

## Chapter 1

### PRESCRIBED FORMS, TAXES, GENERAL INFORMATION, LOCAL POLICIES, DEPOSITS AND INVESTMENTS

#### 1.01 Prescribed Forms:

Audited entities must use the forms prescribed by the Indiana State Board of Accounts (SBOA). [IC 5-11-1-21]. The SBOA will permit the use of an alternative paper form or electronic equivalent if the form contains all information set forth in the SBOA prescribed form and otherwise complies with all statutory requirements. Audited entities must continue to use state-prescribed forms and comply with all other form requirements, such as prenumbered and duplicate cash receipts. In addition, audited entities must comply with all applicable record retention requirements, including the Indiana Archives and Records Administration (IARA) record retention policies and schedules.

#### 1.02 Taxes:

##### A. Federal Income Tax

Most audited entities are exempt from federal income taxes under the Internal Revenue Code. [26 U.S.C. § 115].

##### B. Federal Excise Tax

Most audited entities are exempt from and must not pay any federal excise tax. Claims and invoices must be carefully audited to see that no federal excise taxes are included and paid. Disbursing officers must require that invoices show separately the gross price, the amount of excise tax, and the final price to the unit. [26 U.S.C. § 4001 et seq.].

If an audited entity erroneously pays the excise tax, it has three (3) years from the date the tax was paid to the federal government in which to file for a refund. To obtain a refund, the audited entity must submit to the seller an exemption certificate for each item on which excise tax was paid along with receipts or documentary evidence that the exemption had not been claimed. The Internal Revenue Service will provide forms on which the original taxpayer may claim reimbursement.

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

## C. Sales Tax

Government funds are exempt from the payment of sales taxes on qualifying purchases. [IC 6-2.5-5-16]. Audited entities should reference Internal Revenue Service and/or Indiana Department of Revenue (DOR) guidance to determine what are or are not qualifying purchases.

Audited entities must contact the DOR to obtain the exemption certificate. After obtaining the exemption certificate, it must be presented at the time a purchase is made. If sales tax is paid erroneously, a refund application may be obtained from DOR's Sales Tax Division.

Sales taxes erroneously paid on qualifying purchases by the audited entity may be the personal obligation of the responsible official or employee.

### 1.03 General Information:

#### A. Advance Payments

1. Payments for goods and services must not be paid in advance of receipt of the goods or services except as authorized by statute. Payments made for goods or services which are not received by the audited entity may be the personal obligation of the responsible officer or employee. [IC 5-11-10-1.6].
2. Advance payments of salary, compensation, or other forms of remuneration must not be paid in advance unless authorized by statute.

#### B. Annual Financial Report (AFR)

The Annual Financial Report (AFR) must be filed with the state examiner not later than sixty (60) days after the end of each fiscal year. [IC 5-11-1-4(a)].

#### C. Appropriations

Audited entities may not expend public funds without an appropriation unless authorized by statute. The purpose of the expenditure must be consistent with the purpose for which the funds were appropriated.

#### D. Asset Ownership

Assets purchased by the audited entity must be titled in the name of the audited entity. In instances where multiple audited entities are purchasing an asset jointly, the asset must be titled in accordance with an interlocal agreement between the audited entities. [IC 36-1-4-5; IC 36-1-4-6].

E. Audit Costs

Audit costs incurred because of poor records, nonexistent records, any other inadequate bookkeeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee. [IC 5-11-1-10].

If an audited entity procures its own audit without the prior approval of the SBOA, and the SBOA is statutorily required to audit that entity, any costs paid by the audited entity may be considered a duplication of service and an unnecessary expense. These payments may be the personal obligation of the responsible official or employee.

F. Capital Assets

Capital assets purchased by the audited entity must be titled in the name of the unit. Every audited entity must have a capital asset policy that details the threshold at which an item is considered a capital asset. Every audited entity must have a complete detailed listing of all capital assets owned, what fund from which it was purchased, and the acquisition value. The Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records.

