, upgrade, maintain, or repair:
 - (A) computer hardware;
 - (B) computer software;
 - (C) wiring and computer networks; and
 - (D) communications access systems used to connect with computer networks or electronic gateways;
- (5) to pay for the services of full-time or part-time computer maintenance employees;
- (6) to conduct nonrecurring in-service technology training of unit employees;
- (7) to undertake Internet application development;
- (8) to retire general obligation bonds issued by the city or town for one (1) of the purposes stated in subdivision (1), (2), (3), (4), (5), or (6); or

CUMULATIVE CAPITAL IMPROVEMENT FUND (continued)

- (9) for any other governmental purpose for which money is appropriated by the fiscal body of the city or town.

In addition, IC 36-9-16-3 lists the following fourteen (14) additional purposes which cumulative capital improvement fund monies could be used for:

- (1) To acquire land or rights-of-way to be used for public ways or sidewalks.
- (2) To construct and maintain public ways or sidewalks.
- (3) To acquire land or rights-of-way for the construction of sanitary or storm sewers, or both.
- (4) To construct and maintain sanitary or storm sewers, or both.
- (5) To acquire, by purchase or lease, or to pay all or part of the purchase price of a utility.
- (6) To purchase or lease land, buildings, or rights-of-way for the use of any utility that is acquired or operated by the unit.
- (7) To purchase or acquire land, with or without buildings, for park or recreation purposes.
- (8) To purchase, lease, or pay all or part of the purchase price of motor vehicles for the use of any combination of the police, a community corrections program, or the fire department, including ambulances and firefighting vehicles with the necessary equipment, ladders, and hoses.
- (9) To purchase, lease, or pay all or part of the cost of electronic monitoring equipment used by a state or local community corrections program.
- (10) To retire in whole or in part any general obligation bonds of the unit that were issued for the purpose of acquiring or constructing improvements or properties that would qualify for the use of cumulative capital improvement funds.
- (11) To purchase or lease equipment and other nonconsumable personal property needed by the unit for any public transportation use.
- (12) In a county or a consolidated city, to purchase or lease equipment to be used to illuminate a public way or sidewalk.
- (13) The fund may be used for any of the following purposes:
 - (A) To purchase, lease, upgrade, maintain, or repair one (1) or more of the following:
 - (i) Computer hardware.
 - (ii) Computer software.
 - (iii) Wiring and computer networks.
 - (iv) Communication access systems used to connect with computer networks or electronic gateways.
 - (B) To pay for the services of full-time or part-time computer maintenance employees.
 - (C) To conduct nonrecurring inservice technology training of unit employees.
- (14) To purchase body armor (as defined in [IC 35-47-5-13\(a\)](#)) for active members of a police department under:
 - (A) [IC 36-5-7-7](#);
 - (B) [IC 36-8-4-4.5](#);
 - (C) [IC 36-8-9-9](#); and
 - (D) [IC 36-8-10-4.5](#).

Such fund should not be confused with the cumulative capital improvement fund which is funded by State cigarette tax distributions under IC 6-7-1.

CUMULATIVE CAPITAL DEVELOPMENT FUND

IC 36-9-15.5 allows the legislative body of a municipality to, with the approval of the Department of Local Government Finance (DLGF), establish a cumulative capital development fund to provide money for any purpose for which property taxes may be imposed within the municipality under the authority of:

IC 8-16-3 (Cumulative Bridge Fund)
 IC 8-22-3-25 (Cumulative Building Fund-Airports)
 IC 14-27-6-48 (Cumulative Building Fund-Levees)
 IC 14-33-14 (Cumulative Maintenance Fund-Channel Improvement)
 IC 16-23-1-40 (Cumulative Hospital Building Fund)
 IC 36-8-14 (Cumulative Firefighting Fund)
 IC 36-9-4-48 (Cumulative Transportation Fund-Buses)
 IC 36-9-16-2 (Cumulative Building Fund)
 IC 36-9-16-3 (Cumulative Capital Improvement Fund)
 IC 36-9-16.5 (Cumulative Street Fund)
 IC 36-9-17 (General Improvement Fund)
 IC 36-9-26 (Cumulative Building Fund-Sewers)
 IC 36-9-27-100 (Cumulative Drainage Fund)
 IC 36-10-3-21 (Cumulative Building Fund-Parks) or
 IC 36-10-4-36 (Cumulative Sinking and Building Fund-Parks)

A municipality that decides to establish a cumulative capital development fund must follow the procedures of IC 6-1.1-41.