The list of capital assets includes the following categories:

1. Land
2. Infrastructure. This stationary property with a long life, such as roads, bridges, tunnels, drainage systems, water and sewage systems, dams, and lighting systems.
3. Buildings. If a building is acquired by gift, the account must reflect its appraised value at the time of acquisition.
4. Improvements Other than Buildings. This is permanent improvements, other than buildings, which have been added to the land, such as fences, landscaping, parking lots, and retaining walls.
5. Equipment. This includes items such as machinery, trucks, cars, or office equipment.
6. Construction in Progress. This is projects in which construction has not been completed during the current reporting fiscal year. When the project is completed, it must be placed on the inventory in the applicable asset category.

7. Books and Other. This is used by Libraries for their collections of books, periodicals, etc. It can also be used by other audited entities for any other type of asset not listed.

G. Cashbook

Every public officer who receives or distributes public funds must keep a cashbook into which the public officer must daily enter, by item, all receipts of public funds and must balance the cashbook daily to show the funds on hand at the close of each day. The cashbook is a public record and open to public inspection. Violation of the cashbook rule is a Class C infraction. [IC 5-13-5-1; IC 35-44.2-2-2].

H. Collections of Amounts Due

Audited entities must collect amounts owed to the audited entity pursuant to procedures authorized by law.

I. Commingling Third-Party Funds

Each audited entity is required to use a system of accounting and reporting as prescribed by the SBOA. [IC 5-11-1-2]. Monies and accounting records of an audited entity may not be commingled with the monies and accounting records of any outside organization or third party, including nonprofit organizations. Outside organizations are responsible for their own accounting and cash handling systems and maintaining their own bank accounts. Audited entities may not collect, receipt, remit, or disburse an outside organization's monies.

J. Compensation

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.

K. Compensation - Non-Employees

Payments for services provided by an organization must go directly to the organization and not to an individual employee of the organization. All payments for services must be supported by a written contract. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements.

L. Condition of Records

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee.

M. Conflict of Interest

1. Conflict of interest disclosures must be completed using the COI Form available on Gateway. It is the public servant's duty to ensure that a fully completed disclosure is uploaded on Gateway and meets the required provisions of IC 35-44.1-1-4(d).
2. The audited entity's attorney or a private attorney must be consulted as to whether a conflict of interest disclosure statement must be filed and whether the format of the disclosure is sufficient.
3. The Uniform Conflict of Interest Disclosure Statement, Form 236 (State Form 54266), available at:  
[https://gateway.ifionline.org/sboa\\_coi/COI%20Form.pdf](https://gateway.ifionline.org/sboa_coi/COI%20Form.pdf).

N. Contracts

All contracts must be in writing. Payments made or received for contractual services must be supported by a written contract. Each audited entity is responsible for complying with the provisions of its contracts.

O. Correction of Errors

When an audited entity determines that an error has been posted in its financial records, the error must be corrected in a timely manner. The correction of the error must be dated as of the date that the correction occurred and must not be backdated to the date the error occurred. The adjustment must be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction.

P. Deposit of Accountable Items

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the audited entity. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, transaction numbers and corresponding names of the payers.

Q. Disbursements

Disbursements must be made by check or warrant, or properly authorized electronic funds transfers. Payments by cash, except properly authorized petty cash disbursements, or any other disbursement method are prohibited unless authorized by law.

R. Donations

Public funds cannot be given or donated to other organizations or individuals unless specifically authorized by law.

S. Employee Benefits

All types of employee benefits must be detailed in a written policy. Payments for expenses not authorized in a written policy cannot be allowed.

The governing body must adopt policies governing sick leave, vacation leave, and any other types of paid leave for nonjudicial circuit employees.

For judicial circuit employees, the judge and prosecutor of the circuit may adopt policies governing sick leave, vacation leave, and other types of paid leave for their respective employees. The judge and prosecutor may elect to adopt the County's policies relating to applicable leave.

T. Excessive or Unreasonable Costs

Audited entities must avoid unreasonable or excessive costs. Unreasonable or excessive costs may be the personal obligation of the responsible official or employee.

U. Federal and State Agencies - Compliance Requirements

Audited entities are required to comply with all grant agreements, rules, regulations, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Audited entities must file accurate reports required by federal and state agencies. Noncompliance may require corrective action.

V. Fees

Fees can only be collected as authorized by law, ordinance, or resolution.

W. Fundraisers

Audited entities that conduct fundraising events must have the express permission of the governing body for conducting the fundraiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. Ghost Employment statute(s) must be considered when conducting a fundraiser. [IC 35-44.1-1-3].

X. Fund Sources and Uses

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement.

Y. Gifts and Donations Received by the Audited entity

1. Receipt of Gifts

All audited entities must have statutory authority to receive a gift or donation. Any audited entities or individuals authorized to receive a gift or donation by statute must ensure full compliance with all pertinent statutory provisions and other laws regarding receipt, deposit, and expenditure of the gift or donation.

Gifts and donations must be receipted into and maintained in a separate fund, unless statute requires otherwise.

Gifts and donations may be received with written terms, conditions, or other restrictions clearly identified by the donor. Any gift or donation received without written terms, conditions, or other donor-identified restrictions will be considered unrestricted.

2. Expenditure of Gifts

All gifts and donations must be duly appropriated by the appropriate fiscal officer or fiscal body of an audited entity before expenditure, unless statute specifically allows for expenditure without appropriation.

Audited entities may comply with the terms, conditions, or restrictions of a gift or donation if noncompliance would invalidate the gift or donation as long as the terms, conditions, or restrictions do not otherwise violate law.

Z. Gift Cards

Public funds may not be used to purchase gift cards unless authorized by statute or under the terms of a grant agreement.

AA. Grants

An audited entity that receives a federal or state grant must record the funds in a separate fund and make all related disbursements from that fund.

BB. Advance Grants

1. Where funds are "advanced" directly to an audited entity by the federal government for a specific purpose, prior to making any disbursements by the audited entity, the money must be placed in a separate fund and disbursements subsequently made from that fund. No appropriation of the federal funds is required.
2. Where federal funds are "advanced" to an audited entity through a state agency or other entity, with no additional funds added thereto, prior to making any distributions, the money must be placed in a separate fund and subsequent disbursements made from that fund. No appropriation of the federal funds is required.
3. Where federal funds are "advanced" to an audited entity by a state agency or other entity and additional funds are included along with the federal funds in one check or voucher and the funds are for a specific purpose, the money must be placed in a separate fund and disbursements made from that fund. Appropriation(s) must be obtained for the combined total (i.e., federal and state) prior to any disbursement being made from that fund.

CC. Reimbursement Grants

1. An audited entity that receives federal or state grants on a reimbursement basis must record the related financial activity in separate funds to ensure proper tracking and reporting.
2. Because reimbursement grants require the entity to incur allowable costs before requesting payment, these funds may temporarily reflect a negative fund balance.
  - a. This timing-related deficit is an expected condition of reimbursement-based funding.
  - b. The SBOA will not take exception to negative fund balances in these funds when they result solely from the reimbursement process.

3. Where a federal or state grant provides for payments to be made directly to an audited entity on a "reimbursement" basis after expenditure by the audited entity, the entire amount of the federal or state reimbursement must be appropriated by the audited entity's fiscal body without using the additional appropriation procedures under IC 6-1.1-18-5, if the funds are provided or designated by the state or the federal government as a reimbursement of expenditures. [IC 6-1.1-18-7.5].

DD. Local Matching Grants

1. When a federal or state grant or program requires expenditures or "matching" funds to be provided from an audited entity's local funds, an appropriation must be obtained for such expenditures or local matching funds.
2. The matching funds may be transferred as a lump sum into the separate fund or paid directly from the audited entity's local fund as grant expenditures are paid that require the local match.
3. Grant award documents must be reviewed to ensure compliance with the grant requirements. Supporting documentation of expenditures must be maintained.

EE. Federal and State Grants - Schools

1. Money received by a school corporation for a specific purpose or purposes, by gift, endowment, or under a federal statute must be accounted for by establishing separate funds apart from any other school corporation fund in accordance with the Chart of Accounts established by the SBOA. [IC 20-40-14-1].
2. Money received for specific purposes, by gift, endowment, or under a federal statute, and any earnings on money received for specific purposes, by gift, endowment, or under a federal statute, may be disbursed without appropriation. [IC 20-40-14-2].
3. In an instance in which a school corporation receives a reimbursement grant, the school corporation must claim reimbursement in a timely manner. In this case, it is possible for a fund to be overdrawn for a short period of time.