The maximum property tax rate that may be imposed for property taxes first due and payable during a particular year in a municipality that is either wholly or partially located in a county in which the county option income tax or the county adjusted gross income tax is in effect on January 1 of that year depends upon the number of years the municipality has previously imposed a tax and is determined under the table provided in IC 36-9-15.5

The money collected shall be held in a special fund to be known as the cumulative capital development fund. Expenditures from the cumulative capital development fund may be made only after an appropriation made in the manner provided by law for making other appropriations. However, in a consolidated city, money may be transferred from the fund to the fund of a department of the consolidated city responsible for carrying out a purpose for which the cumulative capital development fund was created. The department may not expend any money so transferred until an appropriation is made and the department may not expend any money so transferred for operating costs of the department.

Money held in the cumulative capital development fund may be spent for purposes other than the purposes stated in IC 36-9-15.5-2, if the purpose is to protect the public health, welfare, or safety in an emergency situation that demands immediate action or to make a contribution to an authority established under IC 36-7-23. Money may be spent only after the executive of the municipality: (1) issues a declaration that the public health, welfare, or safety is in immediate danger that requires the expenditure of money in the fund; or (2) certifies in the minutes of the municipal legislative body that the contribution is made to the authority for capital development purposes.



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STATE EXAMINER DIRECTIVE 2021-1

Date: March 18, 2021

Subject: Accounting for American Rescue Plan Act (ARP), Accounting Processes for Subtitle M-Coronavirus State and Local Fiscal Recovery Funds

Authority: IC 5-11

Application: This Directive applies Counties, Cities, and Towns

From: Paul D. Joyce, CPA, State Examiner

The purpose of this directive is to prescribe the accounting procedures for federal assistance received through the American Rescue Plan Act of 2021 (ARP).

Separate Fund Required. Assistance provided through the ARP must be received into a separate fund. There are many funding provisions in this Act. A separate fund must be established for each separately identified assistance provided with ARP in the naming title.

The fund name and number for each ARP grant fund must be assigned as follows:

Counties: ARP [Name of Grant]; Fund Number Range 8950-8975
Cities and Towns: ARP [Name of Grant]; Fund Number Range 176-199

ARP Coronavirus Local Fiscal Recovery Fund. Counties, Cities, and Towns will each receive an allocation of Coronavirus State and Local Fiscal Recovery Funds. Each local unit that receives an allocation from the Coronavirus Local Fiscal Recovery Fund under Section 603 of the Social Security Act, as added by Section 9901 of the ARP, shall establish by ordinance a separate local grant fund called the ARP Coronavirus Local Fiscal Recovery Fund within the fund number range described above. 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 must specify the uses of the fund in accordance with the purposes outlined in Section 603(c). The ordinance should reference a plan that will provide the details for the use of these funds. All moneys received from the Local Fiscal Recovery Fund must be receipted into the separate ARP grant fund.

Before money in the fund is disbursed, the fiscal body must appropriate the money in the fund for a use consistent with Section 603(c) as stated in the adopted ordinance and the plan. Only a local appropriation is needed. To ensure accountability and transparency of the use of these funds, all disbursements must be made from the ARP grant fund; money from the ARP fund may not be transferred to another fund of the county, city, or town.

A detailed accounting of the fund is required by the ARP. All related expenditure records (accounts payable vouchers, minutes, correspondence, contracts, etc.) must be maintained in a separate file for future audits of ARP funds. It is important that you track every dollar disbursed and maintain supporting documentation for those disbursements. Each disbursement must be directly tied to a use listed in Section 603(c). The grant funding may be used to cover costs incurred by December 31, 2024. It is extremely important that these files be complete and accurate for this time period.


If your unit chooses to use the ARP funds to cover costs incurred for the provision of governmental services as provided in Section 603(c)(1)(C), you must maintain detailed calculations of the reduction in revenue due to COVID-19. For purposes of this calculation, the most recent full fiscal year prior to the emergency is 2019.

Note that the use of the funds for the provision of governmental services is limited to the extent of the reduction in revenue due to the COVID-19 public health emergency.

Other ARP Assistance or Grants. Other assistance or grants may be coming through the ARP. As stated above, each form of assistance or grant must be separately identified and accounted in a separate fund with a fund name and number as described. The Indiana State Board of Accounts will prescribe accounting procedures for these funds as more information becomes available.

Internal Controls. Sufficient internal controls over all transactions must be in place. Separate funds, maintaining records, detailed comments that provide audit trails, appropriate approvals, etc., are all part of good internal controls.

These prescribed accounting procedures will promote transparency and accountability of funds received through the Coronavirus Local Fiscal Recovery Fund. This Directive may be amended from time to time and may be rescinded at any time in writing by the State Examiner or Deputy State Examiner.


Paul D. Joyce, CPA
State Examiner



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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/dlgf. 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