FF. Indebtedness

An audited entity may not incur indebtedness unless specifically allowed by law.

GG. Lucrative Office and Dual Office Holding

Article 2, Section 9 of the Indiana Constitution generally prohibits any person from holding more than one lucrative office at the same time.

Before accepting a second public employment position or second public office, that person must consult with the attorney for the audited entity and/or their personal attorney.

Before accepting a second public employment or public office, that person must also review the Office of the Indiana Attorney General's *Dual Office Holding Guide*, available at: <https://www.in.gov/attorneygeneral/files/Dual-Office-Holding-Guide.pdf>.

When confronted with the question of whether a second position violates the constitutional prohibition against dual office holding, the SBOA will consider existing relevant law and will apply the multi-factor analysis contained in the Attorney General's *Dual Office Holding Guide*. The analysis will include a consideration of each position's formal title, as well as each position's substantive duties, powers, and responsibilities.

HH. Malfeasance, Misfeasance, or Nonfeasance

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any official or employee may be the personal obligation of the responsible official or employee.

II. Ordinances and Resolutions

Each audited entity is responsible for complying with the ordinances, resolutions, and policies it adopts.

JJ. Overdrawn Cash

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which must be investigated by the audited entity.

If an audited entity receives a reimbursement grant, the audited entity must claim reimbursement in a timely manner. In this case, it is possible for a fund to be overdrawn for a short period of time.

KK. Overpayment Collections

Audited entities must collect any overpayments made.

LL. Penalties, Interest, and Other Charges

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which must be investigated by the audited entity. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the audited entity. Any penalties, interest, or other charges paid by the audited entity may be the personal obligation of the responsible official or employee.

MM. Personal Expenses

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the audited entity. Any personal expenses paid by the audited entity may be the personal obligation of the responsible official or employee.

NN. Personal Property Use

Assets of the audited entity may not be used in a manner unrelated to the functions and purposes of the audited entity.

OO. Sponsorships and Advertisements

Public funds may not be used to purchase sponsorships and advertisements unless authorized by statute.

PP. Personalized Items

The use of public funds for items of self-promotion or political activity is prohibited. Elected and appointed officials may not use public funds to purchase personalized items bearing their own name, image, or likeness (such as clothing, cups, bags, or coins) for general giveaways. This guideline does not apply to items that (1) are permitted by law, (2) are part of official employee recruitment or recognition activities, or (3) support an identifiable program or activity of the office.

QQ. Political Expenditures

Expenditures of public funds for political purposes, including direct or indirect contributions to political campaigns which are not authorized by law, may be the personal obligation of the responsible official or employee.

RR. Private Property

Public funds may not be used to make improvements to property not owned by the audited entity, unless permitted by law.

SS. Proceeds

Proceeds generated by the sale or rental of property must be receipted into the fund which originally purchased the property unless otherwise provided by law.

TT. Public Records go with the Office

When an official assumes custody of an office, many of the forms and records are continuous. Each official's acts are a matter of record. An official is not responsible for the acts of her/his successor, and a successor is not responsible for the acts of her/his predecessor. Regardless of the capacity served by an official, upon completion of her/his service, all records and forms are to be immediately delivered to her/his successor.

UU. Purchasing Bonuses

Any compensation, premium, bonus, or product earned as a result of the purchase of goods or services by the audited entity becomes the property of the audited entity. Any amounts received by an official or employee may be the personal obligation of the responsible official or employee.

VV. Receipt of Revenue

All funds received by an audited entity must be placed in the audited entity's general fund except as otherwise directed by statute, rule, regulation, State Examiner Directive, Uniform Compliance Guideline, or local ordinance. This section does not apply to audited entities that do not maintain a general fund.

WW. Receipt Issuance

Receipts must be issued and recorded at the time of the transaction.

XX. Record of Time Worked

Each audited entity must adopt a time reporting policy covering employees paid with public funds, including full-time, part-time, exempt, and nonexempt employees whether paid on an hourly or salary basis. The policy must identify the process by which employees report their hours, including the form used and where time records will be stored. The audited entity must retain time records in accordance with the Indiana Archives and Records Administration's rules and the Uniform Compliance Guidelines (see, e.g., "Supporting Documentation" and "Public Records go with Office").

1. Political Subdivision Employees (except employees covered under 2 or 3)

The political subdivision must maintain a record of hours worked per pay period. The appropriate department head/supervisor or individual knowledgeable of hours worked must approve the records and submit the payroll claim.

2. Judicial Circuit Employees (Courts, Prosecutors, and Probation)

A judicial circuit officer, including an elected prosecutor, may adopt an independent time reporting policy, and the SBOA will perform its examination against that policy.

- a. Nonexempt employees. A judicial circuit officer, including an elected prosecutor, must maintain a record of hours worked by nonexempt employees of the judicial circuit. The appropriate department head/supervisor or individual knowledgeable of hours worked must submit the payroll claim to the county auditor.
- b. Exempt employees. The judicial circuit officer must maintain records demonstrating their employees were assigned, performed, and entitled to receive compensation for duties related to the operation of the judicial circuit.

The SBOA must be able to identify the process by which all judicial circuit employees report their work and/or time, including the appropriate documentation to support compensation.

3. Elected Officials

Elected officials are not required to maintain a record of hours worked unless required by law. [See, for example, IC 5-11-9-4(b)].

YY. Resignation Statute

IC 3-5-9-5(1) provides that certain government employees will be considered to have resigned their position as a government employee when they assume an elected office covered by IC 3-5-9-1.

IC 3-5-9-5(2) provides that certain elected officials will be considered to have resigned their elected office when they become a governmental employee of the audited entity.

ZZ. Reversion

Unless a fund is designated as non-reverting, at the end of an audited entity's fiscal year, any unspent and unencumbered appropriation reverts to the fund from which the appropriation was made.

AAA. Risk of Loss

The audited entity must ensure it is adequately protected for all risks of loss.

BBB. Separate Bank Accounts

When two or more audited entities are authorized by statute to have the same fiscal officer, there must be separate bank accounts and accounting records for each audited entity unless authorized by law.

CCC. Severance Pay

Unless specifically authorized by law, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the audited entity stating that the payments are in accordance with all laws, including IC 35-44.1-1-3 (Ghost Employment), and a properly enacted Home Rule ordinance/resolution.

DDD. Signature Stamps

The decision on whether the number of items to be signed justifies the use of a rubber stamp or other device, including computer image signatures, for affixing a signature must be made by each official responsible for signing warrants, claims, and other official documents. A rubber stamp or other signing device must be used only under the direction of the official and must be properly safeguarded when not in use. Each official is responsible for their own signature.

EEE. Supporting Documentation

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee.

FFF. Suspension with Pay

Suspension with pay must be supported by the written opinion of the attorney for the audited entity stating that the suspension is in accordance with all laws, including IC 35-44.1-1-3 (Ghost Employment), and a properly enacted Home Rule ordinance/resolution.

### GGG. Stipends

An audited entity may provide stipends only if authorized by statute, ordinance, or resolution. Stipends must be for a specific dollar amount, for a specific purpose, and must identify the person or position eligible to receive the stipend. All stipends are considered compensation and must be included in the salary ordinance, resolution, or schedule. All stipends must be used for the purpose in which they were given. Stipends that are not used for the purpose for which they were given may be the personal obligation of the officer or employee.

### HHH. Timely Recordkeeping

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the audited entity to make informed management decisions and to help ensure the preservation of public records. [IC 5-15-1-1].

### III. Transaction Recording

All financial transactions pertaining to the audited entity must be recorded in the records of the audited entity at the time of the transaction.

### JJJ. Trusts and Endowments

Each audited entity is responsible for complying with any requirements of trust agreements or endowments received which are not contrary to state law.

### KKK. Vending Machine Commissions and/or Profits

There must be a clearly defined procedure adopted by the audited entity concerning placement, use, maintenance, commissions, and profits of vending machines on their property.

All revenues generated and costs incurred in operating vending machines located on the audited entity's premises must be accounted for through the audited entity's records.

## **1.04** Local Policies:

### A. Alcohol Purchases

The governing body of an audited entity must have a written policy concerning the purchase of alcohol using public funds. This policy must address the exact situations in which alcohol can be purchased and outline any liability issues that may arise with using public funds to purchase alcohol.

## B. Bad Debts and Uncollectible Accounts

The governing body of an audited entity must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the audited entity to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee.

## C. Capital Assets

The governing body of an audited entity must have a written policy concerning capital assets that includes, at a minimum, the threshold at which an item is considered a capital asset.

## D. Contracting with a Unit Policy and Elected Official Disclosures

1. Counties, cities, towns, and townships must have a Contracting with a Unit Policy. This policy must discuss contracting with a relative of an elected official. Indiana Code provides minimum requirements, but the unit can adopt more stringent requirements. [IC 36-1-21 *et seq.*].

If the SBOA determines that a county, city, town, or township has not implemented a Contracting with a Unit Policy, the SBOA is required to forward that information to the Department of Local Government Finance. [IC 36-1-21-7].

2. IC 36-1-21-5(b)(1) imposes public disclosure requirements upon elected officials that may be different or in addition to the disclosure requirements related to conflicts of interest. [IC 35-44.1-1-4]. Each elected official must fully comply with the requirements for disclosure under IC 36-1-21-5(b), when applicable.

IC 36-1-21-5(b)(2) and (3) impose compliance standards upon a county, city, town, or township, which must be followed.

## E. Credit Cards

The SBOA will not take exception to the use of credit cards by an audited entity provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance/ resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.

3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, and the date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

#### F. Debit/Procurement Cards

The SBOA will not take exception to the use of debit/procurement cards by an audited entity provided the following criteria are observed:

1. The governing body must authorize debit/procurement card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the debit/procurement card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the debit/procurement card has been issued has been accomplished, the card must be returned to the custody of the responsible person.

5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Debit/procurement cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

#### G. Making Electronic Payments

Audited entities are permitted to make electronic payments to vendors. [IC 36-1-8-11.5; IC 36-12-3-16.5(b)]. Before doing so, the fiscal body of an audited entity must adopt a resolution to authorize an electronic funds transfer ("EFT") method of paying claims. [IC 36-1-8-11.5(b); IC 36-12-3-16.5(b)].

1. If an audited entity authorizes payment of claims by EFT, the payment of claims by EFT must comply with all other requirements for the payment of claims, including the statutory claims process. [IC 5-11-10-1.6; IC 36-12-3-16 for libraries].
2. Once the payment of claims is approved by the appropriate body, the fiscal officer must initiate the payment by EFT or instruct the designated depository to release the funds to the vendor ("push").
3. The fiscal officer may only permit a third party to access or withdraw ("pull") funds directly from an audited entity's account when specifically authorized by law.

#### H. Receiving Electronic Payments

Audited entities are permitted to accept electronic payments using one or more financial instruments authorized by the fiscal body or board of the municipally owned utility. [IC 36-1-8-11].

Similarly, County Treasurers can authorize the form of payments they accept, including cash, check, bank draft, money order, bank/credit card, electronic funds transfer, any other financial instrument authorized by the fiscal body. [IC 36-2-10-23].

If electronic payments are authorized, the following procedures must be followed:

1. The fiscal body authorizes the use the financial instruments through ordinance/resolution, which has been approved in a public meeting and documented in the minutes.

2. If the use of a financial instrument requires an account, only an officer or employee designated by the fiscal body shall be an authorized user of such account.
3. Receipting, timely recording, and depositing requirements must be met. Pushing the funds from these apps to the bank account would be considered depositing.
4. A monthly reconciliation must be performed for these transactions by running a transaction history report within the Venmo/PayPal account and reconciling to the amount deposited in the bank account. The reconciliation including the transaction history report must be maintained for audit purposes.
5. These financial instruments must not be used for disbursements as it would bypass the accounting system and claims process.
6. Proper internal controls must be established around the process of the collections, receipting, and depositing of the funds.

#### I. Electronic Records and Signatures Policy

Each audited entity must determine whether, and the extent to which, it will send and accept electronic records and electronic signatures to and from other persons or entities that transact with the audited entity. If an audited entity permits electronic records and electronic signatures, the conditions in which the audited entity permits the use of the same must be detailed in a written policy that is formally adopted by the audited entity and available for review by the SBOA during an audit or examination. The written policy must comply with Indiana law (for example, IC 26-2-8 *et seq.*) and address the following:

1. the manner and format in which the electronic records must be created, generated, sent, communicated, received, and stored and the systems established for such purposes;
2. if electronic records must be electronically signed, the type of electronic signature required, the manner and format in which the electronic signature must be affixed to the electronic record, and the identity of, or criteria that must be met by, any third party used by a person filing a document to facilitate the process;
3. control processes and procedures as appropriate to ensure adequate preservation, disposition, integrity, security, confidentiality, and auditability of electronic records; and
4. any other required attributes for electronic records that are specified for corresponding nonelectronic records or reasonably necessary under the circumstances.

#### J. Investments

An audited entity may adopt an investment policy that authorizes the investment of public funds for more than two years but not more than five years. [IC 5-13-9-5.7].

#### K. Leave and Overtime Policy

Each audited entity must adopt a written policy regarding the accrual and use of leave time, as well as the payment of overtime. Negotiated labor contracts approved by the governing board are considered written policy. The policy must conform to the requirements of all state and federal regulatory agencies. Time records must be maintained to support leave balances (including compensatory time) and any payout of time earned.

A judicial circuit court officer, including an elected prosecutor, may adopt an independent leave and overtime policy, and the SBOA will perform its examination against that policy. The judicial circuit officer must maintain records sufficient to support leave balances (including compensatory time) and any payout of time earned.

#### L. Materiality

An audited entity must report all material variances, losses, shortages, or thefts to the SBOA. Each audited entity must adopt their own materiality threshold. If no materiality threshold is adopted by the governing body, the SBOA will consider any amount to be material. [IC 5-11-1-27].

#### M. Nepotism

Counties, cities, towns, and townships must have a Nepotism Policy. This policy must discuss the employment of relatives. Indiana Code provides minimum requirements, but the unit can adopt more stringent requirements. [IC 36-1-20.2 *et seq.*].

If the SBOA determines that a county, city, town, or township has not implemented a Nepotism Policy, the SBOA is required to forward that information to the Department of Local Government Finance. [IC 36-1-20.2-17].

#### N. Personal Property Use

Assets of the audited entity may not be used for personal purposes or in a manner unrelated to the functions and purposes of the audited entity.

Each audited entity must have written policies in place governing the use and safekeeping of assets.

O. Procurement Policy

Each audited entity that accepts federal money must have their own documented procurement procedures. [2 CFR § 300.318].

P. Travel Policy

Each audited entity must adopt a written travel policy in conformity with applicable laws, which must include criteria for reimbursement of eligible expenses. Reimbursements for lodging and meals must be based upon actual receipts or a fully itemized invoice or bill for amounts paid unless otherwise authorized by law.

**1.05** Deposits and Investments:

A. Interest on Investments

Unless otherwise authorized by law, interest derived from an investment by an audited entity or any local public officer must be receipted into the audited entity's general fund or in any other fund its governing body designates by resolution or ordinance.

If the terms of an existing bond resolution contain a provision regarding interest earnings associated with a bond, such terms must be followed. [IC 5-13-9-6(a)].

Interest on investments must not be added automatically to the investment. Instead, interest on investments must be paid to the audited entity at each maturity date and posted to the appropriate fund.

B. Investments not Authorized by Law

Investments can only be made in accordance with the Indiana Code. Losses and expenses related to any unauthorized investments and unauthorized investment procedures may be the personal obligation of the responsible official or employee.

C. Donated Stock or Other Investments

Donated stock or investments may be accepted by an audited entity (subject to gift rules below). Once accepted, the donated stock or investments become "public funds" subject to the investment requirements of IC 5-13-9. [IC 5-13-4-20]. The donation may be retained in its original form if it is specifically required by the terms of the donation and the terms are accepted in writing by the legislative body. If the accepted terms do not require the investment be maintained its original form, the audited entity must convert the investment to cash or an authorized form of investment within one year.

#### D. Repurchase Agreements

To ensure that ownership of securities acquired under a repurchase agreement is vested in the audited entity and to meet the requirements of IC 5-13-9-1 *et seq.*, repurchase agreements must be written so as to:

1. Vest title of securities in the name of the audited entity;
2. Described the specific securities acquired; and
3. Represent a safekeeping receipt for the securities so acquired.

#### E. Manner of Investing Funds

An audited entity has authority to invest its funds in the following manner:

1. By specific fund;
2. By grouping specific funds; or
3. From total monies on deposit.

### **1.06 Procedures for Purchasing Investments:**

#### A. Purchase

When an investment is made, the fiscal officer must issue a warrant or check payable to the financial institution from which the investment is purchased. Electronic transfer of funds to purchase an investment may be used if allowed by local policy or practice as long as a proper audit trail is retained for the transaction.

1. The warrant or check must show:
  - a. the fund or funds on which it is drawn;
  - b. if the investment is from a specific fund or fund; or
  - c. if the investment is from "total monies on deposit."

This wording will be entered in lieu of the fund name or names.

2. The warrant or check must also show the purpose for which it is issued, such as "investment in certificate of deposit" or "investment in United States Governmental Securities."

3. The warrant or check must be delivered by the fiscal officer to the financial institution. The certificate of deposit, passbook, or safekeeping receipt must be maintained by the fiscal officer.

#### B. Renewal of Certificates of Deposit

A certificate of deposit may be renewed for an additional term if authorized by the governing board, without the original certificate of deposit being paid by the depository and a warrant or check being issued for the purchase of a new certificate of deposit. However, if renewed, the interest due the audited entity must be paid to the fiscal officer at each maturity date, so the records will reflect the true financial condition and the amount invested at all times. The interest must not be added to the original deposit and reinvested by the depository.

#### C. Reinvestment in Securities

In the case of the United States Government Securities, the amount received from investments must be receipted into the records and a warrant or check issued for the purchase of new securities. There is no authority for the "rollover" or reinvestment of securities by a depository; the transactions must be handled through the records of the fiscal officer.

### **1.07 Procedure for Posting Records at the Time Investments are Purchased or Sold:**

#### A. Investments Made from "Total Monies on Deposit"

1. At the time investments are purchased from total monies on deposit, the fiscal officer and/or bookkeeper of the audited entity should issue a warrant, check, or bank transfer to purchase the investment. The warrant, check, or bank transfer issued will not be posted in the ledger, but a memorandum account should be set up in a separate section of the ledger to which investment transactions will be posted.
2. Interest received should be receipted to the general fund or the fund specified by the governing board.
3. When the investment is sold, the principal (purchase price) will not be posted as a receipt to the ledger, but the interest thereon will be posted as a receipt to the general fund or fund designated by the governing board. Proper entry showing the sale shall be made also in the memorandum account, as well as in the Investment Register.

## B. Investments Made from a Specific Fund

1. When investment is made from a specific fund, the fiscal officer or bookkeeper of the audited entity should issue a warrant, check, or bank transfer to purchase the investment. The warrant, check, or bank transfer will be recorded as a disbursement from the specific fund. A new fund entitled "Investments Fund\_Fund Name" should be set up on the records. This "Investment Fund" is a subsidiary or memorandum account. The net price (purchase price less accrued interest) should be entered as a receipt to this fund.
2. Interest received should be entered as a receipt to the fund from which the investment was purchased.
3. When the investments are sold, the full amount of such sale should be entered as receipt to the specific fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment. At this time, the net purchase price (purchase price less accrued interest) should also be entered as a disbursement from the "Investments Fund."

C. The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments by the audited entity.

## D. Investment Cash Management

A local board of finance and its investing officer, or the fiscal body of an audited entity that does not operate a local board of finance and its investing officer, may contract with a depository for the operation of an investment cash management system. [IC 5-13-11-1]. A cash management system provides for the management of the audited entity's investment by a financial institution. The financial institution must be a designated depository.

Any interest from an investment must be credited to the investment account of the audited entity and become a part of the principal in that account. The interest credited to the investment account must be receipted into the accounting records. The investment amount reported in the accounting records must be increased by showing a purchase of investments in the amount of the interest added to the investment account.

## E. Investment Report

The local board of finance must receive and review the written report of the investing officer that summarizes the audited entity's investments during the previous year. [IC 5-13-7-7]. The report must contain the name of each financial institution, governmental agency or instrumentality, or other person with whom the audited entity invested money during the previous calendar year. This subsection is not applicable to audited entities that do not operate a local board of finance.